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**Subject: State Aid SA.62199 (2021/N) – Cyprus
COVID-19: Incentive scheme for tour operators**

Excellency,

1. PROCEDURE

- (1) By electronic notification of 4 March 2021, Cyprus notified aid in the form of limited amounts of aid to tour operators carrying out activities in the Republic of Cyprus (the “measure”) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (the “Temporary Framework”).¹
- (2) Cyprus exceptionally agrees to waive its rights deriving from Article 342 of the Treaty on the Functioning of the European Union (“TFEU”), in conjunction with Article 3 of Regulation 1/1958² and to have this Decision adopted and notified in English.

¹ Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak (OJ C 91I, 20.3.2020, p. 1), as amended by Commission Communications C(2020) 2215 (OJ C 112I, 4.4.2020, p. 1), C(2020) 3156 (OJ C 164, 13.5.2020, p. 3), C(2020) 4509 (OJ C 218, 2.7.2020, p. 3), C(2020) 7127 (OJ C 340I, 13.10.2020, p. 1) and C(2021) 564 (OJ C 34, 1.2.2021, p. 6).

² Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

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2. DESCRIPTION OF THE MEASURE

- (3) Cyprus considers that the COVID-19 outbreak affects the real economy. The measure forms part of an overall package of measures and aims to ensure that sufficient liquidity remains available in the market, to counter the liquidity shortage faced by undertakings because of the outbreak, to ensure that the disruptions caused by the outbreak do not undermine the viability of the undertakings and thereby to preserve the continuity of economic activity during and after the outbreak.
- (4) While the COVID-19 outbreak has considerably affected tourism flow to all countries, the Cypriot authorities submit that the effects of the outbreak on tourism arrivals to Cyprus has been even more prominent due to connectivity issues linked to the country's insular condition as well as its reliance on tour operators to organize travels.
- (5) In particular, the Cypriot authorities explain that the number of tourism arrivals to European countries was reduced by 70,4 % in 2020 compared to the previous year, while the respective reduction in tourism arrivals to Cyprus amounted to approx. 84,1 %. Furthermore, the total number of scheduled flights to Cyprus has been reduced by approximately 70 % in 2020 compared to 2019, while the reduction in the total number of chartered flights has been even greater (approximately 77 %).
- (6) The Cypriot authorities submit that, given the significant importance of tourism for the country's economy, accounting for approximately 20 % of its GDP, those severe reductions critically affected tourism income, which was reduced by more than 85 % in 2020 compared to the previous year. Tourism contribution to the country's GDP is projected to decline by a considerable degree also in 2021, which will in turn lead to reduced investments, a negative impact on employment and inflation.
- (7) The objective of the measure is to incentivise tour operators, provide liquidity support in the field of tourism and therefore create beneficial indirect effects in many related businesses such as hotels, restaurants, the food industry, transport, cultural and sports events. The measure also aims to tackle the risks of increased unemployment in the tourism sector and increase the revenue and contribution of the tourism sector to the economy.
- (8) Cyprus confirms that the aid under the measure is not conditioned on the relocation of a production activity or of another activity of the beneficiary from another country within the EEA to the territory of the Member State granting the aid. This is irrespective of the number of job losses actually occurred in the initial establishment of the beneficiary in the EEA.
- (9) The compatibility assessment of the measure is based on Article 107(3)(b) TFEU, in light of sections 2 and 3.1 of the Temporary Framework.

2.1. The nature and form of aid

- (10) The measure constitutes an aid scheme providing aid in the form of direct grants.

2.2. Legal basis

- (11) The legal basis for the measure is the Draft Proposal to the Council of Ministers for a cooperation scheme with Tour Operators to restore tourist arrivals and consequently limit the negative impact of the coronavirus pandemic on the Cypriot economy.
- (12) The legal basis includes a standstill clause confirming that support can only be granted following the notification of the Commission's decision approving the aid.

2.3. Administration of the measure

- (13) The Council of Ministers of the Republic of Cyprus and the Deputy Ministry of Tourism of the Republic of Cyprus are, respectively, the granting authority and the competent authority for managing the measure.

2.4. Budget and duration of the measure

- (14) Aid is granted under the measure on the basis of a scheme with an estimated budget of EUR 8 million. The measure will be financed from the general State budget.
- (15) Aid may be granted under the measure as from the notification of the Commission's approval until no later than 30 September 2021.

2.5. Beneficiaries

- (16) The beneficiaries of the measure are all tour operators who have the right to carry out tourism activities in the Republic of Cyprus, regardless of their size, and who during the eligible period have concluded contracts with air carriers travelling into Cyprus (exclusively via the airports of Larnaca and Paphos).³
- (17) According to the Cypriot authorities, it is expected that there will be around 30 beneficiaries under the measure in total.
- (18) Aid may not be granted under the measure to medium and large enterprises that were already in difficulty within the meaning of the General Block Exemption Regulation ("GBER")⁴ on 31 December 2019. Aid may be granted to micro and small enterprises that were in difficulty within the meaning of the GBER on 31 December 2019, if those enterprises, at the moment of granting the aid, are not subject to collective insolvency procedure under national law and they have not received rescue aid⁵ or restructuring aid.⁶

³ Cyprus explained that those are the only two airports in the area effectively controlled by the Republic of Cyprus.

⁴ As defined in Article 2(18) of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187, 26.6.2014, p. 1.

⁵ Alternatively, if they have received rescue aid, they have reimbursed the loan or terminated the guarantee at the moment of granting of the aid under the notified measure.

2.6. Sectoral and regional scope of the measure

- (19) The measure is open to companies operating in the tourism sector in Cyprus. The measure does not apply to companies operating in the financial sector.
- (20) The measure applies to the whole territory under the control of the Government of the Republic of Cyprus.

2.7. Basic elements of the measure

- (21) The Cypriot authorities explain that tour operators eligible under the measure will be those who:
 - a. have chartered planes and/or belong to the same company group with an airline and/or have committed seats on planes flying to the Republic of Cyprus in the eligible period. In this regard, the contracts signed with the licensed airlines used to carry the tour operators' customers to Cyprus must be submitted in the application as proof of chartering planes and/or committed seats. In addition, the contracts submitted must clearly state the period of operation and number of chartered seats. In case tour operators entered in contracts with multiple airlines, the copies of all signed contracts must be submitted; and
 - b. have provided a holiday package to their customers comprising at least (i) a flight to the airports of Larnaca and/or Paphos and (ii) accommodation in one of the licensed establishments in the Republic of Cyprus; and
 - c. have sold a total minimum number of overnight stays in said accommodation establishments that is not lower than 7000.
- (22) On this basis, the Deputy Ministry of Tourism of the Republic of Cyprus will grant an aid amount determined for each holiday package sold by the eligible tour operators under the following cumulative conditions:
 - the number of payable holiday packages will not be greater than the number of the chartered/committed seats. For example, if a tour operator commits 2000 seats, the maximum number of payable packages can only be 2000 (provided that all seats were purchased by customers for whom accommodation was also provided by the tour operator).
 - the scheme measure is applicable to all source markets.
 - the scheme eligible period for the measure is the period between 1 June 2021 and 30 September 2021.
 - Beneficiary tour operators can submit application under the measure from 1 March 2021 until 22 September 2021 at the latest.

⁶ Alternatively, if they have received restructuring aid, they are no longer subject to a restructuring plan at the moment of granting of the aid under the notified measure.

- tour operators may include holiday packages for which licensed accommodation was purchased through bed banks⁷. However, for these packages to be eligible, the tour operator must submit signed letters from each of the bed banks, confirming that those specific packages are clients of said tour operator⁸. If the confirmations are not submitted as requested the Deputy Ministry of Tourism reserves the right not to accept them.
- (23) Each verified holiday package (i.e., a package which includes flight and licensed accommodation) will be granted EUR 2.5 per overnight stay, per person. For example, if a couple stays in a hotel for seven nights, the total payable support for their overnight stays will be EUR 35.
- (24) The Cypriot authorities confirm that the measure complies with the Package Travel Directive⁹.
- (25) The overall nominal value of the grants shall not exceed EUR 1.8 million per undertaking. All figures used must be gross, that is, before any deduction of tax or other charges.

2.8. Cumulation

- (26) The Cypriot authorities confirm that aid granted under the measure may be cumulated with aid under *de minimis* Regulations¹⁰ or the GBER provided the provisions and cumulation rules of those Regulations are respected.
- (27) The Cypriot authorities confirm that aid granted under the measure may be cumulated with aid granted under other measures approved by the Commission under other sections of the Temporary Framework provided the provisions in those specific sections are respected.

⁷ The Cypriot authorities indicated that a bed bank (also called a wholesaler) is a B2B company that purchases rooms from accommodation providers in a bulk at a discounted, static price for specific dates and sells them to tour operators. These bed banks aggregate inventory from suppliers and resell it to other businesses. Bed banks will not be eligible to participate in the scheme.

⁸ The Cypriot authorities in this regard clarified that since the tourist arrivals will be registered in the hotels' archives as clients of the bed banks (even though the tour operator was the one who sold the room nights to the client, having first purchased them from the bed bank), without this confirmation letter by the bed bank, there would be no way of verifying the tour operators' arrivals at the hotels. For this reason, it is essential that bed banks provide the tour operators with a signed letter identifying the arrivals for which the tour operator purchased room nights from each bed bank. The Cypriot authorities will then verify this information (which will be provided in each signed letter) by cross checking with the archives of the hotels.

⁹ Directive (EU) 2015/2302 of the European Parliament and of the Council of 25 November 2015 on package travel and linked travel arrangements, amending Regulation (EC) No 2006/2004 and Directive 2011/83/EU of the European Parliament and of the Council and repealing Council Directive 90/314/EEC, OJ L 326, 11.12.2015, p. 1.

¹⁰ Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid (OJ L 352, 24.12.2013, p. 1) and Commission Regulation (EU) No 360/2012 of 25 April 2012 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid granted to undertakings providing services of general economic interest (OJ L 114, 26.4.2012, p. 8).

- (28) The Cypriot authorities confirm that if the beneficiary receives aid on several occasions or in several forms under the measure or aid under other measures approved by the Commission under section 3.1 of the Temporary Framework, the overall maximum cap per undertaking, as set out in point 22(a) of that framework, will be respected.

2.9. Monitoring and reporting

- (29) The Cypriot authorities confirm that they will respect the monitoring and reporting obligations laid down in section 4 of the Temporary Framework (including the obligation to publish relevant information on each individual aid above EUR 100 000 granted under the measure on the comprehensive national State aid website or Commission's IT tool within 12 months from the moment of granting¹¹).

3. ASSESSMENT

3.1. Lawfulness of the measure

- (30) By notifying the measure before putting it into effect, the Cypriot authorities have respected their obligations under Article 108(3) TFEU.

3.2. Existence of State aid

- (31) For a measure to be categorised as aid within the meaning of Article 107(1) TFEU, all the conditions set out in that provision must be fulfilled. First, the measure must be imputable to the State and financed through State resources. Second, it must confer an advantage on its recipients. Third, that advantage must be selective in nature. Fourth, the measure must distort or threaten to distort competition and affect trade between Member States.
- (32) The measure is imputable to the State, since it is administered by Deputy Ministry of Tourism of the Republic of Cyprus (see recital (13)) and it is based on the Draft Proposal to the Council of Ministers for a cooperation scheme with Tour Operators to restore tourist arrivals and consequently limit the negative impact of the coronavirus pandemic on the Cypriot economy (see recital (11)). It is financed through State resources, since it is financed by public funds.
- (33) The measure confers an advantage on its beneficiaries in the form of direct grants (see recital (10)). The measure thus confers an advantage on those beneficiaries which they would not have had under normal market conditions.
- (34) The advantage granted by the measure is selective, since it is awarded only to certain undertakings, in particular undertakings active in the tourism sector, excluding the financial sector (recital (19)).
- (35) The measure is liable to distort competition, since it strengthens the competitive position of its beneficiaries. It also affects trade between Member States, since those beneficiaries are active in sectors in which intra-Union trade exists.

¹¹ Referring to information required in Annex III to Commission Regulation (EU) No 651/2014.

- (36) In view of the above, the Commission concludes that the measure constitutes aid within the meaning of Article 107(1) TFEU. The Cypriot authorities do not contest that conclusion.

3.3. Compatibility

- (37) Since the measure involves aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether that measure is compatible with the internal market.
- (38) Pursuant to Article 107(3)(b) TFEU the Commission may declare compatible with the internal market aid “*to remedy a serious disturbance in the economy of a Member State*”.
- (39) By adopting the Temporary Framework on 19 March 2020, the Commission acknowledged (in section 2) that “*the COVID-19 outbreak affects all Member States and that the containment measures taken by Member States impact undertakings*”. The Commission concluded that “*State aid is justified and can be declared compatible with the internal market on the basis of Article 107(3)(b) TFEU, for a limited period, to remedy the liquidity shortage faced by undertakings and ensure that the disruptions caused by the COVID-19 outbreak do not undermine their viability, especially of SMEs*”.
- (40) The measure aims at providing liquidity support to the beneficiary undertakings at a time when the normal functioning of markets is severely disturbed by the COVID-19 outbreak and that outbreak is affecting the wider economy and leading to severe disturbances of the real economy of Member States.
- (41) The measure is one of a series of measures conceived at national level by the Cypriot authorities to remedy a serious disturbance in their economy. Furthermore, the measure has been designed to meet the requirements of a specific category of aid (“*Limited amounts of aid*”) described in section 3.1 of the Temporary Framework
- (42) The Commission accordingly considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State and meets all the conditions of the Temporary Framework. In particular:
- The aid takes the form of direct grants (recital (10)).

The overall nominal value of the grants shall not exceed EUR 1.8 million per undertaking; all figures used must be gross, that is, before any deduction of tax or other charges (recital (10)). The measure therefore complies with point 22(a) of the Temporary Framework.
 - Aid is granted under the measure on the basis of a scheme with an estimated budget as indicated in recitals (10) and (14)). The measure therefore complies with point 22(b) of the Temporary Framework.
 - Aid may not be granted under the measure to medium¹² and large enterprises that were already in difficulty on 31 December 2019 (recital

¹² As defined in Annex I to Commission Regulation (EU) No 651/2014.

(18)). The measure therefore complies with point 22(c) of the Temporary Framework. Aid may be granted to micro and small enterprises that were in difficulty on 31 December 2019, if those enterprises, at the moment of granting the aid, are not subject to collective insolvency procedure under national law and they have not received rescue aid¹³ or restructuring aid¹⁴ (recital (18)). The measure therefore complies with point 22(c)bis of the Temporary Framework.

- Aid will be granted under the measure no later than 31 December 2021 (recital (15)). The measure therefore complies with point 22(d) of the Temporary Framework.

- (43) The Cypriot authorities confirm that the aid under the measure is not conditioned on the relocation of a production activity or of another activity of the beneficiary from another country within the EEA to the territory of the Member State granting the aid. This is irrespective of the number of job losses actually occurred in the initial establishment of the beneficiary in the EEA (recital (8)).
- (44) The Cypriot authorities confirm that the monitoring and reporting rules laid down in section 4 of the Temporary Framework will be respected (recital (29)). The Cypriot authorities further confirm that the aid under the measure may only be cumulated with other aid, provided the specific provisions in the sections of the Temporary Framework and the cumulation rules of the relevant Regulations are respected (recitals (26) to (28)).
- (45) The Commission therefore considers that the measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State pursuant to Article 107(3)(b) TFEU since it meets all the relevant conditions of the Temporary Framework.

¹³ Alternatively, if they have received rescue aid, they have reimbursed the loan or terminated the guarantee at the moment of granting of the aid under the notified measure.

¹⁴ Alternatively, if they have received restructuring aid, they are no longer subject to a restructuring plan at the moment of granting of the aid under the notified measure.

4. CONCLUSION

Commission has accordingly decided not to raise objections to the aid on the grounds that it is compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union.

The decision is based on non-confidential information and is therefore published in full on the Internet site: <http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

