

# BULLETIN

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## Cyprus' Presidency Agenda: Towards a Better Europe?

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*The EU Council presidency constitutes an opportunity for Cyprus to consolidate its EU membership and to achieve political maturity within the EU. However, Cyprus' chairmanship capacity in the thorny negotiations about economic governance, which are currently underway, might be severely limited under external financial supervision. In this context, newer member states which have already held the presidency may have expertise of particular use to Cyprus. The presidency could also leave its mark and contribute to consolidating a role for the post-Lisbon presidency in EU external action.*

The rotating presidency can be used as a mechanism to help newer member states better understand the intricacies of the EU decision-making process. Thus, the political maturity acquired by Cyprus during its presidency should allow it to play a more active role in European integration. Nevertheless, Cyprus is facing challenges on both the domestic and European stages, which might hinder the process of strengthening its position in the EU.

**The Challenging Context of the Cyprus Presidency.** Cyprus' lack of previous experience in managing the EU Council agenda is aggravated by its size and limited human resources, as well as by the geographical distance between Brussels and Nicosia. In an attempt to compensate for these shortcomings, Cyprus has decided on a Brussels-based model, with its Permanent Representation in Brussels playing a key role in managing the presidency. Cyprus is the only one of the three Member States comprising the trio presidency to participate in the Eurogroup meetings. However, the presidency might face difficulties in remaining a credible partner in discussions on eurozone governance. Cyprus's banking system's assets exceeds its GDP several times over and is severely exposed to Greece, giving this Member State its own set of interests in eurozone reform. The urgent need to recapitalise its banks has already seen Cyprus apply for financial support from the EU rescue mechanisms (EFSF or ESM). This will not only impose on Cyprus an obligation to implement an economic adjustment programme as a condition of EU financial assistance, but it might also affect its capacity to moderate the debate on Economic and Monetary Union.

The outcome of the presidency, especially with reference to the EU enlargement process, might be affected by the Turkish–Cypriot dispute over the island's status, recently intensified by the issue of off-shore gas deposits in the eastern part of the Mediterranean Sea. With Turkey boycotting the presidency, it is expected that the bilateral EU-Turkey dialogue will continue under the informal EU-Turkey agenda initiated by the European Commission in May, with the aim of offering a solution to the on-going deadlock in the EU Council regarding the accession process. This dialogue might be facilitated by a Council decision, recently worked out by the outgoing Danish Presidency, on the signing of an agreement between the EU and Turkey on the re-admission of persons residing without authorisation and its conclusions mentioning the prospect of visa liberalisation.

**Closer Economic Union.** Enhancing economic governance will remain the priority for the Cyprus presidency. The outgoing Danish presidency oversaw a political agreement within the EU Council, on two Commission proposals addressing the eurozone. They concern assessing draft budgetary plans and ensuring the correction of the excessive deficit procedure, as well as strengthening the economic and budgetary surveillance of those eurozone members whose financial stability is threatened (so-called two-pack). However, it will be Cyprus' role to chair the inter-institutional negotiations between the Council and the European Parliament (EP). Reaching a consensus within

the Council, particularly regarding the EP's amendments concerning the introduction of the European Debt Redemption Fund, might prove difficult.

Cyprus might also face further tensions between the euro insiders and outsiders. The common system of financial transaction tax (FTT) is among the issues dividing EU members. Even though the last Council meeting of finance ministers, held on 22 June, did not bring about any consensus on the Commission's proposal for the Council directive on an FTT, enhanced cooperation between several EU member states seems to be under serious consideration and might appear on the presidency agenda.

**Multiannual Financial Framework (MFF).** Denmark managed to establish a negotiating framework covering many elements necessary for the final agreement, alongside partial agreements on some of the accompanying sectoral legislative proposals. The next stage of negotiations, determining the exact allocation in particular policy areas, as well as deciding on the contentious subject of the EU own resources, will be challenging for the presidency. Cyprus' rather moderate articulation of its national interests during the previous stages of negotiations may facilitate its role during the presidency as an honest broker. However, efficient coordination of the talks seems to be crucial at this stage and, for this reason, the possibility that Cyprus will require the active involvement of the president of the European Council at the outset of presidency cannot be excluded. Efficient cooperation on the MFF, between the presidency and the EP, which is expected to give its consent to regulation on the MFF, might also depend on Cyprus' role in parallel negotiations on the EU's budget for 2013.

**Justice and Home Affairs, and the External Dimension.** Cyprus' capacity to facilitate the adoption of a Common European Asylum System by the end of 2012 is seen to be compromised by its location and possible exposure to illegal migration, escalated by developments in Syria. Unfavourable inter-institutional relations, which arose after the EU Council unanimously excluded the EP from co-deciding the Schengen evaluation mechanism, could complicate the management of other dossiers on the JHA agenda. The Cyprus presidency will also concentrate on enlargement, and on EU external action. Should the conflict in Syria escalate, Cyprus' proximity to the Middle East might prove useful in supporting the High Representative for Foreign Affairs and Security Policy (HR) and the European External Action Service, with reference to crisis management in that region.

**Conclusions and Recommendations.** In order to secure a sound performance during its presidency, Cyprus is expected to rely on close cooperation with the Council General Secretariat. The presidency could usefully establish a discussion platform with the other trio members, preferably on the level of the Permanent Representatives to the EU, or their deputies. This could provide a forum for exchanging ideas on achieving political consensus in the Council, whilst maintaining the pace of negotiations. The experience of the Polish Presidency, which managed to get the 2012 budget adopted on time, might prove useful in this context.

On the economic governance agenda, Cyprus, like Denmark, advocates an approach that balances growth and austerity measures. Even though, in the aftermath of the socialist success in the French presidential and parliamentary elections, the political context is favourable to such an approach, Cyprus' influence on an agenda dominated by Germany, France and to some extent Spain and Italy will be limited. The presidency can nevertheless use the momentum created by the Polish and Danish presidencies towards the deepening of the single market.

The presidency will, in the MFF negotiations, face a political stalemate on the size of expenditures, which will eventually be addressed at European Council level. With the president of the European Council heavily occupied with the eurozone crisis, Cyprus should work towards further compromise on the negotiating framework before handing it over to the highest political level. In this phase, a new growth approach is expected to be articulated more explicitly. Cyprus' presence at meetings of the Friends of Cohesion Policy could constitute a favourable environment for Poland and other members in which to promote Cohesion Policy as a measure of growth and competitiveness.

Finally, Cyprus should continue the previous presidencies' efforts towards determining a post-Lisbon scenario of policy making, which ensures efficient inter-institutional cooperation and clarifies the presidency's role in EU foreign policy. Cyprus might thus contribute to the development of cooperation between the presidency and HR, an issue which seems to have lain stagnant under the Danish presidency.