European Commission - Press release

State aid: Commission orders Cyprus to recover incompatible aid from national air carrier Cyprus Airways

Brussels, 09 January 2015

Following an in-depth investigation, the European Commission has concluded that a restructuring aid package of over €100 million for Cyprus' ailing flag carrier Cyprus Airways gave the company an undue advantage over its competitors in breach of EU state aid rules. Cyprus Airways therefore needs to pay back all incompatible aid received. In particular, the Commission found that Cyprus Airways had no realistic perspective of becoming viable without continued state subsidies.

Commissioner Margrethe Vestager, in charge of competition policy, said: "*Cyprus Airways has received large quantities of public money since 2007 but was unable to restructure and become viable without continued state support. Therefore, injecting additional public money would only have prolonged the struggle without achieving a turn-around. Companies need to be profitable based on own merits and their ability to compete and cannot and should not rely on taxpayer money to stay in the market artificially.*"

The Commission found that Cyprus Airways had been in economic difficulties for many years and repeatedly benefitted from public support measures (for full details, see Chronology below):

- In September 2007, the Commission authorised a restructuring aid package worth €95 million in favour of Cyprus Airways.
- In December 2012, Cyprus notified to the Commission €73 million rescue aid for the airline. Several tranches of this loan amounting to in total €34.5 million were paid out in breach of Cyprus' obligation to await the result of the Commission's state aid scrutiny. In 2012, Cyprus also granted a capital injection worth €31.3 million to Cyprus Airways. The Commission opened an in-depth investigation into this measure and the 2012 capital injection in March 2013.
- In October 2013, Cyprus notified to the Commission a €102.9 million aid package to restructure Cyprus Airways. The package included the €31.3 million capital injection mentioned above, a conversion of debts into equity amounting to €63 million and €8.6 million to cover the deficit of the company's Provident Fund, an employee benefit scheme. The Commission opened an in-depth investigation in February 2014 to assess the measures.

Under the applicable EU guidelines on the rescue and restructuring of companies in difficulty, a company can only receive restructuring aid once over a period of ten years ("one time, last time" principle). This is to avoid that market players rely on public money instead of running an effective business and competing on the merits. Cyprus has provided no evidence that Cyprus Airways faced exceptional and unforeseeable circumstances that would justify an exemption from this principle.

The Commission also found that Cyprus Airways' restructuring plan is based on unrealistic assumptions and does not sufficiently reflect different market scenarios.The proposed restructuring measures do not appear appropriate to address the circumstances that led to Cyprus Airways' difficulties. Moreover, the proposed restructuring period is longer than what the Commission has authorised in other airline restructuring cases.

Finally, in order to avoid the moral hazard of bailing out inefficient players with taxpayer money, under EU state aid rules any company that receives restructuring aid has to sufficiently contribute itself to the cost of restructuring. The Commission found that Cyprus Airways' own contribution is significantly below the level of 50% required by the guidelines.

For all these reasons, the Commission concluded that Cyprus Airways was unable to become viable in the long term without continued state support.

The repeated public support measures have already procured a considerable economic advantage to the airline that its competitors, who had to operate without such public money, did not have. In order to remedy this distortion of competition, Cyprus Airways now needs to return the aid received to Cypriot taxpayers. This will re-establish the situation that existed on the market prior to the granting of the aid, thereby cancelling out or at least alleviating the distortion of competition brought about by the aid. This is necessary to ensure a level-playing field in the internal market. The Commission's recovery policy is set out in its 2007 Recovery Notice.

Chronology

September 2007	Commission authorised restructuring aid package of €95 million for Cyprus Airways.
2010-2011	Cyprus Airways received €269 000 training aid under the exemption regime for unproblematic support measures.
February 2012	The Commission started a preliminary investigation when it learned from press reports that a capital increase was planned for Cyprus Airways.
September – December 2012	Cyprus injected capital worth €31.3 million into the airline.
December 2012	Cyprus notified €73 million rescue aid for the airline. Several tranches of this loan - in total €34.5 million - were paid out between January and July 2013, in breach of Cyprus' obligation to await the result of the Commission's state aid scrutiny.
March 2013	The Commission opened an in-depth investigation into the €73 million rescue aid package and the €31.3 million capital injection.
October 2013	Cyprus notified a €102.9 million aid package to restructure Cyprus Airways for state aid clearance. The package covered the €31.3 million capital injection already granted in 2012, a conversion of debts into equity amounting to €63 million and €8.6 million to cover the deficit of the company's Provident Fund, a benefit scheme for the Cyprus-based employees (excluding pilots), financed through contributions from the employees and Cyprus Airways.
February 2014	The Commission opened an in-depth investigation to assess the restructuring aid package.

Background

Cyprus Airways is the Cypriot flag carrier and 93.67% owned by the Cypriot State. Cyprus Airways has been in financial difficulty since 2009.

In recent years, the Commission has conducted a number of in-depth investigations concerning airlines restructuring. In the majority of cases, the relevant measures either involved no state aid (e.g. SAS Scandinavian Airlines) or were in line with the guidelines (e.g. Adria Airways, airBaltic, LOT airlines, Air Malta and Czech Airlines). However, in January 2012, the Commission found that the restructuring plan of Malév was not suitable for making the company viable in the long term and ordered Hungary to recover the undue advantage granted to the company through repeated public support measures. The Commission has also published a policy brief on state aid granted to airlines in difficulty.

The non-confidential version of the decision will be made available under the case number SA.37220 in the State Aid Register on the competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.

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