

INTEGRATING NORTH CYPRUS INTO THE EU

In the aftermath of the referenda in Cyprus, the UN and the EU made commitments for the lifting of economic embargoes and all forms of unnecessary restrictions imposed upon the Turkish Cypriots. The Turkish Cypriots are still waiting for the obstacles which have adversely affected their life for over 40 years to be lifted. This paper explores the political, legal, social and economic aspects of life in North Cyprus, along with the potential implications of integrating North Cyprus into the EU by developing economic relations.

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Northern Cyprus is a Mediterranean paradise at the crossroads of more than 10,000 years of history offering unspoiled beaches, spectacular mountains and quaint villages. It's easy in Northern Cyprus to follow in the footsteps of the Mycenaeans, Greeks, Persians, Egyptians, Romans, Byzantines, Crusaders, Venetians, Ottomans and the British as you visit ancient ruins, castles, forts, monasteries and mosques. Northern Cyprus makes you an offer to relax on beautiful beaches, enjoy local cuisine al fresco or try your luck at the casinos.

Unfortunately, Northern Cyprus is on top of the international community's agenda; not because of the abovementioned cultural richness. Cyprus has been a de facto divided island in the middle of Mediterranean since the early 1960s. As one of the guarantor states under London/Zurich accords of 1959 and constitution of Republic of Cyprus (1960), Turkey had to intervene in Cyprus in 1974 in order to stop a military coup backed by Greek junta that aimed to achieve *Enosis*, annexing the island of Cyprus to Greece.

Since then, the island has been split into two parts as Northern Cyprus and Southern Cyprus by a demilitarized zone under the auspices of UN and British Sovereign Base Areas (SBAs). Southern Cyprus is ruled by the administration of the Republic of Cyprus—the internationally recognized government of Cyprus. Almost the entire South is Greek Cypriot. Northern Cyprus constitutes 37 percent of the island and is controlled by the self-proclaimed Turkish Republic of Northern Cyprus (TRNC), which was declared on November 15, 1983.

Representation of Turkish Cypriots after the Referendum for the Annan Plan

Following the well-documented destruction of the constitutional order by the Greek Cypriots in 1963 with the aim of ENOSIS, the two politically equal communities developed separate administrations on the island. The Turkish Cypriot community, exercising its right to self-determination and sovereignty, has evolved administratively into a de facto, independent, democratic entity. Despite the fact that no other country, except Turkey, has recognized the administration of Turkish Cypriots in Northern Cyprus, there is a parallel administration in the North. The Turkish Cypriot administration, representing a population of over 200,000¹ people, has an effectively functioning, democratically elected government, parliament, an independent judiciary and all other institutions of statehood such as municipalities, public and private health facilities, tax offices, schools, and universities.

In addition, Greek Cypriot sovereignty over the island effectively stops at the United Nations Buffer Zone (Green Line), which was established by Great Britain in 1963 and legitimized by the UN in 1964 in order to protect the Turkish Cypriots from subjugation. At present, all negotiations and agreements under UN auspices to reach a peaceful settlement of the Cyprus conflict are therefore based on a bi-communal and bi-zonal model. The buffer zone, or Green Line, between north and south is open to the free movement of persons since April 2003 and now the crossings of goods and services is possible thanks to the Green Line Regulation of the EU. However, these resolutions do not constitute legal ground to ignore or deny either the existence or the right of self-determination of the Turkish Cypriot Community as one of two co-founders of the Republic of Cyprus based on the London and Zurich Accords of 1959 and the 1960 Constitution of the Republic.

¹ Cyprus Report 2005, The Economist Intelligence Unit, 2005; www.eiu.com

On the other hand, in April 2004, the UN peace plan, the so-called “Annan Plan”, was voted on in separate referenda on both sides of Cyprus. Referenda are one of the most direct and democratic ways that enable citizens to decide their fates. However, the result of this historic opportunity for a solution in Cyprus ended in a failure due to a ‘no’ vote by a majority of the Greek Cypriot’s. On the other hand, the Turkish Cypriots played a constructive role towards the goal of reaching lasting peace on the island by voting in favor of the Plan.

The Turkish Cypriots demonstrated that they are in favor of peace and a just settlement in Cyprus. This constructive approach created sympathy in the international community. Many politicians and bureaucrats in the EU and the US appreciated the efforts of the Turkish Cypriots in the referendum process and emphasized that the Turkish Cypriots can no longer be held responsible for the impasse that continues to exist. Indeed, the UN Secretary-General Kofi Annan, in his report to the Security Council on 28 May 2004 indicates the need to lift all the restrictions on the Turkish Cypriot community. In his wording Secretary General invited the members of the Council to *“give a strong lead to all States to cooperate both bilaterally and in international bodies, to eliminate unnecessary restrictions and barriers that have the effect of isolating the Turkish Cypriots and impeding their development not for the purposes of affording recognition or assisting secession, but as a positive contribution to the goal of reunification.”*

Furthermore, the European Commission, in its April 2004 “Proposal for a Council Regulation,” invites the European Council to extend direct aid for the economic development of the Turkish Cypriot community for the purpose of bringing the Turkish Cypriot community closer to the European Union. According to this document, the Council is *“determined to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community.”*

However, in spite of the “no” vote by Greek Cypriots in the referendum, the Republic of Cyprus (ROC), represented by the Greek Cypriot administration, has become a member of the EU as of May 1st, 2004. Moreover, the application of the *acquis* has been suspended in Northern Cyprus until a comprehensive solution based on the argument that the ROC can not exercise effective control of the North.

Although the Greek Cypriot administration cannot exercise effective control in the North, all of Cyprus has become a full-member of the EU. It has to be questioned whether the Greek Cypriots have the right to represent Turkish Cypriots as well. In light of UN policies and the EU, it is no longer possible to find sound reasons to accept the Greek Cypriot administration as representing the entire island.

In the April 2004 referenda, the UN and the EU recognized the right of Turkish Cypriots to determine the future state of affairs on the island as equal partners, and has accepted the two sides’ separate inherent constitutive powers. Therefore, considering the Greek Cypriot administration as the sole legal government of Cyprus is entirely contrary to the reality revealed in the referenda held in the north and south of Cyprus on 24 April 2004; it represents a policy of discrimination against the Turkish Cypriots and a contradictory denial of the EU’s recognition of Turkish Cypriots’ rights in its official statements both prior to and since the referenda.

Moreover, the acceptance of the Greek Cypriot Administration as the legal government of the Republic of Cyprus has long been based on the argument of “state of necessity.” To be able to

raise this argument, existence of an abnormal situation is a precondition. The Greek Cypriot people voted “no” to the basic framework for a comprehensive settlement of the Cyprus problem in the April 2004 referendum, consequently, they have contributed to the continuation of the abnormal situation in Cyprus. Therefore, it is not fair to accept that the state of necessity as the legal ground for supporting the position taken by the Greek Cypriot Administration. Indeed, if the EU continues to consider the Greek Cypriot administration as the only internationally recognized government of the Republic of Cyprus, the Greek Cypriots will have no incentive to terminate the abnormal situation.

The Policy Stance of Turkish Cypriots after the Referendum:

The TRNC has a parliamentary political system, in which a Legislative Assembly of 50 members is elected for a five-year term by direct universal suffrage. Recent elections were held in February 2005 and a new government of the TRNC was formed with the coalition of the left-of-center Republican Turkish Party (CTP) and the center-right Democratic Party (DP). Indeed, the result of elections was a recurrence of the outcome in the December 2003 elections in Northern Cyprus.

In the December 2003 elections, due to the failure of negotiations to reach a peaceful settlement of the Cyprus Impasse, for the first time since its establishment, a pro-solution party, Mehmet Ali Talat’s CTP took office in the TRNC. Turkish Cypriots were dissatisfied with the long-standing status quo which caused the deterioration of the economic situation and an increase in emigration. Therefore, most voters gave their support to a pro-solution administration and this reaction weakened the political influence of ex-President Rauf Denktaş and hardliners.

Shortly after the December 2003 elections, the new government of Turkish Cypriots had to deal with negotiations under the auspices of the UN Secretary General. With the support of the Turkish government, the CTP-DP coalition conducted a campaign in favor of the Annan Plan. Meanwhile, the international community promised to end the isolation of Turkish Cypriots if they voted in favor of the Annan Plan in the referendum. This helped the pro-solution and pro-EU government of Turkish Cypriots take initiative and be constructive in the negotiation process.

However, in the April 2004 referenda on the Annan Plan, 65 percent of Turkish Cypriots voted “yes” while 76 percent of Greek Cypriots said ‘no’. The Greek Cypriot people, as well as the Greek Cypriot Administration, refused to accept the basic framework for a comprehensive settlement of the Cyprus problem. Turkey and the Turkish Cypriot administration gave their consent and full support for the establishment of a new and internationally accepted state of affairs. A ‘no’ vote from Greek Cypriots prevented the establishment of a new state of affairs on the Island.

Despite the fact that the Turkish Cypriots demonstrated that they are in favor of peace and a just settlement in Cyprus, the international community failed to keep its promises and to end the isolation of Turkish Cypriots. In February 2004, deadlock over Financial Aid Regulation and Direct Trade Regulation on rules and procedures of direct trade to other EU countries persisted. Direct Trade and Financial Aid Regulations had been blocked in the Council by Greek Cypriots and are still pending. None of the embargoes were lifted. Due to the failure of the international community to help Turkish Cypriots integrate with the world, Turkish Cypriots felt deeply disappointed. This was reflected in the parliament shortly after the

referenda. Thus, the CTP-DP coalition government started to lose its majority in the parliament and had to schedule a new election for February 2005. According to Ahmet Sözen, the coalition government was not able to control the parliamentary majority, but it did not necessarily mean a loss of confidence.² Before the early election, the Turkish Cypriot electorate was almost equally divided into two camps: parties supporting the Annan Plan and EU membership and parties against the Annan Plan. The international community's moral support for the policies of CTP/DP coalition government to reach a solution and remarkable economic activity in Northern Cyprus following the referenda helped to maintain hope for a solution on the Island. In the early elections of February 2005, 44.5 percent of votes went to CTP which formed a new administration, once again, with DP.

Following the parliamentary elections in February, presidential elections took place in April 17, 2005. President Denktaş, who had held this position since the founding of the TRNC, made a statement and announced that he would not run in the presidential election in April. Mehmet Ali Talat, leader of CTP and then Prime Minister, won the election and took office for a five-year term. Because Turkish Cypriot people were determined to support an initiative for peace and a just settlement, the electorate voted for pro-solution parties in the last two elections.

Economy in North Cyprus under Economic Embargo:

After the de facto separation of the Island, North Cyprus did not fulfill its economic potential and the structure of economy in the TRNC made further development limited. One of the major challenges was the economic embargo over North Cyprus.

Non-recognition is the main factor behind the economic isolation facing the TRNC. Following the declaration of independence by Turkish Cypriots, the United Nations called upon the member states not to facilitate or, in any way, assist the TRNC by resolutions UNSC 541 and 550 respectively, in which the TRNC was considered a secessionist entity. Furthermore, the European Parliament, the European Commission and foreign ministers of member states declared that they would continue to accept and recognize the Greek Administration with the title of *Republic of Cyprus* as the sole legitimate government of Cyprus.

At the time, the European Community, especially the UK, was TRNC's main trading partner. Greek Cypriots brought suit against fruit merchants and importers of citrus fruit from Northern Cyprus in several EC member states and questioned the validity of certificates required under regulations of the EC for the import of agricultural goods issued by the Turkish Cypriot authorities. Some EC countries, however, such as the UK and Germany, continued to accept movement and phytosanitary certificates accompanying citrus fruit and potatoes from North Cyprus issued by the Turkish Chamber of Commerce provided that those certificates were not issued in the name of TRNC.

On 5 July 1994, the European Court of Justice (ECJ) ruled that the movement and phytosanitary certificates issued by authorities other than those of the Republic of Cyprus should not be accepted. The UK High Court declared that the UK could not accept the movement and phytosanitary certificates for agricultural goods imported from the TRNC.

² Ahmet Sözen, "The Turkish Cypriot Legislative election of February 2005: The Rise of CTP/BG," *South European Society & Politics*, Vol.10, No. 3 (Nov. 2005), pp. 465-475.

German custom authorities, along with many other states, considered themselves bound by the decision of the Court of Justice too.

The decision of the ECJ seriously affected the TRNC economy, especially the citrus fruit and clothing sectors. Despite the fact that the Court did not aim to formally impose an economic embargo on goods from North Cyprus, its ruling severely limited the trade between the TRNC and the EC. In the absence of a duly authorized certificate by the competent authorities, imports of Turkish Cypriot goods into the European community were still possible but considered as goods from a non-member of community. Therefore, goods from the TRNC were subject to import duties ranging from 3 to 32 percent. As such, textile goods could not compete in the European market. The situation was made even worse by the fact that the European market ended the import of citrus fruit and potatoes from the TRNC.

The economic embargo sped up the increase of exports to Turkey, and Turkey became the TRNC's main trading partner. Since there are no funds available for the purchase of goods such as machinery, transport equipment and fuel, the TRNC economy is dependent on Turkish aid. Given that Turkish aid goes directly to the TRNC government, the public sector is more powerful than the rest of the economy, with the state having the sole power to invest in infrastructure or rebuild an industry. The public sector still remains the main employer in the TRNC and it contributed 25.1 percent to overall gross value added in 2003.

Although agriculture was one of the sectors that profoundly suffered the negative consequences of economic embargo, it still remains an important sector, accounting for 15.1 percent of total employment in 2003. On the other hand, the economic embargo is not the only reason for the regression in the agriculture sector. Productivity in agriculture is significantly low since there is limited water supply and relatively poor soil in North Cyprus, with one-third of the total land mass of the island. Water shortage has been a major environmental challenge both for rural and urban areas. Turkish Cypriot authorities tried to solve the water problem by transporting water from Turkey in balloons, but this is seen to be only a transitory solution. Therefore, the TRNC recently signed a protocol to build a water pipeline to the TRNC from Turkey, which is expected to carry 75 million cubic meters of water every year.

Under similar circumstances, the manufacturing sector has been weakened due to the difficulties of exporting goods to the EU. Considered a non-community member, businessmen in the TRNC have to pay import duties that make their prices uncompetitive in the European market. Moreover, that also raises the cost of importing necessary raw materials.

Economic Potential of Tourism for the Turkish Cypriot Economy

As a consequence of this isolation, the tourism industry, which is the largest sector of the TRNC economy, has deteriorated. Since direct flights to any country except for Turkey are not possible, all planes that take off from the TRNC have to touch down briefly in Turkey and take off again under a new call sign. This means additional costs for the flight. Some countries like Ireland have not accepted such loopholes to overcome the restrictions and do not grant permission for flights.

Access to the north of Cyprus is unproblematic for Turks, so Turkey continues to be the main country of origin of tourists visiting the TRNC. North Cyprus is a popular place with gamblers, particularly since casinos are prohibited in Turkey.

As a result of the EU accession of the South, the opening of the Green Line to EU tourists for overnight travel to the North in May 2004 could give a substantial boost to tourism in the TRNC. The opening of the division line in April 2003 has led to a considerable inflow of Greek Cypriots to North Cyprus for tourism purposes. The Minister for Economy and Tourism announced plans to increase tourism revenue from 400 million dollars to 1 billion dollars by raising the bed capacity. Despite the fact that Northern Cyprus has almost half and arguably the more beautiful part of the coastline of Cyprus, the infrastructure of the tourism industry is not developed enough to attract and to host a massive tourist inflow. Hotels need to be upgraded as soon as possible and it is necessary to increase the current 11.000 bed capacity of Northern Cyprus.

While the Ministry for Economy and Tourism continues to advertise Northern Cyprus abroad, it is starting to implement new tourism projects which are shaped mainly for special interest tourism in the Karpaz region. A competitive advantage of Northern Cyprus is that its coastlines do not have an over-development problem. To preserve the natural beauty, construction will be conducted in line with environmental standards of the EU. On this front, the most urgent action to be taken is to get the support of the international community to lift restrictions over civil aviation for Northern Cyprus. The number of tourists from outside Turkey has bounced as a result of the increase in flights from a number of EU countries to Northern Cyprus. Also the Ministry of Tourism has been managing a PR campaign to promote holidays in North Cyprus. Recently, the British High Court rejected complaints by Greek Cypriot residents in London about advertisements on London buses for tourism in the north of the Island.

While these efforts are underway, the UK and the U.S. in particular are trying to make direct flights to the TRNC possible to improve the prospects of the sector. From a legal standpoint, officials of the U.S. State Department stated that civil aviation regulations such as the Chicago Convention are still legally binding and that flights from the U.S., so far, are not economically viable. The only good news on this issue is Azerbaijan's politically motivated decision to start direct flights from Baku to Ercan (Nicosia) airport.

Similarly, the harbors of Famagusta and Kalecik in the North can be used for transportation between TRNC and other countries in the eastern Mediterranean region. Although Greek Cypriots argue that the use of these harbors by foreign vessels constitutes illegal landing in Cyprus, the EU is seeking to facilitate direct shipments from the TRNC to other EU countries.

Higher Education for Economic Development

Any positive development in direct flights or the use of harbors for transportation will also benefit the higher education sector. Along with tourism, this sector is vital for economic development in North Cyprus. Currently, there are approximately 40,000 students who are enrolled in two public schools of higher education, a training college for teachers and a technological institute (the Eastern Mediterranean University) and six private universities. The Middle East Technical University (METU) from Turkey has a new campus with 450 students and aims to increase its capacity to 20,000 students in the near future. The construction of new campuses and expansion of existing ones will further increase revenue. The universities of Northern Cyprus have attracted a significant number of students from abroad, especially from Turkey, due to the limited capacity of Turkish universities in comparison to the high demand for higher education. Turkish Cypriots prefer to stay on the

Island rather than go abroad to study and every year 2,000 TRNC nationals attend universities in North Cyprus. Universities of Northern Cyprus have become an increasingly important source of revenue for the economy.

However, the higher education sector has been suffering the detrimental psychological effects of isolation and exclusion as a result of the non-recognition of North Cyprus. This social, cultural, and academic exclusion of students and scholars continues to prevent free movement, and deprive the sector of academic freedom, exchange of ideas, international competition and intercultural experience. There has also been frequent political obstruction of academic cooperation agreements, research and development projects, and funding which would benefit the people of Cyprus and the region. Furthermore, Turkish Cypriot institutions of higher education find themselves being denied representation in Europe, despite the fact that Turkish Cypriots are EU citizens. Students and scholars of universities in Northern Cyprus are denied access to educational facilities and opportunities that are open to other European institutions because they are being forced, against all the principles recognized by the EU prior to and since the referenda, to submit to the authority of the Greek Cypriot government. This is a situation where European citizens are being denied their basic human rights, beginning with their right to self-representation.

Since the establishment of the partnership in the Republic of Cyprus (ROC) in 1960, issues of education, culture and religious affairs have always been within the competence of Turkish Cypriot authorities and the Greek Cypriot authorities separately. The constitution of the ROC clearly enumerated these areas within the competence of separate community chambers (Article 87).

Given that the Turkish Cypriot universities' activities are vital for the economic life of Northern Cyprus, in addition to trade and tourism, and since this soil is an area in which all EU citizens and goods can freely and legally enter through Turkish Cypriot ports under the provisions of the "Green Line Regulation," Turkish Cypriot universities should have the right to be accepted into the EU higher educational system, independent of the recognition of the Greek Cypriot authorities, provided that these universities fulfill the objective criteria within that system.

EU institutions have expressed their support for the economic development of Turkish Cypriots as well as to reducing economic disparities between the two sides in Cyprus in order to facilitate and contribute to an enduring solution. As revealed in the wording of Commission and Council decisions, increasing the economic capacity of the Turkish Cypriots is directly related to promoting the economic development of Northern Cyprus where this population lives and administers its institutions. Again, the basic legal document on Cyprus with regard to EU law is the Treaty of Accession signed on 16 April 2003, and particularly its Protocol 10. This Protocol has suspended the application of the EU acquis in Northern Cyprus pending a comprehensive solution. But Article 3 provides that "nothing in this Protocol shall preclude measures with a view to promoting the economic development of" Northern Cyprus.

The Commission Regulations: Broken Promises

After the referendum in April 2004, the European Commission came up with three different regulations to encourage the economic development of the Turkish Cypriot Community to achieve unification. Since May 1, the so called "Green Line Regulation" for Cyprus has entered into force, in order to facilitate the border crossings of all persons and to facilitate the

trade between the areas in which the Government of the Republic of Cyprus does not exercise effective control and the Eastern Sovereign Base Area of the United Kingdom of Great Britain and Northern Ireland. According to the consolidated version of the Green Line Regulation, all citizens of the EU and third country nationals who are legally residing in the northern part of Cyprus can cross the line. Moreover, the consolidated version of the Green Line Regulation provides that the Government of the Republic of Cyprus has to set the minimum rules for carrying out the checks on persons at the line in order to enable EU citizens to exercise their rights of free movement within the EU.

In addition to this, on July 7th, 2004 the EU approved that certificates issued by the Turkish Cypriot Chamber of Commerce should be accepted. Under the provisions of Green Line regulation, the Turkish Cypriots were given the right to export some of their goods, in particular agricultural products, and the right to be exempted from import duties. Even though a certain number of goods could be exported, so far this effort by the EU to ease the isolation of the Turkish Cypriots following the referendum has made a positive contribution.

However these two regulations on financial aid and direct trade are still pending in the European Council due to a Greek Cypriot veto. The regulation on financial aid would lead to the disbursement of 259 million euros to support economic development in the North. The regulation on direct trade would establish rules on the necessary paperwork for trade to other EU countries. The Greek Cypriots are ready to approve the regulation on financial aid, but are fiercely opposed to the one on direct trade. They claim that it would entail implicit recognition of the government in the North, but also fear that greater economic independence would reduce the incentives for Turkish Cypriots to make concessions on a settlement of the Cyprus question. The Turkish Cypriot government, supported in particular by the British government, has refused to decouple the two regulations, but the pressure to agree to a separation of the two issues from within the Turkish Cypriot community has increased, driven by fears of losing the aid altogether. Ultimately, a separation of the two packages now seems very likely.

Despite all the restrictions and impasse over the island, the Turkish Cypriot economy has managed to increase Cyprus's trade activities to around 45 percent with Turkey, 27 percent with EU countries, 18 percent with the UK and 8 percent with Japan. Moreover, inflation levels dropped to 6.8 in July 2005, which is very low by Turkish Cypriot standards. In 2004, GNP rose by 9.6 percent, after an increase of 11.4 percent in 2003, and according to 2005 data (first 6 months), growth continues to be strong GNP became 2,3 billion dollars. Per capita income of the Turkish Cypriot people rose to 10,248 dollars.

Given that the EU regulations on financial support for the North and on direct trade between the Turkish Cypriots and other EU countries have been pending, the EU fund, 259 million euros to support economic development in the North, could not be released. Thus, Turkey remains the main supporter of the TRNC economy and the public sector of TRNC remains the leading investor in North Cyprus.

The harmonization process with the EU needs to be considered more seriously. Turkish Cypriot officials have to comply with the EU standards and complete the necessary work to bring TRNC laws more in line with the *acquis communautaire*. Meanwhile, the government has to continue pursuing its policy to improve the reputation of the Turkish Cypriot economy. Fighting money-laundering will be an important step forward. Besides all efforts to advance in harmonization, there is a lot to be done. According to provisions of the direct trade

regulation, phytosanitary inspection, food and product safety, taxation issues, communication obligations, and safeguard measures in the event of ineffective cooperation, irregularities or fraud are the issues that Turkish Cypriot authorities have to fulfill requirements to meet EU criteria. Turkish Cypriot authorities have to address the matter of transportation and direct flights, which are vital for both tourism and the higher education sector, major sources of earnings, separately from the direct trade regulation because this Regulation covers only trade and not other relevant issues such as transport.

Conclusion:

Since the referenda in April 2004 and the EU membership of the Republic of Cyprus as of the 1st of May 2004, nothing really changed in the status of the TRNC or in the position of the Turkish Cypriot community in world politics. Turkish Cypriots keep their faith that one day the Cyprus Impasse will be over and try their best to push forward any initiative for a just and peaceful solution on the island.

On the 3rd of October 2005, Turkey started accession talks with the EU and now the Cyprus Impasse is a focal point in the course of negotiations between the Turkish government and the EU. In compliance of the EU law, Turkey had to sign a protocol in order to extend the Ankara Agreement to include 10 new Member States in Turkey's Customs Union Agreement. As a result, Turkey has to engage in commercial and economic operations with the Greek Cypriot administration. Likely, the EU will require the recognition of the Republic of Cyprus from Turkey in order to continue accession talks in line with the EU rules.

The EU did not take a significant step forward to bring the Turkish Cypriot community closer to the EU. The only remarkable improvement remains the Green Line regulation that allows the crossing of persons and some goods. However, the Green Line Regulation does not yet significantly contribute to the Turkish Cypriot economy and has not facilitated trade between the North and South. Moreover, Turkish Cypriot companies have to be registered in the North and South in order to export Turkish Cypriot goods from the North. Double registration brings extra financial burden and leads to double taxation. According to the Green Line regulation, there is no possibility of trading imported goods in Cyprus over the Green Line. Therefore, most of the Turkish Cypriots agents/distributors of Turkish originating goods will move their activities to the South in order not to lose their agencies/distributorships and in order to benefit from the integration of Turkey and Southern Cyprus. Consequently, the line of investment and capital channels will move from northern to southern Cyprus, thus ending the functioning of ports in the North and further increasing the flow of skilled labor to the South.

Seemingly, the Greek Cypriot administration will continue to block Direct Trade and Financial aid regulations in the Council as long as they can. From different angles, they will fight the battle to the end and enjoy their leverage against Turkey as one of 25 in the EU. Given that the UN Secretary General is reluctant to start a new negotiation process for peace talks, the Greek Cypriots have no reason to feel obliged to negotiate again, which weakens the possibility of a comprehensive settlement in Cyprus.

The international community, in particular the EU, has to make necessary provisions to end economic isolation of the Turkish Cypriots. If the Council approves Direct Trade and Financial Aid regulations, the Turkish Cypriots will be able to establish direct commercial links with other countries. Having the fear that greater economic independence would reduce

the incentives for Turkish Cypriots to make concessions; the Greek Cypriots will be keen to take a place at the negotiation table once again.