

Mr. Karl Soukup
director

European Commission
Directorate-General for Competition
State Aid: General Scrutiny and Enforcement (COMP.H)

Subject: State aid granting practices under the approved State aid schemes SA.54838, SA.59477, SA.62363

Budapest, 23 August 2022

Dear Mr. Director,

Transparency International Hungary is a non-partisan civil society organization, member of Transparency International's global movement, working towards the objective of promoting accountability, transparency and anticorruption fight in the private and public sector. To achieve our goals, we cooperate with national and international civil society organizations, EU bodies, as well as with all relevant state authorities at the national level.

In 2021, Transparency International Hungary conducted an extensive research activity and, as a result, prepared a study on the granting practices of the Hungarian Tourism Agency Ltd. during the COVID-19 pandemic. These grants were awarded within the framework of the approved State aid schemes SA.54838, SA.59477, and SA.62363.

In this study that we attach electronically to the present letter, and can also be downloaded from this [link](#), we summarize the development and operation of the aid scheme, and the changes that have taken place during the epidemic. Our analysis addresses the shortcomings of the legal system and presents specific cases that most vividly highlight the abuses and are able to exacerbate the corruption exposure of the aid scheme. To prepare this study, we relied on source and data analysis, and conducted semi-structured interviews and background discussions with industry stakeholders.

The government has offered a number of tools to save businesses and employees, on which the State has spent nearly HUF 800 billion in 2020, according to the estimates of the professional top-level organization of the Hungarian Tourism Agency Ltd. At the same time, however, the epidemic situation served as an excuse to provide much more substantial, non-normative subsidies from public funds in a form that lacks transparency. Of the measures taken to assist and relaunch the sector, the Kisfaludy Program's tourism development grants utilized some of the largest amount of funds: in 2020, Kisfaludy2030 Ltd., owned by the Hungarian Tourism Agency Ltd., provided a record amount of direct grants worth almost HUF 219 billion.

By mid-September 2021, another nearly HUF 10 billion in public funds had been awarded under the program.

According to our assessment the granting practices of the Hungarian Tourism Agency Ltd. and Kisfaludy2030 Ltd. seriously distorts the competition and violates the basic legal principles of EU law, namely transparency and non-discrimination.

Below, we provide a few examples of these granting practices, but more cases and details can be found in our study.

1. On 4 June 2021, the company ‘Körösparti Nyár Plusz Zrt.’ was awarded HUF 1,7 billion under various aid schemes in order to develop attraction. This aid includes HUF 56 million under the COVID aid scheme for the purpose to maintain the continuity of its economic activity during the pandemic’. We find it, however, problematic that the company itself was established 3 months earlier in March 2021 for the main purpose to develop a new 4-star hotel in Békésszentandrás, therefore, there wasn’t really any economic activity to be maintained. We would add that one of the owners of the above-mentioned company, Antal Barna, was a FIDESZ – the governing party of Hungary – candidate in the local elections, while the other owner, Zsolt Mihály Volencsik, is a member of the board of directors of the company ‘Balaton Hajózási Zrt.’ controlled by the Hungarian Tourism Agency.
2. As a result of our research we concluded that it is a practice of the Hungarian Tourism Agency and Kisfaludy2030 to grant aids to the members of their own advisory groups and employees of organisations controlled by them. As an illustrative example, we mention Zoltán Szabadics, president of the board of directors of the above-mentioned company ‘Balaton Hajózási Zrt.’ controlled by the Hungarian Tourism Agency. Various businesses of Zoltán Szabadics got almost HUF 3,6 billion between 2018 and 2021. These cases may be considered as conflict of interests.
3. Granting aids in the tourism sector is very concentrated. In 2020 70 % of all tourism aids, HUF 2019 billion, was granted to the 100 biggest beneficiaries of the aids. The remaining 30 % was granted to 16.000 other beneficiaries. Among the beneficiaries of aids exceeding HUF 100 million, there is a visible predominance of certain businessmen with proven ties to the government, and who are also the largest beneficiaries of the public procurement procedures. Thus, the largest beneficiary of these aids amounting to HUF 17,7 billion was the company ‘Hunguest Hotels Zrt.’, a hotel chain owned by Lőrinc Mészáros, who became the wealthiest Hungarian in the past 5 years mainly as a result of his successes in public procurement procedures.

4. It is also a recurring practice that we find worrisome that private equity funds whose ownership is not public are also among the largest beneficiaries, for example, Nivala Private Equity Fund, or Minerva Zrt. that handles several private equity funds.
5. Among those companies that were granted an aid exceeding HUF 100 million there are a large number of project companies generating minimal or zero income. One fourth of the aids were granted to companies with zero income in the year of the aid. More than 10 % of the companies had zero income in the three examined years. Almost 20 % of the aids exceeding HUF 100 million was granted to beneficiaries that were established in the year of the aid, or at the end of the previous year.
6. Finally, we would call your attention to the fact that companies active in the real estate market, construction sector, tax counselling, clothes and shoes retail, and providing dentist services were also granted tourism aids.

We need to highlight that there were no calls for proposal, or any information whatsoever on the existence and conditions for applying for these aids. We don't know how the grantees learnt about the possibility to apply for aid, under what conditions they applied, if at all. According to our research, minimum one third of all aids in 2020, around HUF 73 billion, was granted as an individual aid under unknown conditions. TI Hungary submitted several FOI requests in order to get more information, however, Kisfaludy2030 Zrt. owned by the Hungarian Tourism Agency denied disclosing the requested information, therefore we commenced three court cases against this subsidiary. Albeit the court's second instance issued binding judgements in all three cases, which compel the Kisfaludy2030 Zrt. to disclose the information sought, the defendant, instead of complying with the judicial decisions, asked for the revision of these judgements by the Kuria, Hungary's highest judicial forum. The final adjudication is therefore yet to come.

Although the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (2020/C 91 I/01), which serves as a legal basis for the Aid Schemes SA.59477 and SA.62363, sets out rules on monitoring and reporting: "Member States must publish relevant information on each individual aid granted under this Communication on the comprehensive State aid website within 12 months from the moment of granting." The disclosure practices of the Hungarian Tourism Agency and Kisfaludy2030 has been deteriorating by the year. Data related to the year 2020 was published by Kisfaludy2030 in a pdf file of 193 pages, i.e.: in a non-searchable and non-editable format with no logical order of entries that would correspond to for instance the alphabetic order of the grantees or to the magnitude of the grant concerned. Aids of 2021 were disclosed in a 2-page "long" photographed document. None of the documents referred to disclosed anything but the name of the grantee and the grant amount, therefore details relating to the granting process, the selection of the grantees, the award process or the documents of the grants remained inaccessible. Also, we need to add that we found three different databases for the aids in the tourism sector, one of them is the one operated by the European Commission, however, the content of these databases

was not identical. Therefore, during the research project, we needed to build a new database for our research purposes. (We published [a limited version of this database](#) that contains data on the aids above HUF 100 million on our website.)

As mentioned above, in the present letter we wanted to highlight the main findings of our research, however, more details can be found in the study, and certainly we are also ready to provide more information to you. We believe that the granting practices of the Hungarian Tourism Agency and Kisfaludy2030 do not comply with the general principles of EU law and more specifically State aid law, therefore corrective measures are needed. We ask you to take the appropriate measures in order to enforce EU law in relation to State aid schemes SA.54838, SA.59477, and SA.62363

Looking forward to hearing from you and we offer our cooperation on these issues.

Sincerely,



Dr. Gabriella Nagy
head of public funds programs



Dr. József Péter Martin
executive director