

Cyprus the focus of escalating regional tensions

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The government of Cyprus has indicated its intention to seek financial support from Russia, even as officials from the European Union (EU), European Central Bank (ECB) and International Monetary Fund (IMF) determine the requirements of a potential bailout.

President Demetris Christofias and Finance Minister Vassos Shiarly stated they planned to turn to Moscow for additional support, following the agreement of a 2.5 billion euro loan in 2011. Russian government sources confirmed last Friday that Cyprus was asking for a further loan of 5 billion euros—almost a third of Cyprus’s GDP. The talks have become more urgent after credit rating agencies Fitch and Moody’s downgraded Cyprus’s three main banks to junk status at the end of May.

Shiarly criticised troika policies, claiming that the cause of Cyprus’s economic problems was the deal struck in late 2011 to force a “haircut” on Greece’s creditors. The agreement saw the debt owed by Athens to private creditors cut by up to 100 billion euros. This resulted in losses for Cypriot banks of up to 80 percent of their investments in Greek government bonds, according to Schiarly, totalling 4.2 billion euros.

Speaking as Cyprus assumed the rotating presidency of the EU, Christofias insisted, “We maintain the right to have relations with third countries”.

Christofias, president since 2008, was the general secretary of the Stalinist AKEL, the Progressive Party of Working People. He has presided over a significant strengthening of Cypriot-Russian relations. Russian deposits in Cypriot banks total 22 billion euros, the largest of any non-EU state. This figure is greater than the country’s GDP. Total bank deposits, at 150 billion euros, are nine times greater than Cyprus’s economic output.

Out of a total population of less than 900,000, between 40,000 and 50,000 Russian citizens reside in Cyprus. Several Russian companies have a large presence on the island, with energy firms Gazprom and Lukoi having offices there. Nicosia and Moscow have a tax exemption agreement, which permits Russian investors based in Cyprus to take advantage of the extremely low 10 percent business tax rate while paying no tax in Russia. As a result, a significant level of investment in Russia is conducted by companies with their bases in Cyprus.

Russia’s growing influence is viewed with hostility by the EU and the United States. A recent article in the German daily *Die Welt* accused Cyprus of playing a “double game with Russia and the EU”.

The possibility of a Russian loan to Cyprus prompted reports that Britain was considering extending a bilateral loan to Nicosia alongside EU support. Cyprus is a former British colony and two British military bases remain on the island.

Extending financial aid would be aimed directly at preventing Russian expansion. Recently, there has been considerable speculation that Moscow is viewing Cyprus as an alternative military base in the region to replace its operations in Syria, which is threatened with Western-led military intervention.

Beyond the island’s strategic location in the eastern Mediterranean, the interest of the major powers in Cyprus has grown sharply due to the discovery of vast energy resources. According to a 2010 report from the US Geological Survey, the Levant basin contains a possible 120 trillion cubic feet (TCF) of natural gas supplies.

Commenting on the find, leading project official Brenda Pierce observed, “The Levant Basin Province is comparable to some of the other large provinces around the world, and its gas resources are bigger than anything we have assessed in the United States”.

While a portion of these resources are to be found within the maritime borders of Cyprus, the Levant basin encompasses the territorial waters of Israel, the Gaza Strip, Lebanon, Syria and the Turkish Republic of Northern Cyprus. As a recent analysis pointed out drily, “It hardly takes a crystal ball to predict that the discovery would set off a feeding frenzy of interest and maritime claims and counter-claims”.

Turkey has rebuked Cypriot moves to put drilling rights out to tender, threatening that any company cooperating with the Greek Cypriot Republic will be left out of future projects in Turkey. Ankara defends the rights of the Turkish Republic of Northern Cyprus to exploit the resources in the region, and has stated that moves by Cyprus or Greece to extract energy resources from areas it deems to be Turkish water would be viewed as an act of war.

Israel has also drawn the ire of Turkey for offering to cooperate with Cyprus to jointly exploit reserves. The idea has been floated that Israeli natural gas could be transported to Cyprus to be refined before being sent on through Greece to the European market. Cypriot Commerce Minister Neoclis Sylikiotis commented after a recent trip to Israel, “In the field of energy we are slowly putting flesh on the bones of this strategic cooperation”.

The US has long supported energy transportation routes to supply the European market which bypass Russia, and views Israeli-Cypriot cooperation as a possible solution. At the same time, Washington is keen to avoid antagonising Turkey, a key NATO ally, and has urged Ankara to settle its territorial disputes with Cyprus and Greece to facilitate the joint exploitation of the regions resources.

Cypriot Commerce Minister Sylikiotis voiced the support of the government for a resolution of Cypriot-Turkish tensions, declaring that the discovery of such vast energy resources could act as a catalyst for Cyprus’s reunification and the creation of an “energy hub”.

Cypriot President Christofias agreed, detailing widespread international interest in exploiting gas reserves. “A total of 33 applications from 15 companies [and] joint ventures from 14 countries, including France, the US, Russia, South Korea, Malaysia, Italy and Australia were finally submitted. As a consequence, new perspectives are opening up, giving new impetus to Cyprus’ role within the global energy system and the European energy market”, he commented.

The opportunities for vast profits opened up by the discovery of energy resources explains the desire to ensure that Cyprus turns to the troika for financial support rather than Moscow. Through such a bailout programme, the representatives of the US and European powers could dictate to Nicosia terms that would secure the predominance of American and European corporations in the lucrative energy sector, while offloading the cost of the crisis onto working people.

This policy is already underway in Greece, where the troika’s insistence that Athens privatise the remaining state-owned assets in the areas of energy and sea ports will allow foreign investment, chiefly from the US, to profit greatly from the development of oil and natural gas resources in the Aegean Sea.

The conflicts over who will establish geopolitical dominance in the region threaten to provoke open military confrontations. The current pressure by the US for an intervention in Syria to organise regime-change in Damascus is bound up with Washington’s attempt to establish its unchallenged authority in opposition to the economic and geopolitical interests of Russia and China. The uncovering of vast energy resources in such a strategic location, with its proximity to the Middle East, will only intensify a struggle that threatens the populations of the entire region and internationally with deepening political instability and ultimately the spectre of imperialist war.



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