

The EU is not about to tax Private Bank Accounts: Cyprus is the result of Geopolitical Chess

✘ The suggestion that Cypriot bank deposits be taxed to help the country, as proposed last Saturday by the EU has dragged European stock markets down. However, while EU leaders have attracted much, deserved, criticism for the decision, which represents the first time citizens are called in directly to help bail out banks, 'Cyprusgate', as it shall hereby be known, is highly imbued with the scent of a new Cold War. The suggestion is part of a complex geopolitical game involving the EU, Russia, Gazprom and Syria.

Cyprus, before the recently installed government, has been governed for the past five years by a left-leaning party that has oddly transformed the island into a paradise for financiers and turbo-capitalists, wanting to park their money. Some has suggested that "it is easier to open a bank than a bank account" in Cyprus. Companies pay almost no taxes and Limassol has spread its reputation for registering ships at low cost to registering companies thanks to minimal fiscal interference. One of the effects is that Russian oligarchs along with its main oil & gas company, Gazprom, have become among the biggest investors in Cyprus, where profits are somehow 'washed' before reappearing in Russia as foreign investment. The result is that Cyprus has become the third largest foreign direct investor in Russia. This is highly unorthodox, considering that Cyprus has limited industrial capacity and exports very little. Yet, thanks to its attractive fiscal regime, the billions invested in its banks have helped fuel construction as the wealthy demand apartments, open luxury boutiques and paved roads forests.

Cyprus's GDP is some USD 17 billion and this is estimated to be a mere fraction (a tenth?) of the amount of capital invested in its banks. The level of injustice, should the EU legislation pass is more than intolerable for average citizens. However, there is much more going on behind the ATM machines...

Russia has used Cyprus as a conduit for weapons intended for Syria, even though Cyprus, as a member of the EU, is bound to observe the arms embargo imposed against Damascus. Moreover, Gazprom and Europe have been playing a cat and mouse game for years, one in which Ukraine – not an EU member but a major transfer point for Russian gas – has been the biggest pawn. Ukraine relies on Russian produced energy for survival. Russia cuts gas supply or threatens to do so when Ukraine's gas accounts are delinquent, also affecting supplies and prices in energy dependent Europe. Gazprom, moreover, lost a major pipeline project (Iran-Iraq-Syria) to ship additional gas from the states of the Caspian Sea region because of the civil war in Syria, in which the West is backing the opposition against President Asad, at least in part, to help thwart Russian ambitions in the Mediterranean. The EU measure, therefore, is aimed at putting pressure on the new Cypriot government to start cutting its reliance on Russia, even though such a proposition is very difficult to achieve, considering so much of the economy runs on Russian petro-rubles. To offset this loss, about two weeks ago, a Gazprom subsidiary signed a deal with Levant LNG of Israel to develop a gas resource in the Mediterranean, essentially threatening the EU with more Russian energy dominance. Gazprom, in other words, is doing everything possible to maintain its role as Western and Eastern Europe's main energy supplier.

Russia needs the status-quo in Syria as well in order to ensure that Damascus' sphere of influence – and related pipeline plans – does not shift in favor of Western gas companies, which are already active extracting and importing

gas in the North African Mediterranean shore. The new shale oil techniques developed thanks to evolving oil-sands technologies have made it possible to extract more gas in the United States and Canada, which has put Gazprom under more pressure to keep the EU dependent. The move may also have been partly intended to bring Moscow closer in line to the Western stance vis-à-vis Syria, just as the Syrian opposition was voting to elect an interim prime minister to help anchor its stance. Last week, Russia's foreign affairs minister Sergei Lavrov warned the EU not to follow up on any suggestions to send weapons to the Syrian rebels – a ban has remained, though the UK has been putting pressure to lift the restriction. At the time of writing, the EU's strategic goals appear to be materializing. Russia and Gazprom have both suggested they would intervene with their own bailout plan to avoid any EU policy to tax Cypriot bank accounts. If there is any good news here, it is that Cyprus is full of 'exceptional' circumstances, placing it at the heart of a geopolitical chess match. The EU is still far from suggesting that citizens' private bank accounts be used to help bail out their financial institutions banks and the Euro, which was the main fear expressed by investors through the market.