EUROPEAN COMMISSION

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PUBLIC VERSION
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Subject: State Aid SA.58923 (2020/N) – Cyprus – COVID-19 - Loan provided to Hermes Airports Limited

Excellency,

1. PROCEDURE

(1) By electronic notification of 8 October 2020, registered by the European Commission on the same day with reference number SA.58923, the Republic of Cyprus (“Cyprus”) notified its intention to grant a loan facility to Hermes Airports Limited (“Hermes” or the “Operator”), in order to address the implications of the effects of the COVID-19 pandemic (the “Measure”).

(2) The Measure is notified under the Temporary Framework for State Aid measures to support the economy in the current COVID-19 outbreak (“the Temporary Framework”), as amended, and in accordance with Article 108(3) of the Treaty on the Functioning of the European Union (“TFEU”).

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His Excellency Mr. Nikos CHRISTODOUIDES,
Minister for Foreign Affairs
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Republic of Cyprus

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(3) By e-mails of 23 and 26 October and 10 November 2020, Cyprus submitted additional information to the Commission, after a request from the latter.

(4) Cyprus exceptionally agrees to waive its rights deriving from Article 342 of the TFEU, in conjunction with Article 3 of Regulation 1/1958, and to have this Decision adopted and notified in English.

2. DESCRIPTION OF THE MEASURE

2.1. Background

(5) As a result of the COVID-19 outbreak, Cyprus implemented restrictive measures in order to limit the spread of the virus. Those various measures were adopted as of March 2020 and were based on the evaluation of the situation from national and European institutions.

(6) On 10 March 2020, the Ministry of Foreign Affairs of Cyprus issued a travel advice addressed to Cypriot citizens to avoid travelling to areas or countries with a high infection rate and generally to avoid travel unless absolutely necessary. From 13 March 2020, the Cypriot government imposed entry restrictions into the country for foreign nationals without permanent residence and on 15 March 2020 it allowed entrance to Cypriot citizens, EEA nationals working on the island and people with special permits only. From 21 March 2020, the Cypriot government decided to suspend flights to and from Cyprus for an initial 14-day period, which it extended several times. On 23 March 2020 a general lockdown was applied to the whole country and was also extended multiple times until June 2020. The airports in Cyprus gradually resumed operations from 9 June 2020.

(7) One month after the COVID-19 outbreak in March 2020 the air traffic in Cyprus had dropped by 97.5%:


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


Figure 1 - Development of air traffic in Cyprus since March 2020

Source: Eurocontrol

(8) The suspension of flights seriously affected the connectivity of the island with European countries and the rest of the world. All restrictive and the related quarantine measures had a negative impact on the entire transport sector.

(9) There are two international airports in Cyprus: Larnaka and Pafos. Hermes operates and manages both. Both airports serve 100% of Cyprus air traffic.

(10) In 2019, Larnaka airport served 60.8% of the total aircraft movements in Cyprus while Pafos served 39.2%. Passenger traffic corresponds to the main activity of each airport (91% for Larnaka and 92% for Pafos), and the rest of the traffic is shared between cargo\(^8\) and military flights.

(11) Both airports had to suspend all commercial passenger flights\(^9\) due to the restrictive measures taken by Cyprus and several other countries, including various Member States, resulting in significant losses for all undertakings in the aviation sector.

(12) Although there is currently no ban in place for passenger and cargo flights to/from other countries, the revenues and liquidity generated by the Cypriot aviation sector remain substantially impaired due to the very low demand for air transport services. The coronavirus situation still evolves in Europe and in Cyprus, and travel restrictions may be enforced again\(^10\). Until now\(^11\) the number of countries connected with Cyprus dropped approximately by 68% for Larnaka Airport and by 71% for Pafos Airport compared to 2019 and many airlines reduced or stopped their serving routes to those airports.

(13) According to the Cypriot authorities, from March to October 2020, the total passenger flow for both airports dropped by 87.7%, while aircraft movements dropped by 72%. The analysis per airport and number of passengers is summarized in Table 1 and Table 2:

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\(^8\) Almost exclusively taking place at Larnaka International Airport.

\(^9\) During that period, repatriation flights of Cypriot citizens took place.

\(^10\) All passengers are still obliged to file an application for a CyprusFlightPass within 24 hours prior to their departure flight.

\(^11\) Until the date of Cypriot submission from 26 October 2020.
Table 1 - Comparison of passenger traffic at Larnaka Airport in 2019 and in 2020

<table>
<thead>
<tr>
<th>Month</th>
<th>2019</th>
<th>2020</th>
<th>Difference between respective months</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>402 891</td>
<td>159 627</td>
<td>-60%</td>
</tr>
<tr>
<td>April</td>
<td>598 873</td>
<td>6 600</td>
<td>-99%</td>
</tr>
<tr>
<td>May</td>
<td>812 615</td>
<td>9 897</td>
<td>-99%</td>
</tr>
<tr>
<td>June</td>
<td>942 297</td>
<td>38 844</td>
<td>-96%</td>
</tr>
<tr>
<td>July</td>
<td>1 064 870</td>
<td>167 115</td>
<td>-84%</td>
</tr>
<tr>
<td>August</td>
<td>1 107 648</td>
<td>221 791</td>
<td>-80%</td>
</tr>
<tr>
<td>September</td>
<td>982 330</td>
<td>162 203</td>
<td>-83%</td>
</tr>
</tbody>
</table>

Table 2 - Comparison of passenger traffic at Pafos Airport in 2019 and in 2020

<table>
<thead>
<tr>
<th>Month</th>
<th>2019</th>
<th>2020</th>
<th>Difference between respective months</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>161 884</td>
<td>71 746</td>
<td>-56%</td>
</tr>
<tr>
<td>April</td>
<td>266 029</td>
<td>9</td>
<td>-100%</td>
</tr>
<tr>
<td>May</td>
<td>316 903</td>
<td>0</td>
<td>-100%</td>
</tr>
<tr>
<td>June</td>
<td>352 289</td>
<td>2 057</td>
<td>-99%</td>
</tr>
<tr>
<td>July</td>
<td>370 276</td>
<td>31 024</td>
<td>-92%</td>
</tr>
<tr>
<td>August</td>
<td>376 123</td>
<td>74 475</td>
<td>-80%</td>
</tr>
<tr>
<td>September</td>
<td>341 932</td>
<td>83 076</td>
<td>-76%</td>
</tr>
</tbody>
</table>

(14) The lockdown of the country from mid-March 2020 to mid-June 2020 has substantially affected the supply chain and disrupted the air transport market. The slowdown in economic activity has an impact on the revenues and cash flows of several industry sectors and small and medium-sized enterprises.

(15) Businesses active in manufacturing, commerce and tourism suffer from a decrease in income in comparison to 2019, as the latter is heavily based on
passenger transport. This fall in income is still observed after the borders have re-opened. Those sectors are considered vital for the Cypriot economy.

(16) The tourism sector belongs to the most important sectors of the economy of Cyprus, representing approximately (directly and indirectly) 20% of the GDP, usually especially boosted during the summer period. According to the Cypriot authorities, the GDP of 2020 is forecasted at 7% lower compared to that of 2019. The relevant GDP revenue from tourism suffered a steep decline and during the lockdown period it practically stopped (see Table 3).

Table 3 - Tourism revenue in million EUR in GDP per quarter:

<table>
<thead>
<tr>
<th></th>
<th>Tourism revenue 2019</th>
<th>Tourism revenue 2020</th>
<th>Decline %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>188.6</td>
<td>87.7</td>
<td>53.5%</td>
</tr>
<tr>
<td>Q2</td>
<td>814.6</td>
<td>6.7</td>
<td>99.18%</td>
</tr>
</tbody>
</table>

(17) In particular, a number of businesses face significant liquidity shortages and working capital problems, since they still have to cover on-going expenditure such as loans paid by instalments, rents, storage costs, insurance payments and utility bills.

2.1.1. Hermes

(18) Hermes Airports Limited is a consortium comprised of 9 companies: Bouygues Construction Airport Concessions Europe, Égis Investment Partners S.C.A, Cyprus Trading Corporation plc, Hellenic Mining Public Company Ltd, Vantage Airport Group (Cyprus) Ltd, Aer Rianta International (Middle East) WLL, Iacovou Brothers (Constructions) Ltd, Charilaos Apostolides Public Ltd and Nice Air Ports Engineering.

(19) Cyprus and Hermes entered in 2005 into a 25-year Build-Operate-Transfer Concession Agreement (the “Concession Agreement”), later amended, whereby Hermes agreed to be responsible for the financing, design, construction, maintenance, operation, management and development of Larnaka and Pafos Airports. The Concession Agreement is a public private partnership and provides the right to manage the airports to Hermes in return for a concession fee and subject to the terms and conditions it sets out.

(20) Following that Concession Agreement, Hermes entered into financing agreements with third parties (the “Financing Agreements”) for the fulfilment of the Project Operations as described in the Concession Agreement, i.e. the execution and completion of the works, the handling and management of the Airports’ obligations.

(21) Hermes’s income is directly dependent on the activities and the function of the airports it operates. In 2019 Hermes’s income from those services amounted to EUR 188 834 126.
Apart from aviation services, a network of commercial companies in retail, leisure, food, handling and maintenance services in and around Hermes’ infrastructure relies on the airports’ traffic and passengers. Currently, 5 000 jobs depend on the aviation services of the two Cypriot airports.

During the restrictive measures, commercial flights were set to a minimum and the cargo flights were also affected. The commercial activities within Hermes infrastructure related to passenger and aviation handling, such as ground handling and maintenance, ceased.

The ability to mitigate revenue losses is limited, given that the majority of the airports’ operating costs for maintaining and operating those critical infrastructures cannot be adjusted at very short notice.

The total revenue of Hermes for the first seven months of 2020 declined by 73% to EUR 20.8 million, compared to EUR 77.7 million for the same months in 2019. Similarly, Earnings before Interest Tax Depreciation and Amortisation (EBITDA) went down by 97% to EUR 1.4 million, compared to EUR 48.6 million for the corresponding 2019 period.

According to the Cypriot authorities, provided that there is remission of COVID-19, the forecast for recovery will possibly start from summer 2021. Several factors, such as the time to control the pandemic, to restore confidence in air transport, and to return to normal economic and social activity will play an important role in such a prospective recovery.

The Cypriot authorities claim that an air transport network is instrumental for the open economy of the country. In particular, the uninterrupted function of the operator in the two international airports is of key importance for the economy as Hermes ensures the connectivity of the island with Europe and the rest of the world. Furthermore, it ensures the inflow of tourism, the main source of income of Cyprus.

2.2. The nature and form of aid

The Measure will take the form of a term loan facility granted by Cyprus to Hermes through a facility agreement (the “Facility Agreement”). The aid amount will not exceed EUR 22.2 million. Cyprus has decided to provide the term loan facility to enable Hermes to meet its financial obligations under the Financing Agreements (recital (20)). The aid will be paid only after the authorization by the Commission.

During the COVID-19 pandemic and cessation of operations, Hermes was deprived of income and it had to use its remaining liquidity reserve to cover its non-avoidable operating costs. Furthermore, Hermes actively sought to postpone the payment of instalments for its financial obligations.

The Cypriot government issued various measures to support the economy. One of them allows Cypriot undertakings to defer payment of principal and interest of loans until the end of 2020. The Financing Agreements undertaken by Hermes are

12 Transport by sea is very limited.
held by non-Cypriot financial institutions, and that State measure on deferment of principal and interest for 2020 does not apply.

(31) If Hermes cannot negotiate the deferment of the loan instalments deriving from the Financial Agreements, there is danger risk of termination of the Concession Agreement. Therefore, the Council of Ministers of Cyprus accepted in its decision that the State will undertake Hermes’s obligations from its Financial Agreements to the amount of EUR 22.2 million.

(32) The loan will help Hermes to meet its financial obligations under the Financing Agreements and ultimately its obligations under the Concession Agreement.

2.3. Legal basis and administration of the measure

(33) The national legal basis for the Measure is the decision no. 89.224 of the Council of Ministers dated 19 June 2020.

(34) The Ministry of Finance of Cyprus is responsible for granting of the loan. The administration of the loan will be ensured by the Ministry of Transport, Communications and Works of Cyprus.

(35) The Measure is based on Article 107(3)(b) TFEU and section 3.3 of the Temporary Framework.

2.4. Beneficiary

(36) The beneficiary of the Measure is Hermes. Hermes is a Cyprus-based registered company with an international consortium of 9 shareholders, representing a mix of Cypriot and international partners (recital (18)).

(37) Hermes’ annual turnover in 2019 was EUR 188 834 126.

(38) The beneficiary of the Measure was not already in difficulty within the meaning of the General Block Exemption Regulation (“GBER”)\(^{13}\) on 31 December 2019.

2.5. Key elements of the measure (budget, duration, remuneration)

(39) The maximum amount of the loan will be EUR 22.2 million which is less than 25% of the total turnover of the beneficiary in 2019 that amounted to EUR 188 834 126 million with a loan maturity of six years.

(40) The aid is granted directly by the State to the beneficiary and the aid will be granted no later than 31 December 2020.

(41) Cyprus confirms that the aid granted under section 3.3 of the Temporary Framework will not be cumulated with aid granted for the same underlying loan principal under section 3.2 of the Temporary Framework, and vice versa.

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Cyprus will only make a requested drawdown available if by the drawdown date the required authorization by the Commission has been obtained.

Hermes will use all money borrowed under the Facility Agreement exclusively to meet its obligations under the Financing Agreements for the development and operation of Larnaka and Pafos International Airports. The drawing may be exercised in a single amount on any business day after the authorization of the Commission and 31 December 2020.

The interest rates will be based on the 1 year IBOR, as available on 1 January 2020 (Cyprus), plus credit risk margins of 50bps for the first year, 100 bps for the second and third year, and 200 bps for the fourth, fifth and sixth year.

Hermes will repay the loan by paying the maximum amount that it is able to repay on every repayment date in line with what cash it has available on each repayment date.\(^1\)

Voluntary early payment is possible.

### 2.6. Cumulation

The Cypriot authorities confirm that aid granted under the Measure will not be cumulated with aid under de minimis Regulations\(^15\) and/or Block Exemption Regulations\(^16\).

The Cypriot authorities confirm that as far as Hermes may benefit in parallel from multiple measures approved by the Commission under section 3.3 of the Temporary Framework, it is ensured that for such measures the maximum thresholds on loans as specified in points 27(d) and (e) of the Temporary Framework are respected.

The Cypriot authorities confirm that the aid granted under the Measure will not be cumulated with aid granted under other measures approved by the Commission under other sections of the Temporary Framework.

### 2.7. Monitoring and reporting

The Cypriot authorities confirm that they will respect the monitoring and reporting obligations laid down in section 4 of the Temporary Framework.

Cyprus confirmed that all the information regarding the granting of aid must be maintained for 10 years from the moment of granting of the aid.

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\(^1\) Based on par. 7.1 Repayment of Loan of the Facility Agreement, the repayment dates are 30 June and 30 December.


3. ASSESSMENT

3.1. Lawfulness of the Measure

(52) 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

(53) 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.

(54) The Measure is imputable to the State, since it is granted and administered by the Ministry of Finance and it is based on the Decision nr. 89.004 of the Council of Ministers of the Republic of Cyprus of 19.06.2020 (recital (33)). It is financed through State resources, since it is financed from the budget of the State.

(55) The Measure confers an advantage on the beneficiary in the form of a term loan facility at interest rates that are not in line with market conditions. The Measure thus relieves the beneficiary of costs that it would have to bear under normal market conditions.

(56) The advantage granted by the Measure is selective, since it is awarded to only one undertaking.

(57) The Measure is liable to distort competition, since it strengthens the competitive position of the beneficiary. It also affects trade between Member States, since the beneficiary is active in the air transport sector, characterised by important intra-Union trade flows.

(58) 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

(59) 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.

(60) 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”.

(61) 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”.

(62) According to the Cypriot authorities, the Measure adopted in support of Hermes is justified in view of the particularly severe impact of the current COVID-19 crisis on its activities and the essential role of the undertaking in the Cypriot connectivity and consequently economy.

(63) The COVID-19 crisis has dramatically affected Hermes’ operations. Global lockdown measures resulted in very low volumes of passenger traffic. Standard costs for ground handlers’ work lead to very high costs (and therefore losses) compared to the situation prior to the COVID-19 outbreak.

(64) The objective of the aid Measure is to remedy the difficulties which Hermes faces, as operator of the two airports in the Republic of Cyprus, and ensure its sufficient liquidity to meet its financial obligations from the Financing Agreements it concluded with third parties.

(65) As developed in recitals (15), (16), (19), (22) and (27), the Cypriot airports contribute significantly to the Cypriot economy by ensuring connectivity for businesses and by conveying tourists to the country. The default of the operator of those airports would lead to a significant loss of direct and indirect jobs in Cyprus, in particular in the tourism sector and the aviation and logistics sectors. In addition, the role of the two airports is crucial in helping address the effects of the COVID-19 crisis when it comes to reconnecting Cypriot companies with international customers and in boosting tourism once the health crisis ends.

(66) In consequence, the Commission considers that the aid to Hermes will contribute to limit the negative impacts of the COVID-19 crisis and will contribute to address a serious disturbance in the economy of Cyprus.

(67) The Measure forms part of measures conceived at national level by the Cypriot authorities to remedy a serious disturbance in their economy. The Measure is of a scale which can be reasonably anticipated to produce effects across the entire Cypriot economy.

(68) Furthermore, the Measure has been designed to meet the requirements of a specific category of aid (“Aid in the form of subsidised interest rates for loans”) described in section 3.3 of the Temporary Framework.

(69) The Commission considers that the Measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State and that all the conditions set out in the Temporary Framework are fully complied with. In particular:

(i). The applicable interest rate provided for by the Measure is equal to the base rate (1 year IBOR or equivalent as published by the Commission)\(^{17}\) available on 1 January 2020 plus following credit risk margins:

- 1\(^{st}\) year: 50 bps

\(^{17}\) Base rates calculated in accordance with Communication from the Commission on the revision of the method for setting the reference and discount rates (OJ C 14, 19.1.2008, p. 6).
– 2nd and 3rd year: 100 bps
– 4th to 6th year: 200 bps

(ii). Since the maturity of the loan is six years (recital (39)), it therefore complies with point 27(a) of the Temporary Framework.

(iii). The aid will be granted no later than 31 December 2020 (recital (40)) which is before 30 June 2021 and the maturity of the loan is six years (recital (39)). The Measure is therefore in line with point 27(c) of the Temporary Framework.

(iv). The loan has a maturity beyond 30 June 2021. The overall amount of loan is EUR 22.2 million which not more than 25% of the total turnover of the beneficiary in 2019 that amounted to EUR 88.8 million, and so is therefore in line with point 27(d)(ii) of the Temporary Framework (recital (36)).

(v). The loan relates to investment needs and working capital (recital (43)) therefore the condition in point 27(f) of the Temporary Framework is respected.

(vi). The loan will not be granted to an undertaking that was already in difficulty (within the meaning of the General Block Exemption Regulation18) on 31 December 2019. The Measure is therefore in line with point 27(g) of the Temporary Framework.

(70) The Cypriot authorities will comply with the monitoring and reporting obligations laid down in section 4 of the Temporary Framework (recitals (50) and (51)).

(71) The cumulation rules set out in point 26bis of the Temporary Framework are respected (recitals (47) to (48)).

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4. **CONCLUSION**

The 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.

This 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](http://ec.europa.eu/competition/elojade/isef/index.cfm).

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

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