EUROPEAN COMMISSION

Brussels, 12.06.2012
C(2012) 3746 final

Subject: State Aid SA.33992 (2012/N) – Finland
Short term export-credit insurance scheme

Sir,

I. PROCEDURE

1. On 13 April 2012, the Finnish authorities notified to the Commission a scheme (hereafter referred to as "the measure") aimed at publicly providing short-term export credit insurance in cases where cover for marketable export credit risks is temporarily unavailable. The notification is under the Communication of the Commission to the Member States pursuant to Article 93(1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export credit insurance[1] ("Communication").

2. Finnish authorities submitted additional information on 27 April 2012. Prenotification contacts took place on 1 and 16 December 2011 and on 29 March 2012.

3. The Commissioned approved a short-term export-credit insurance scheme ("original scheme") in Finland on 22 June 2009[2] and prolonged on 21 December 2010[3], under the provisions of the Communication and of the Communication on the Temporary Framework for State Aid measures to support access to finance in the current financial and economic crisis (hereinafter the "Temporary Framework").[4] The prolongation of the original scheme expired on 31 December 2011.

4. The Finnish authorities exceptionally accept that the decision on the notified scheme be adopted in the English language.

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[1] OJ C 281,17.09.1997, p. 4-10, extended on 1 December 2010 until 31 December 2012, OJ C 329, 7.12.2010, p.6.

[2] State aid case N258/2009, OJ C 227, 22.09.2009, p.1.

[3] State aid case SA32075 (2010/N), OJ C 20, 21.1.2011, p.4.

[4] OJ C 16 of 22.1.2009, in particular point 5.1

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II. CURRENT MARKET FOR SHORT -TERM EXPORT CREDIT INSURANCE IN FINLAND

5. The private export credit insurance market in Finland is dominated by two international insurance companies: Atradius and Euler Hermes. No national private insurer provides credit insurance on the Finnish market.

6. The standard product offered by the private export credit insurers in Finland is a whole turnover policy, which requires that the exporter insures its total credit portfolio or risks connected to a number of buyers. Hence, the private insurers only offer portfolio based insurance policies.

7. According to the Finnish authorities the enterprises having a small export portfolio do not have a similar access to the private credit insurance market than the larger companies. If the portfolio covered is very small or the exporter only applies insurance for a single transaction, the private market is not often able to offer cover as the supply of credit insurance connected to single buyer/export transaction has been very limited by the two private insurers in Finland.[5]

8. In this context an unavailability of cover for single risks was demonstrated by evidence provided by these two private credit insurers showing that the product which will be provided under the scheme is currently either not offered or offered only to a very limited extent. In addition, the cover for single risks for SMEs is at present very rarely included in their portfolio of activity.

9. In addition, the notification included a market study prepared by an external consultant[6] and questionnaires with answers from the two private export-credit insurers.

10. According to the information provided by the Finnish authorities, the current level of the premium charged by the private credit insurers is up to 0.6% of the insured turnover.

III. DESCRIPTION OF THE SCHEME

3.1 Objective

11. The purpose of the Finnish measure is to provide short-term export-credit insurance coverage to Finnish exporters who are confronted with temporary unavailability of cover in the private market for financially sound transactions.

12. The Finnish authorities consider that cover for some marketable export-credit risks is temporarily unavailable from private export-credit insurers under the meaning of the Communication.

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[5] […]*

[*] Confidential information

[6] This report was commissioned by Finnvera Plc (Finnvera), the official Export Credit Agency (ECA) for Finland. The purpose of the report was to provide Finnvera with information on the Finnish credit insurance market, and the availability of private credit insurance for Finnish companies. The report contains a brief description of credit insurance and a description of the Finnish credit insurance market as a whole. The market study was completed by the consultant company "Marsh" in October 2011.

13. According to the Finnish authorities, two categories of risks are currently inadequately covered by private insurers:

    a) risk cover when the exporter is an SME with a total annual export turnover of maximum EUR 2 million;

    b) single risk[7] cover in cases when the risk is associated to a single export transaction, which is not covered under a portfolio insurance from the private insurers; or in cases when the cover is or includes pre-credit risk[8].

3.2 Legal basis

14. The legal basis of the notified measure are the Act on the State's Export Credit Guarantees (422/2001), Government's Decree on principles to be followed in export credit guarantee activities (558/2001) and the Act on the State-Owned Specialised Financing Company (1998/443).

3.3 Implementing body

15. The export credit insurance is provided by Finnvera plc ("Finnvera"), which is the official Finnish Export Credit Agency. The purpose of the company is to provide financing services to promote and develop business, particularly that of small and medium-sized enterprises, and to promote and develop the exports and internationalisation of enterprises.

3.4 Legal terms and conditions

16. The operational model would be the same as that under the original scheme. Accordingly Finnvera's cover would be made available via Finnvera’s direct export credit guarantee products, which are the credit risk guarantee, export receivables guarantee, and buyer credit guarantee.

17. The notified measure is referred to as a guarantee under the Finnish legislation, rather than insurance, but it is solely a language difference. The Finnish authorities have explained that in the Finnish legal system the legal form is not determined by the name of the product, but on the basis of the terms used and the notified measure has all the features of an export credit insurance scheme as foreseen by the Communication. Above all, the purpose of the scheme is to transfer main part of the risk related to a specific export transaction (namely the non-payment for the exported goods and/or services by the foreign buyer) to Finnvera. Further, the payment of the claims put forward by the exporters is conditional on the fulfilment of a number of requirements. Notably, the exporter becomes entitled to an indemnification only in the case when the loss has been

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[7] Defined as cover for all sales to one debtor or for a single contract with one debtor as opposed to whole turnover cover.

[8] Defined as the commercial risk of insolvency of a buyer before delivery or shipment of the goods or performance of a service, and/or the political risk of any interruption of the manufacturing of the goods or performance of a service.

due to materialization of commercial or political risks that are mentioned in the guarantee conditions and after a claim waiting period. This conditionality also gives the guarantee features of insurance. Finally, the insurance products offered by Finnvera for the short-term export credit transactions under the notified scheme are complementing export credit insurance in the same insurance market as provided by private credit insurance companies in the normal market conditions but currently temporarily unavailable.

18. The credit risk guarantee can be used to insure risks involving receivables due to an exporter by a foreign importer and risks arising from cancellation of a contract prior to delivery. It can be granted for individual export transactions or for revolving transactions on annual basis. The credit risk guarantee can also be used as security for a credit by transferring the right to indemnity to the bank.

19. The export receivables guarantee is a streamlined and simplified variation of the credit risk guarantee, specifically designed for short-term exports by small and medium exporters, whose conditions and other features are materially similar to those of the credit risk guarantee.

20. The buyer credit guarantee is used in case when the revenue relating to a given transaction is (partially) paid to the exporter by a lender, implying that a credit line is provided to the importer by the lender and not by the exporter. The risk related to the transaction (namely the non-payment for the exported goods and/or services by the foreign buyer) is in this situation transferred from the exporter to the lender. In this case, the lender and Finnvera conclude a buyer credit guarantee agreement, which protects the lender against credit risks relating to the foreign importer financed by the lender as well as political risks related to the transaction. Also in this case the purpose of the scheme is to transfer the main part of the risk related to a specific export transaction from the exporter to Finnvera and it does not aim at enhancing the ability of the foreign buyer to take out loans on more favourable terms.

21. Finnvera’s share of the risk depends on the buyer’s creditworthiness and on political risks in the buyer’s country. For marketable risk countries, the cover percentage is set at 80%, which mean that the exporter or the lender have to retain at least 20% of the underlying risk.

22. In all cases Finnvera would follow sound underwriting principles, including proper risk assessment and pricing.

3.5 Scope and eligibility

23. All undertakings established in Finland are entitled to apply for export credit insurance, regardless of the sector or group of products, as well as the origin of the products/services exported.

24. Finnvera's intervention will only take place in the areas where the market is not functioning properly that is in cases where the private sector does not have capacity to offer customary credit risk cover (see recital 13). Therefore, the exporter can apply for an export-credit insurance from Finnvera only if a private insurer has denied cover.

25. In order to ensure that no financially unsound transactions, are covered under the scheme, Finnvera will conduct its own risk assessment of the risk relating to the foreign buyer. On the basis of this assessment only risk relating to the sound buyers will be covered. Therefore, credit information is a prerequisite for underwriting of short term risks under the scheme and buyers with payment delays are not accepted for the cover.

3.6 Level of remuneration

26. The premium to be paid by the exporter to Finnvera is an "all-in" premium, covering both political and commercial risk. Finnvera's guarantee premiums are based on the creditworthiness of the buyer, which is reflected into the classification of the buyer. Credit analysis and classification of the buyer are based on the buyer's country, business climate in the country, payment experience as regard the buyer, and financial information of the buyer. Finnvera will apply its standard risk assessment and underwriting procedure, when assessing each transaction or turnover to be covered.

27. The premium is charged up front as a flat percentage of the export declared, which varies according to the length of the risk period.

28. The following premiums level will apply depending on the overall creditworthiness of the buyer and the length of the risk period:

Premiums in percentage of export declared:

	Low risk	Moderate risk	High risk
Cash against documents	0.3	0.4	0.55
3 months	0.4	0.5	0.75
6 months	0.5	0.7	0.95
9 months	0.6	0.8	1.15
12 months	0.7	1.0	1.65

29. When setting the short term premium level under the scheme, the Finnish authorities have taken into account Finnvera's own default and recovery experience and expected loss level.

30. In addition to the premium, a handling fee per credit limit is charged for the credit risk guarantee and buyer credit guarantee. As regards export receivables guarantee, a handling fee is not charged but a minimum annual premium requirement of EUR […] per buyer is in place. These handling fees are as follows:

MAXIMUM CREDIT LIMIT	HANDLING FEE
€	€
20 000	[…]
100 000	[…]
200 000	[…]
800 000	[…]
2 000 000	[…]
4 000 000	[…]
6 000 000	[…]

3.7 Duration

31. The validity of the scheme would end on 31 December 2012. Cover would not be granted after that date.

3.8 Budget

32. The guarantee operations of Finnvera are based on the principle of self-sufficiency.[9] The beneficiaries are charged with a premium that is set to a level that according to historical experience covers credit losses and the related costs in the long term. The Finnish authorities do not foresee any budgetary limitations for the scheme. However, an overall total liability limit is set for export credit guarantees (Act on the State's Export Credit Guarantees) to EUR 12.5 billion.

IV. FINLAND'S POSITION

33. Finland has notified the measure based on the Communication that stipulates that marketable risks cannot be covered by export-credit insurance with the support of the Member States, unless the Member State can demonstrate that cover for marketable risks is temporarily unavailable.

34. Finland has submitted within the notification recent questionnaires and answers from the two private export-credit insurers operating in Finland, as well as a market report completed by a private consultant company.

35. Finland argues that the supply of credit insurance connected to single transactions has been very limited. Hence, a number of exporting companies that need export credit insurance for their single transactions have not received this service from the private credit insurers.

36. Finland has committed to provide a report on the development of the market conditions and of the use of the products offered under the scheme by 15 February 2013.

[9] Meaning that premiums cover expenditure and administration costs, without any need to set aside further funds for the measure.

V. ASSESSMENT

37. The Commission examined the notified scheme pursuant to the Communication.

38. According to point 2.5 of the Communication, risks incurred on debtors established in countries listed in the Annex to the Communication are, if and to the extent that no private insurance market exists in a Member State, considered temporarily non-marketable.

39. The measure at hand provides insurance for single risk only in relation to debtors established in all countries. Insofar as countries not listed in the Annex to the Communication are concerned, such risks are 'non-marketable' within the meaning of the Communication.

40. The Commission notes that Member States who wish to invoke the escape clause (point 4.4 of the Communication) may demonstrate the lack of a market by providing sufficient evidence of the unavailability of cover for the risk in the private insurance market. Additionally, risks incurred by SMEs with a total annual export turnover not exceeding EUR 2 million are likely to be temporarily non-marketable (point 2.5).

41. The publicly supported export-credit insurer shall, as far as possible, align its premium rates for such non-marketable risks with the rates charged elsewhere by export credit insurers for the type of risk in question and provide a description of the conditions which the public export-credit insurer intends to apply in respect of such risks.

Unavailability of cover in the private insurance market

42. According to the information provided by the Finnish authorities, the two largest international export credit insurance companies (Atradius and Euler Hermes) dominate the Finnish insurance market. No national private insurer is active in the market.

43. The unavailability of cover for the risks in question was demonstrated by a market study and by evidence provided by these two private credit insurers showing that the product offered under the scheme is currently not offered or offered only to a very limited extent.

44. The evidence provided shows that single export contracts and contracts undertaken by SMEs with limited turnover are at present rarely included in their portfolio of activity. Furthermore, the market study reported that enterprises have had difficulties to find cover for single risks from the private insurers. The Commission considers the evidence as sufficient to demonstrate unavailability of private cover under the existing Communication on short-term export credit insurance for a part of the market.

45. In addition, Finnvera will process a guarantee application on a case by case basis, only after lack of cover from the private insurers is demonstrated by the exporter. This additional safeguard ensures that the State will only cover transactions for which private cover is not available in the market and that the private insurers are not crowded out, should they still be willing to provide cover to the segment of the market.

46. Besides, the eligibility criteria mentioned in recital 25 provide safeguards, which will prevent Finnvera from insuring financially unsound transactions, which would be unable to obtain credit insurance due to the negative credit assessment by the private credit insurance companies Their effect is strengthened by the retention requirement, which means that under the scheme a cover can be granted up to a maximum of 80% of the total transaction value and the exporter has to retain in any case at least 20% of the risk. This way the insurance cover granted under the scheme will be based on both the risk assessment conducted by Finnvera and the counterparty risk monitoring by the exporter.

47. On basis of the above information , the Commission considers that evidence is sufficient to demonstrate the temporary unavailability of private cover under the Communication for marketable export credit risks.

Alignment of premium rates with rates charged elsewhere by private credit insurers

48. The premium for the cover provided within the scheme is set after taking into consideration the information on the market pricing of certain risk types provided by the private market players and Finnvera's own experience.

49. The premium will be set at a higher level than the benchmark provided by private credit insurers for comparable classes of risk and periods. According to the information provided by the Finnish authorities, the level of the premium charged by the private credit insurers is up to 0.6% of the insured turnover. Under the state supported scheme, exporters will be charged premiums rates that are higher than the premiums charged by private credit insurers and which will range from 0.3% to 1.65%, depending on the class of risk and the length of the risk period.

50. The Commission considers that the premium rates charged under the export credit insurance are, as far as possible, aligned with the rates charged by private export-credit insurers for the same type of risk. The fact that the premiums charged by Finnvera are relatively higher than the market levels is partially explained by the difference in the type of policy offered. The private insurers operate only on a whole turnover basis, which provides for the diversification of risk. Whereas the premiums charged by Finnvera reflect the higher risk associated with the individual transactions or smaller group of buyers, which otherwise would not be covered by private insurers. The level of the premiums charged by Finnvera will also limit the crowding out of the private insurers as the exporters have an incentive to seek cover with private insurers (who charge relatively lower premiums) wherever possible. Therefore the level of premium and the handling fee charged should ensure that the exporters resort to the private insurers as soon as the market conditions change and in the event that the risk becomes marketable.

51. In view of the above, it is concluded that the conditions for the use of the escape clause under the Communication are fulfilled.

VI. DECISION

The Commission has accordingly decided to consider the notified measure to be compatible with the internal market until 31 December 2012.

The Commission notes that Finland exceptionally accepts the adoption of the decision in the English language.

Finland will submit a report on the development of market conditions and on the use of the scheme by 15 February 2013.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

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Yours sincerely,

For the Commission

Joaquín ALMUNIA

Vice-President