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## P R O C E E D I N G S

MR. INDYK: Ladies and gentlemen, welcome to Brookings, I'm Martin Indyk, the Director of the Foreign Policy Program at Brookings, and it is my distinct pleasure to have the opportunity to introduce you to the Minister of Foreign Affairs of Cyprus, Ioannis Kasoulides to address this special Statesman's Forum at Brookings. I also want to welcome Senator Paul Sarbanes, it's very good to have you here. It's an honor for us, Senator; we're great admirers of all the work that you did in your days in the Senate, and also the Ambassador of Greece and the charge d'affaires of Cyprus.

The Foreign Minister has a very distinguished career as politician and diplomat, he served in the Cypriot government from 1993 to 1997 as its spokesman, he was first appointed Minister of Foreign Affairs in 1997 and served in that capacity for six years. During that time, he led the diplomatic effort that marked the initiation and completion of Cyprus's accession to the European Union. From 2004 to 2013, Minister Kasoulides was a member of the European Parliament where he served as the Vice President of the European People's Party and head of its Foreign Affairs working group.

In 2013, he was appointed Foreign Minister again for his second

term; I believe it was in March of this year. He has taken office at a rather dramatic time for Cyprus, we don't need to be reminded of one of those dramas, which, of course, was the banking crisis earlier this year. But it's dramatic for a number of other reasons, as well. Cyprus has just finished an important role as head of the European Union, the discovery of offshore gas in voluminous quantities.

Offshore Cyprus has opened up a whole new opportunity and question mark that I hope the Minister will address today. And, of course, the economic crisis, as the Chinese say, out of every crisis can come an opportunity, I think also presents an opportunity for Cyprus. And that's the context in which the Foreign Minister is going to speak to us today, about the geopolitics of the eastern Mediterranean, and give us his Cypriot perspective. And after he's addressed us, we'll have an opportunity for conversation and to ask him a few questions.

Minister Kasoulides, please welcome.

MR. KASOULIDES: Well, Senator Sarbanes, your Excellency, ladies and gentlemen, first of all, I would like to thank very much the Brookings Institute for giving me this opportunity to be speaking today, and I thank very much for bringing around so many good people, among them some people that I do know very well, so I would like to thank you very much for your presence. And want also to thank you very much, Ambassador, for chairing this meeting and moderating it.

I know that the subject I will be talking about is so dear to you, and your particular interest in the Middle East, something that cannot leave Cyprus indifferent, because, indeed, I would like to put my speech and talk about Cyprus within the perspective of the bigger picture of the region of the eastern Mediterranean. The problem of Cyprus should not be seen as an isolated problem, it's not a problem which concerns only the interested parties, it's a problem that it's very much related to the stability and the security of the region.

The volatile region of the eastern Mediterranean, which, as you know, is among the most security prone areas in the world, despite the fact that, nowadays, with the emerging powers and their characteristics, perhaps other parts of the world have become much more important than they used to be, the Pacific, et cetera. But how can one ignore our region, from where international terrorism was born, from where we have Iran with the potentiality of acquiring the nuclear weapon, from where we have the influence exerting to Hezbollah in Lebanon, to Syria and the conflict in Syria.

A region where we have Syria itself in the very dramatic situation with loss of lives and properties in that country, from where we have the Middle East problem, Lebanon with the fact the country was the theater of wars by proxy, not just one, but several, and then Egypt and the Arab Spring and the extremely important

developments there. In the middle of it all geographically, Cyprus is situated, and I would like to be allowed to talk about it.

Particularly since Cyprus is at the same time a member of the European union, belongs, without any doubt, in the Western Security System it always belonged to, despite some several foreign policy attitudes by some governments, wishing that they were in the nonaligned line of work. They were not. And, finally, there is Israel and its security, and the importance about the fact that Cyprus is next door to this country. So allow me, first of all, to speak about the importance of the geographic location of Cyprus, which creates for Cyprus great challenges, but also which is offering also, if our foreign policy is creative, great opportunities.

Only today, to give you an example, I was informed from Nicosia that Iran has decided to recall its ambassador there for consultations. Why? Because an Iranian citizen was apprehended for trying to sell -- or to buy, sorry -- to contravene the arms embargo against Iran. And the Cypriot courts decided, the decision was applied by the government of Cyprus to extradite this individual to the United States. So Cyprus is not immune from problems in this region.

Recently, we had an individual who was sentenced to four years in prison by a Cypriot court when he confessed that he was a member of Hezbollah,

and he was trying to collect information regarding the whereabouts of Israeli tourists in Cyprus, probably conspiring for a terrorist attack similar to the one that has taken place in Bulgaria for the same reason.

Well, for us, for the new government of Cyprus, we want to be an important partner of the United States and the European Union to the fight against terrorism, to the fight against proliferation of nuclear weapons, organized crime, trafficking of human beings, et cetera. I think that we are useful despite our small size because we are, in this particular part of the world; we are among the first countries that have joined the proliferation security initiative of the United States for this effect.

And let me take the occasion here to express our deep sorrow for the victims of the terrorist attack in Boston, which is here to show that this asymmetrical security issue which is called terrorism is something that is not going to leave us alone, and we'll always have to maintain our vigilance. But also, I think that there are other issues now that are becoming important for the rest of the world, it's the energy and the maritime security for which I will speak in a minute.

I want to say that, by being members of the European union, we became members of the European union because we share with the other members similar values, which are common also to the United States of America, democracy,

human rights and the rule of law, and we aspire to be partners, both to the EU and to the U.S.A. regarding trade, shipping and investments. But the recent hydrocarbonate discoveries, it's a very important new development in our region, it can contribute to the EU energy security and the deacidification policy of the EU.

But it is also the fact that Cyprus is situated at the strategic point of entrance at the Suez Canal for gas exports to Asian markets. And, indeed, one of the companies that got interested and acquired contracts in the Cypriot exclusive economic zone is KOGAS, a South Korean company. We will exploit our gas resources, I don't think that anybody's claim that we can do otherwise can ignore the fact that, despite the progress and new technologies, and the fact that other kind of energies are going to become available like shale gas, both in the United States and elsewhere.

The demand remains still high, particularly in Asia where a lot of people are still in the way of development, which we haven't seen the end yet. I don't think that humanity is permitted to sit down and wait until Cyprus settles its problems with Turkey in order to proceed in exploiting this very important material. We do all our actions of natural gas follow the UN convention for the law of the sea and the international law, and we anticipate by the end of this decade, the first important revenues from this issue. Noble Energy, an American company, and

probably behind this company are other American companies that I am not permitted to disclose myself, it's not my job, but also in cooperation with an Israeli company who acquired 30 percent, has already acquired one block from which the first dealing took place with success.

And this company is also negotiating now about the terms of the pipeline bringing the gas onshore and then to create a power station using the LNG, natural gas, for Europe. I know that there is a lot of word about the plans about the pipelines, but pipelines cannot be the only means of exporting natural gas. Because pipelines, they may be cheaper, but one has to be sure that the source from where they are coming from, the transit from where they are passing from are predictable areas.

And, therefore, the advantage of the LNGs is that it can go anywhere through the sea, both for Europe, but also for the markets of Asia, which are very demanding for consuming at the moment. But this natural gas has brought important, new and tangible ways for Cyprus to work together with its neighbors. We are living in a neighborhood that, first of all, we had the developments of the Arab Spring, we have all welcomed the fact that the Arab world has decided that it cannot be the exception in the development of democracy.

Of course, it is still a big debate among themselves to find their way

to democracy. We are going to see ups and downs on this road, but it's a road that will not have its way back, and I believe that both the United States and the European union have to be there to make sure that this democratic developments in the Arab world and in our vicinity not only consolidate democracy, but at the same time, adhere to the values that we all share, and can become a factor of stability rather than the other way around.

We are the only member state of the European union that we belong to this region that I am describing, and I want to begin talking about how review Israel. Cyprus, in my view, is the most predictable next door neighbor of Israel, we are the only country that is not party to the Middle East problem, the only country that we are not potentially a fundamentalist country from now or forever. We are the only country that is a member of the European Union adjacent.

Shimon Peres said two days ago, during the visit of President Anastasia Tardis to Jerusalem, that Cyprus brought Europe to 35 minutes away from Tel-Aviv, whereas, before, it was much, much, the distance was much, much bigger. This theory always existed, and the good intentions between Cyprus and Israel always existed, but now, the energy issue becomes the tangible area from where we can work together and make, and prove what we have been saying about this.

When I said that we are the most predictable country, neighbor of Israel, it includes all the other neighbors, even those neighbors that are now governed by moderate regimes, and perhaps they are okay. Jordan, for instance. But the question is: can anybody predict what the case will be in ten years from now? Turkey is another example. And we have all seen, of course, understandable the efforts to resolve the misunderstandings. And probably they will be, but the predictability will never be there.

And, on the contrary, Cyprus, whichever government is in power on Cyprus, we've seen the left government a few months ago, we are now seeing a central-right government. The predictability, it's undeniable except for one matter, and I want to use it now; except if there is a bad settlement of the Cyprus question, a settlement which may lead to the fact that Turkey may allow, through proxy, to dominate or influence its foreign policy. Because, in such a case, this only very important card for Israel, a very important ally for the United States, of predictability will cease to exist.

Now, I want to make sure to my audience that what we are doing with Israel, and the way we are working with Israel was never seen, and will never be seen, as a zero-sum game, so far as Turkey is concerned. We don't believe in the foreign policy which says that the friend of your enemy is no longer your friend.

There is no such a thing. Besides, nowadays, there are no friends and no enemies, but that's a different story.

And, secondly, as we share common values with Israel, and also Greece shares common values with Israel, and we may be working on agreements, tripartite agreements, this should never be seen, and was never intended to be an anti Turkish front. It is because it's apparently a path of matters that are of common concern, and we need to work together with them. I think that there is another asset that has to be seen with great attention; our economic zone has adjacent borders with economic zone of Israel, adjacent borders with the economic zone of Egypt, adjacent borders, the median line with economic zone of Lebanon.

And Israel has one common adjacent line of economic zone between Israel and Lebanon, and another adjacent line between Israel and Egypt. Common denominator: Cyprus. Cyprus has excellent relations, have always had traditionally, but with affinity both with Egypt and with Lebanon. I will speak in a minute about them. So it is extremely important that Cyprus plays the role of bringing Israel and Lebanon, along with Israel in itself in this equation.

We are now negotiating with Israel, an agreement on common exploitation of natural gas that is adjacent to our respective economic zones, and we are also began just now negotiations about the security, it is called Dialogue for the

Strategic Energy Security, and the General Stability in our Region. It includes questions of energy security, but also on other areas of common interests like terrorists, nonproliferation, and other issues that we can work together.

In this agreement we are talking from now that we would like to bring in and introduce Egypt and Lebanon, and facilitate when the time is ripe, to succeed this. And this is why this is another important issue that it has to be taken into account. We view ourselves in the despite, both in the Middle East problem, but also in other disagreements between Israel and its neighbors, the other neighbors as a facilitator and not just as an observer.

Now, as I have mentioned before, Lebanon is a very, for us is a country that we have great affinity. We have hosted twice a great number of refugees, in particular, members of the business community of Lebanon in Cyprus. They have established companies now, and they make this clever choice of having an office in Nicosia or in Limassol in Cyprus. So when there is a crisis in their own country, they don't stop their operations, they continue them from our country. And I am glad to say that some businessmen from Haifa, where the missiles were landing indiscriminately, which paralyzed economic activities in that town have also chosen to do the same.

I may also recall that, in October 1983, when the lives of 241

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American Marines were lost in Beirut, Cyprus was there to offer immediately its services and its facilities for humanitarian and other support. And the same is that, now, we have made agreements with a number of EU, but also non EU countries for the evacuation of thousands of citizens from the EU, from the United States, from Canada, and others that may be needing evacuation in case the situation in Syria becomes much worse. The relations with Egypt date from the time of before the independence of Cyprus, and they have remained always very cordial.

I am planning to visit Egypt after I have visited Israel. And after my President visited Israel, now I will visit Egypt, and then President Anastasia Tardis will follow, I always go first for the preparation of the meetings. And I hope that, while it is understandable that there is great domestic, big domestic problems in Egypt, and perhaps all the factors are trying to find the specific role that they need to play from within the European Union. We are giving all the encouragement to Baroness Ashton and to Bernardino Leon to try and broker a better understanding within a democracy of what is the role of the majority and the government on the one hand and the opposition on the other.

Now I come, if I am allowed, to Syria. Because Syria, I must make a distinction, the people of Cyprus, due to the proximity and to the greatest exchanges among people to people has always been very close to the Syrian

people. And now we are expressing our great concern about what is going on, particularly being spectators of so many lives being lost, particularly among innocent civilians, and of so much destruction that is taking place in this country. We are also very concerned regarding the minorities in Syria.

Syria has always been traditionally, despite the fact that the first disciples of both Christianity and Islam, made Damascus the second capital, Syria has always remained a secular country, but now it is facing very serious problems. Of greater concern to the minorities is the problem of the jihadism which has invaded the country, and even when the Assad regime has gone, it will still be another war before this is also addressed.

I have say to the Secretary General of the UN yesterday that Cyprus is supporting his efforts and is offering all assistance to his team that he dispatched there to investigate regarding the use of chemical weapons. The use of chemical weapons is of great concern of everybody, particularly if they fell into the wrong hands. That is why we believe that the situation on the ground needs to change soon in order that the sides realize that there is no other way but to come to the negotiating table and reach a political solution. Of course, a political solution which will mean that President Assad must step aside.

There is no other solution for any regime anywhere in the world

who turns its weapons against its own people, particularly even heavy weapons, in order to contemplate that there is no other way. And we are now debating within the European Union and most probably will make a decision by the Foreign Affairs Council next May regarding taking both decisions ourselves as to how the situation of the ground will change. It's very asymmetrical, you know, if a country like Iran provides weapons and sustains the one side, the Assad regime side, and leaving the others in wait that they will accept the conditions so they can be brought to the negotiating table to find a political solution. That's not the way that the sides will be convinced to sit at the negotiating table.

Now let me talk a little bit about Turkey, which is the last part of my intervention. Turkey is a very important ally of the United States, and nobody wants to dispute this. And it's an important country, a country that has been successful since Mr. Erdogan came to power. An emerging economy with great successes, and also a country that, after some doubts about which side it should be on, it has taken the side of the opposition against the Assad regime and is also playing its role in the humanitarian aspect of receiving refugees both in Turkey.

But, also, since I say this, let's mention also Jordan and Iraq, and, of course, Lebanon, where things are not as simple as taking refugees. They have the tendency to take sides, and therefore, to bring civil war into their own country.

But, going back to Turkey, let me say that Turkey has also tried with the dogma of Mr. Davutoglu, the Foreign Minister, about zero problems with neighbors.

It has initially worked with mediating about the Golan Heights between Israel and Syria, the Assad Syria, it has worked with Hamas, as you know, it has worked with Iran, you remember the efforts to bring uranium into Turkey and the fact that this contradicted a bit the efforts of Security Council to introduce sanctions at the time. But, anyhow, they tried. But I believe that all of this policy has not succeeded in the end, although understandable policy, zero problems with the neighbors is just a theory. On the contrary, there are problems with all the neighbors.

So much so that certain attitudes of turning the back to the European union and believing in the Euro/Asia prospect, then I don't know what else, is not a very realistic choice, either. So Turkey, now, is trying to convince everybody, and I will wait to see whether this is truthful or not. It's trying to convince everybody that it wants to turn again towards the European Union and acknowledges that the problem of Cyprus is an impediment for this.

And also that I hope that Turkey understands what an anachronism means. It is nowadays to occupy 37 percent of the territory of Cyprus, 57 percent of its coastline, a European country, after all, therefore European soil. And how

anachronistic it is, to admit openly, as Mr. Davutoglu did, that even if there was one Turkish Cypriot in Cyprus, Turkey cannot remain disinterested to what will happen on this island which is right at the hypogastrium of Turkey and the maritime roots from Ceyhan and elsewhere.

And, let me tell you, that this was the admission of a previous Turkish Foreign Minister, Mr. Soysal, who has openly said that they are in Cyprus not for the security of the Turkish Cypriots that it has portrayed, but for these specific reasons. Anyhow, I don't intend to use this rostrum in using enmity language, as I was told towards Turkey. On the contrary, I want to see the future in an open way. That is why, since we came to power 1st of March.

And despite what we have received that it was waiting and prepared for us by the decision of the Euro group regarding the bailing, we have decided that we will proceed with our policy of finding solutions to problems and not hide behind chronic stalemates, and that is why we want to send, and we will be continue sending signals to Turkey about our positive attitude.

First of all, you should know that, since our access to the European union, Turkey blocks the political dialogue between NATO and the European union on the pretext that Cyprus has no connection whatsoever with NATO, is participating in no programs with NATO. And it is true that Cyprus is the only European Union

member which has no kind of connection or participates in any way in the programs of NATO. So the government of President Anastasia Tardis is prepared to address this issue, since we say we are ready to apply to participate in the program for the Partnership for Peace.

In exchange, we are offering to Turkey to lift the veto on its participation in the administrative arrangement with the European Defense Agency. It's a fair deal, provided that Turkey doesn't object by a veto in our participation in the Partnership for Peace. Which will result -- not our problem, we can be out PfP for another ten years, for that matter, but will save, will give the opportunity to save a problem between the European union and NATO. And it is not a non important issue; it's a very important problem, because when political missions of the European Union go, let's say, to Afghanistan, an agreement is needed at that level regarding the security of these people from the contingents that they are running in Afghanistan.

And this is missing, so let's not under estimate that this is a very important matter for the relations between EU and NATO. We are offering the solution; still we don't get the necessary positive replies. But we will leave time to Baroness Ashton, to the American government, to continue working with the hope that this will be successful in the end. We don't want to play the blame game here

and just go and put the application, Turkey to veto us, and then come and say you see, we told you. First, we want to try seriously, but there will be a time when we shall have to do it.

Secondly, the economic crisis in Cyprus has created something that it is a very important factor if we are seeking to find a solution. This important factor is public opinion. As you know, in 2004, public opinion voted against the proposed plan. President Anastasia Tardis has been weakened now from the economic developments, needs the support of the public opinion in Cyprus in order to deliver. We are proposing a fair deal for everybody to take place in parallel, I don't know.

We are open of lifting our own veto on certain subjects of the accession chapter, certain chapters of the accession negotiation of Turkey with the European union, a win situation for Turkey; permit world trade, direct trade of the Turkish Cypriot community through the Port of Famagusta under the supervision of the European union, a win situation for the Turkish Cypriots; and we want that Turkey relinquishes the town of Famagusta, an empty town, a ghost town to its rightful inhabitants, which is a win situation for Cyprus.

So a win, win, win situation. And I am saying that such a big step, it is a big step, it's not a small CBM, or whatever, but such a big step will tremendously change the whole climate, and it will become the game changer if we want, during

the negotiations, to resolve the problem of Cyprus. It will be a game changer, I assure you, because there is one issue, and it is also a usual thing, with all problems that are characterized by chronicity, lack of trust.

If we can diminish this gap of trust that exists, and by Turkey doing this for Famagusta, will certainly respond to this. It will be a tremendous development. We are committed that we will begin the talks for the substance of the problem by next autumn, we want them well prepared, we want that the negotiators who are the leaders of the communities appoint interlocutors. You know, they all say good successful mission of the United Nations, fine; intercommunal talks, fine; but there is something here that we pretend it does not exist, the major difference is between Turkey and Cyprus, it's not between the two communities in Cyprus. Therefore, somewhere, Turkey has to be involved in these negotiations.

Turkey does not accept to speak with us because they say they don't recognize the Republic of Cyprus. Fine. An interlocutor will have no institutional connection with the Republic of Cyprus, he will be somebody representing the Greek Cypriot community. They can speak to him. There is no further excuse to listen to them, and having us listened, and address the concerns that exist from both sides.

So I am not going to say to you that the negotiations for Cyprus are

easy, they have never been, but whoever wants to be involved in these negotiations have to have in mind that something is needed in order to change. Mr. Davutoglu has acknowledged publicly that President Anastasia Tardis, in his election, creates a wind of opportunity. President Anastasia Tardis has the credentials from his past history, and everybody knows that if bold decisions are needed, he will not hesitate to take them.

But the window of opportunity cannot be a matter concerning only just an election of a new government, he needs both sides to send their own signals, not in a zero-sum situation where we believe that Turkey wants urgently negotiations because they want to take advantage of our economic weakness of the present, and them saying that the reason we want to begin negotiations in October and not now, our excuse is about that economic situation, and we are trying to be delaying tactics. These are suspicions that are totally and necessary if we mean business. If we mean business, we have the political will, and you will see it.

I want to finish very quickly by reminding everybody that today is Europe's Day. Today is, in Europe, a day we celebrate Europe. Europe and its values, the strongest ally of the United States, and the most valued partner, despite the problems in the Eurozone, despite the fact that we have to admit the failures of certain aspects of the European project, we must also say that the EU is a unifier,

it's a factor of stability and prosperity for its people, it has always been, and it will be there.

People may be disappointed; the people of Cyprus are disappointed they way they were handled on the 16th of March and the 21st of March, but we don't accept that we're less Europeans than those that have taken the decisions. We are much more in favor of European integration than anybody else. Thank you very much. (Applause)

MR. INDYK: Thank you very much, Foreign Minister Kasoulides, that was a tour d'horizon, and I thought you were going to avoid mentioning Turkey completely until I realized that you left the best till last. Let me ask you in that regard, since you've been a veteran of these issues with Turkey for so many years. Is there something about this particular time that makes it more propitious to try to resolve the problems?

MR. KASOULIDES: Yes. As I have mentioned, there is the argument that is coming from Turkey is that Turkey, having tried all the other policies about zero problems within the neighbors about looking towards a Eurasian design, wishes to turn now back to the European union, and that acknowledges that the Cyprus problem, the existence of the Cyprus problem is an impediment, and they say the time has come in order to resolve it.

Now, I am sorry, I wish and I hope it is true, it remains to be proven at the negotiating table, but Turkey has trained us to believe that we need to see before we believe, because it is not the first time that we see this kind of very well-enveloped, nicely prepared gift with the nice paper outside, but almost nothing inside. Let's see what is going to be. I don't think that we should miss opportunities or send away opportunities, we need to test it.

MR. INDYK: Does the crisis that Cyprus has just been through, economic crisis, affect this dynamic in any way?

MR. KASOULIDES: Well, this is a double sword argument, and I want to explain why. First of all, if it is used, it may make people, particularly Cypriots, become suspicious that all this happened, the decisions taken by the Euro group, et cetera, in order to bring Cyprus to its knees and accept a settlement that is in adverse terms.

Secondly, this argument has, I don't deny at all, the medium term and long term economic advantages, but I cannot see the short term economic advantages when one knows that, first of all, those displaced persons that have lost their properties, they need compensation if they choose so. Turkish Cypriots or others who need to be relocated because of territorial adjustments will also need to get money and support in order to succeed in this.

Inaugurating a new civil service and an administration composed, I mean, we need four parliaments, for instance. And all these arguments bring to the question who is going to pay for all these costs? Definitely it will not be somebody from abroad; there are so many urgent and much more important humanitarian issues around the world to feel that this can be done from abroad. Usually, and in the past, the idea was to be paid by the Cypriots themselves. Now, how can it be done?

So, in my view, using the economic argument is going to be counterproductive. There are reasons enough why a country bleeding from the wounds of being divided needs to be reunited. I don't think any additional arguments are necessary.

MR. INDYK: But in the geostrategic context in which this problem confronts you, there is that element to the economic crisis. There are two other elements, one is the rapprochement between Israel and Turkey, and the second is, of course, what you referred to as this natural gas bonanza. Do those two factors have any play in terms of influencing the context for a resolution of this problem?

MR. KASOULIDES: Yes, particularly the second. Because I believe the Israelis when they say that perhaps they need to improve further the relations with Turkey out of need, but in parallel, they need to improve further the

relations with Cyprus and with Greece out of commonality of values. And I believe them when they say that things will not be as they were before the problem between Israel and Turkey, we still have our role to play.

By not considering the Israeli/Turkish rapprochement as a zero-sum game for us, neither considering our relationship with Israel as anything having to do as a front against Turkey, it is totally two parallel roads who never need to meet. Now, the second is the question of energy. If the question of energy is used in its right content, it can be an important motivation for everybody in order to resolve the problem, it would be a very good incentive. But if it is used as a threat of use of force, it will be counterproductive, it will create ramifications.

Let me give two examples where I think it would be a very good incentive; first of all, Israel, I know, would like to have a diversification of the ways they will be exporting natural gas if they finally decide that they will be exporting. Because the decision has not yet been officially taken, despite the fact that everybody understands that this is going to be the case. One of the discussions between companies is creating a pipeline and going from the eastern Mediterranean towards Turkey.

From where is this pipeline going to pass? Either from the economic zone of Lebanon and Syria, something that is totally unrealistic, or through

Cyprus, sea and land. In this case, I think that everybody realizes that it is only with the settlement of the Cyprus question that this can be achieved. And I don't think that Israel will connive to the creation of a fait accompli and a by-force immersion of a pipeline, ignoring the Republic of Cyprus.

Another example, even more important, is the fact that we intend, we are saying that this wealth, although we are looking for it only in the southern seas of Cyprus, the economic zone is around the island, and we are saying that this wealth belongs to all Cypriots. And the front that will be created, which is destined for the future generations along the region model, where scholarships, research programs, whatever, will be offered, this will be all Cypriots, irrespective of which community they are coming from, will be entitled. But nobody expects they will take money and give hand to the self-proclaimed illegal entity in the north are just like this. After a settlement, we will settle our accounts.

In the same, I want to tell you something, because sometimes, what Turkey tends to forget, Turkey says we should leave it there until we set a settlement.

MR. INDYK: You mean leave it under the water?

MR. KASOULIDES: Leave it under the sea, yeah. There's something else, from '74 until the late '80s, we were, the Republic of Cyprus was

providing electricity to everywhere, occupied part, to Turkish Cypriots everywhere. Because we are obliged to do. The authorities were charging the consumer, we are taking the money from the consumer, Turkish Cypriot community, and then they said they will have nothing to the electricity authority of Cyprus until a settlement of the question, then we will settle our accounts likewise.

MR. INDYK: Prime Minister, you gave a very detailed proposal for we resolving the conflict, and I wonder if you could just tell us, to those of us who are unschooled all of the details, was there something new in what you put forward today, or is this a long-standing position?

MR. KASOULIDES: Well, definitely, today I have given two very specific and important examples of not hiding behind the known path, the wooden language, the path that either politician hides behind risks nothing. But this reminds me of the individual who wants to avoid being run down by a car, and he never leaves his house. If we need to do something, we have to bring forward answers to problems, and we propose two things that will improve two important matters.

First, the problem between the European union and NATO, and secondly, the need to breach the gap of trust between the two sides, which who will, while negotiating, they will negotiate in much better terms.

MR. INDYK: Okay, let's go to your questions. Please wait for the

microphone and please identify yourself to the Minister. Over here.

MR. TUNC: Thank you, sir. I am Mustafa Tunc, a Turkish Cypriot from the Turkish Republic of Northern Cyprus, representative office in Washington. I have two questions to you; first of all, two days ago, NATO Secretary General Andrew Rasmussen stated that issues between EU and NATO can be resolved completely only after the Cyprus question is solved, and that natural resources like the natural gas can only be exploited after a solution to the Cyprus problem. What is your comment on this?

And, secondly, I question the reliability of the Greek Cypriot government. During the previous phases of bicameral talks, it was agreed in principle that the elimination of maritime zones in Cyprus will be left to the joint federal government after the resolution of the Cyprus problem. Yes, your administration not only signed elimination agreements with Egypt, Israel and Lebanon, as you have mentioned, but also started drilling natural gas. What is your comment on this? This puts your reliability, in our eyes, in question. Thank you very much.

MR. KASOULIDES: Thank you. First of all, I want to express pleasure that I have a Cypriot compatriot to speak with and have a frank dialogue on the questions he has put. The first is regarding a statement by the Secretary

General of NATO. I must say that, when I first read the statement, was from Turkish press, and I said to myself, has he really said this, the Secretary General? Then we got him on tape, because he was giving a press conference, and we got exactly what he said.

Please ask them, and it was here when they sent you this information, whether he said really that he wants the exploitation of the natural gas to take place after resolution. He didn't say this. As for the first, that the problems between NATO and the European Union will be solved once the problem is solved fully, as you have said, quite rightly. Fully, yes, I agree, but this doesn't stop to take the opportunity to resolve this problem, not fully, but satisfactory with the proposal that we are making.

What's wrong? Turkey belongs to NATO, Greece belongs to NATO, we are asking to participate in a program of NATO, and in this way, remove the excuse of preventing the dialogue between the two, between the alliance and the union. Let me say that the reason given is that we are not, Turkey does not recognize us, Cyprus, the Republic of Cyprus, and therefore, they don't want to sit with us at the same table at NATO. Yeah, but they are sitting with us in the intergovernmental conference that is negotiating the accession terms of Turkey to join the European Union.

They are sitting exactly, it is Turkey on the one side and the 27 and Tomorrow 28 on the other side. What's the problem? We don't need to have diplomatic relations with somebody in order to sit at the same table. Now, the second, I don't know what you are talking about, this reliability. Okay, you may say a lot of things, and I can say also --

MR. TUNC: I am talking about --

MR. KASOULIDES: No, no, I understood your question.

MR. TOUNCH: On the other hand just starting to tell them unilaterally that puts the --

MR. KASOULIDES: No, no, it's not what you said.

MR. TUNC: Right.

MR. KASOULIDES: Your question was that, during the talks, Kristoff, I don't know whom you're referring to, has agreed that we will do nothing, no drilling, no nothing, and wait for the federal government of Cyprus to decide. I never heard that it was any such agreement anywhere. Have Mr. Kristoff, has he hidden this for us? I doubt. It's too big to be hidden away. So I don't think that these facts are true, the question of the natural gas is totally independent from the problem of Cyprus.

When you have a division and you sustain a division and you know

that there were times and periods we had lost opportunities were due to the one side, and other period of times were due to the other side, but if we have this kind of divisions, and you have to apply also international law, and the United Nations convention follow the law of the sea, you have to do it with the government that is legally recognized has to proceed, and then we will settle whatever needs to be settled when we find the settlement of the Cyprus question.

MR. INDYK: Other questions?

MR. SHERRETTA: Robert Sherretta of International Investor.

Quick question; I realize you're the Minister of Foreign Affairs, but the economic crisis was such that, here, the western media, it's all we heard about for the last year. If one was to believe it, they would think Cyprus was going to follow Atlantis to the bottom of the Mediterranean Sea. Was that exaggerated, and to what degree does it affect your job as Minister of Foreign Affairs, knowing that this crisis was of such great concern, not just to the European banks and Central Bank, but to all the western financial institutions?

MR. KASOULIDES: Yes, very good question. Thank you very much for this, this gives me to opportunity to -- let me have a look at my watch, if I am not abusing the time -- gives me the opportunity, first of all, to say a few words about this economic crisis. Which, first of all, we should all understand that much of

the responsibility lies with Cyprus first and most, which has allowed things to come to the precipice of both the economy of the state and the banking economy. At the same time, where the choices that you had when you went to negotiate with your partners in the Eurozone were almost zero, the bargaining power, first of all.

Second is the fact that it was a mistake to have such a big banking sector with a very high deposit interest rate, the highest in Europe, because, apart from attracting capitals from abroad, it incited Cypriots to put their money in the banks, not invest them and not spend them in the real economy. And then the interest rates for lending money were higher than the deposit rate, that's natural at any bank, and therefore, this was very detrimental to the economy.

That's the responsibility of Cyprus. Now, I maintain that Cyprus, because of its small size and its limited systemicity, if I can use this word, was allowed to serve as an experiment answering the biggest question, what to do about banks too big to fail. Yes. Can banks indefinitely make reckless decisions and take risks feeling that, at any moment, the taxpayer's money will come and rescue them? This has been, for Europe, a great big question, and the opportunity was offered through Cyprus to give the warning and the example for the rest.

But, unfortunately, it didn't permit us to readjust all the wrong doings of our economy, let's say, within a three year period, instead of this brutal

and overnight collapse of our banking system. That's for a great resume of the economic crisis. Let me say that we are a zillion people, it happened to us before with the Turkish invasion in 1974 where we had also one-third of our population which were displaced to cater for, and we will, we started already putting down the policies, the engine of the private sector.

I remind you that we are not a left wing government, and now we can easily make the best of use of the private sector which will regenerate the economy and will bring us, after a few painful years, back on track with a much better and healthier banking and financial system. Now, has this Cyprian style foreign policy, initially we received a shock also on designing our foreign policy, but then I think that it's given us much more impetus now.

I have several interviews that I am feeling, as Foreign Minister, much more liberated now to speak up my mind, to portray dignity in the foreign policy of Cyprus, and not lip service to nobody, because we have nothing to lose, and follow a foreign policy, the one that I have described to you, because the biggest part is our original policy, as I have described it, and be afraid of nobody.

MR. SHERRETTA: Thank you.

MR. INDYK: Interesting. Unfortunately, we're out of time. I have one close out question for you.

MR. KASOULIDES: Okay.

MR. INDYK: Do you think that Secretary Kerry should appoint a new envoy for Cyprus?

MR. KASOULIDES: Well, I'll discuss it tomorrow with Secretary Kerry. I appreciate very much the fact that he has invited me to come to Washington in such a very short period of time after he has taken over as Secretary of State. I appreciate the interest that he shows in our region, he came three times, and he's going for a fourth time now, as you said, to Israel and the Palestinians where he's trying to broker a beginning, the resumption of the Middle East peace process without pre conditions from any side.

Now, he's most welcome if we wants to be involved, hands-on, as they say, but he should know where the difficulties lie, in particular, the need that any solution should be fair to the two allies, Israel and Turkey, and not allow the solution of Cyprus to lose the necessary balance by having the sort of knee-jerk that Turkey should be supported. The solution of the Cyprus problem needs to be fair, needs to address the problems of both sides of all Cypriots, and needs the approval of all Cypriots.

And if governments can be complacent, public opinion is not. And when we go to referendum, we should not wake up with another surprise, because it

will be fatal.

MR. INDYK: Prime Minister Kasoulides, thank you very much.

Ladies and gentlemen, please join me in a round of applause. (Applause)

MR. KASOULIDES: Thank you very much.

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