EUROPEAN COMMISSION

Brussels, 25.11.2009
C(2009)9330 final

Subject: State Aid N 605/09 – Sweden
Short-term export-credit insurance

Sir,

I. PROCEDURE

1. On 3 November 2009, the Swedish authorities notified to the Commission the above mentioned measure (hereinafter referred to as "the scheme") aimed at publicly providing short-term export credit insurance in cases where covers for marketable export credit risks are temporarily unavailable.

2. Prior to the notification the Swedish authorities submitted information on the measure on 3 August and on 21 September 2009.

II. MARKET FOR SHORT-TERM EXPORT CREDIT INSURANCE IN SWEDEN

3. The private insurers in the Swedish market are all international: Atradius, Euler Hermes and COFACE. Atradius has been the market leader since many years.

4. All three private credit insurers cover whole turnover portfolios, where a flat rate premium level is set as reflecting the average risk of all transactions covered, including both domestic trade and exports.

5. During the last years the flat rate premium level in the Swedish private market has been in the range of [...] depending on the customer, with an estimated average level of [...] (calculated on covered sales).

* Confidential information

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6. According to the Swedish authorities in the context of the current financial crisis, it is assumed that premiums have increased by [...] due to higher losses. The estimate for withdrawal of insurance coverage of private credit insurers in Sweden is up to 20-30%. Therefore, private credit insurers are decreasing or cancelling credit limits\footnote{The credit limit is one of the key elements in credit insurance policies and represents the maximum amount of outstanding receivables resulting from transactions with a certain buyer, which can be covered by the insurer at any given time.} agreed with exporters, even if this reduction in availability is not justified by an increase in the underlying risk of the insured operations.

7. The Swedish governmental agency Exportkreditnämnden (EKN) has informed the Swedish ministries about the current problems for exporters to obtain cover for marketable risks in many cases.

8. The Swedish authorities have submitted evidence of insurance cover unavailability for short-term export credit from well-established exporters. Each piece of evidence demonstrated lack of cover for transactions relating to a number of EU and high-income OECD countries. In this context, the Swedish authorities intend to supplement for the lack of cover by providing short term export insurance through EKN.

III. DESCRIPTION OF THE MEASURE

3.1 OBJECTIVE

9. The purpose of the Swedish scheme is to provide short-term export-credit insurance coverage to Swedish exporters who are confronted with unavailability of cover in the private market for financially sound transactions with buyers in certain countries\footnote{The countries listed in the Annex of the Communication are all the Member States in the European Union and most of the OECD countries. The marketable risk countries are countries where political risk is considered to be negligible.} as a result of the financial crisis.

10. The Swedish authorities intend to use the possibility offered by the Communication of the Commission pursuant to Article 93(1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export credit insurance\footnote{O.J. C 281, 17.09.1997, p.4-10.} (hereinafter the "Communication") and the Communication on the Temporary framework for State aid measures to support access to finance in the current financial and economic crisis\footnote{OJ C 16 of 22.1.2009, in particular point 5.1.} (hereinafter the "Temporary Framework") to demonstrate temporarily unavailability of cover for marketable risks as a consequence of the current financial crisis.

3.2 LEGAL BASIS

3.3 IMPLEMENTING BODY
12. The export credit insurance is provided by EKN, which is a governmental agency under the Ministry for Foreign Affairs. EKN provides Swedish businesses with guarantees for exporters' payment risks.

3.4 ELIGIBILITY
13. All exporting companies established in Sweden are eligible to apply for short-term export credit insurance cover within the scheme.

14. EKN will not offer insurance cover to financial institutions under this scheme.

15. The Swedish Authorities expect that the demand for the short-term export credit insurance is to be mainly on exports of raw materials, consumables, durable consumer goods, semi finished goods and similar products where the credit period granted to the buyer is at most 180 days. The Swedish Authorities estimate that up to 1000 companies could apply for the scheme.

16. EKN 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 cover risks which are temporarily not available due to the financial crisis. EKN will act as insurer of last resort. An authorised representative of the exporting company has to report in writing of the shortcoming regarding the availability of export credit insurance in the private market before an application for EKN guarantee could be processed.

17. In order to ensure that no financially unsound transactions, which would not be able to obtain insurance cover even in the normal market conditions, are covered under the scheme, EKN will conduct risk assessment of the parties involved in the scheme. For this reason all new applicants are being checked based on information such as financial statements, credit reports and contact with their bank. Therefore this excludes transactions with firms in difficulty. Furthermore, to be eligible under the scheme, EKN may only offer export credit guarantees to parties who are known to be reputable and who can be assumed to have the pre-requisites to execute the intended transaction and perform their obligations as guarantee holders (Export Credit Guarantee Ordinance, which sets out conditions for approval of guarantees). In addition, for large contracts EKN may meet with the exporter, sometimes also with the buyer, in order to get a better understanding of the transaction and the risks involved.

18. In addition, EKN will reject the application if the risk is too high or there is lack of sufficient information concerning the transaction.

3.5 TERMS AND CONDITIONS
19. The notified scheme consists of a temporary provision of export credit insurance cover to marketable risks, defined in the Communication as commercial and political risks on
public and non-public debtors established in countries listed in its Annex\(^5\) and which cannot normally be covered with the support of Member States.

20. Exporters are required to make individual applications to EKN and also have to confirm to EKN in writing that they have been refused cover by private insurers. EKN will then apply standard underwriting procedures with normal risk assessment.

21. The short-term export credit insurance cover will be given in the form of a Loss on Claim Guarantee only. The notified measure is referred to as a guarantee under the Swedish legislation, rather than insurance, but the Swedish authorities confirm that this guarantee has all features of an insurance, i.e. premium, deductible, insurance policy, terms and conditions and coverage of an uncertain future loss on claim. Accordingly, the exporter/Guarantee holder (i.e. the Insured) is obliged to pay the premium to EKN. The Guarantee holder must also retain for its own account the uninsured percentage of the risk (i.e. the deductible/excess). EKN will issue the guarantee instrument (i.e. the Insurance policy) which, together with EKN's General Conditions (i.e. Terms and Conditions), expresses the Guarantee coverage. In the event of a valid loss on claim EKN will settle the matter, less the deductible, and the claim will be subrogated to EKN. Therefore, the EKN Loss of Claim Guarantee is equivalent to credit insurance.

22. The maximum risk period to be covered is up to 24 months.

23. Under the scheme, for marketable risks EKN intends to cover primarily 80% of the total transaction value, but depending on the quality of the risk the coverage could range from 60% to 90%.

3.6 LEVEL OF REMUNERATION

24. The premium paid by the exporter to EKN covers both political and commercial risk. The premium charged by EKN is based on a per annum rate, basically derived from default statistics collected by credit rating agencies. The premium takes into account the following factors: country risk, status of the buyer (public or private) and its creditworthiness, risk duration, collateral, if any, and the size of the sales amount.

25. Under the scheme, the country risk is divided into 8 categories, where category 0 indicates the lowest risk and category 7 the highest. Most of the OECD countries are placed in category 0, but in Europe some countries are placed in categories 2 up to 5.

26. The premium rates for an average company in a country where the risks are defined as marketable will be higher than the flat rate premium charged in the Swedish market by private insurers and approximately 25% higher than EKN's standard rates. The add-on of 25% of the flat premium will be applied in order not to undercut the market.

27. For all risk exposures over SEK 50 million the classification of buyers is made individually. If the risk is considered to be over 500 basis points EKN will reject the application as it is regarded as far too high and would jeopardize EKN's aim to reach the breakeven over time.

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\(^5\) The countries listed in the Annex of the Communication are all the Member States in the European Union and most of the OECD countries. The marketable risk countries are countries where political risk is considered to be negligible.
28. For transactions where the credit term exceeds 360 days, the premium system is also, as described above, based on per annum rates and other factors mentioned. The main difference is that transactions exceeding 360 days will get an individually set premium. In these cases six different buyer categories apply.

29. The following premium levels will apply depending on the category of the country, where the relevant buyer is based:

<table>
<thead>
<tr>
<th></th>
<th>Low risk</th>
<th>Moderate risk</th>
<th>High risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash against documents</td>
<td>0.26</td>
<td>0.38</td>
<td>0.60</td>
</tr>
<tr>
<td>3 months</td>
<td>0.58</td>
<td>0.84</td>
<td>1.32</td>
</tr>
<tr>
<td>6 months</td>
<td>0.97</td>
<td>1.41</td>
<td>2.20</td>
</tr>
<tr>
<td>9 months</td>
<td>1.36</td>
<td>1.97</td>
<td>3.08</td>
</tr>
<tr>
<td>12 months</td>
<td>1.74</td>
<td>2.53</td>
<td>3.96</td>
</tr>
</tbody>
</table>

30. The add-on of 25% will also apply for transactions with a credit term between 12 and 24 months.

31. The premiums charged to the clients cover the risks of the guaranteed transactions as well as the administrative costs for EKN.

3.7 DURATION

32. The mandate given to EKN to provide insurance cover will be in force only temporarily, i.e. until 31 December 2010. Should the cover be needed beyond this date, the scheme will be re-notified to the Commission.

3.8 BUDGET

33. The Swedish authorities set the guarantee framework (statutory limit) for EKN’s operations on a year by year basis, which means that there is a ceiling for how much business EKN can underwrite, in total. There is no separate limit or budget for short term export credit insurance.

IV. ASSESSMENT

34. The Commission examined the notified measure pursuant to the Temporary Framework and the Communication.

35. Point 2.5 of the Communication defines 'marketable risks' as commercial and political risks on public and non-public debtors established in the countries listed in the Annex to the Communication. Financial advantages in favour of exporters or export credit insurers, who respectively enter or cover a transaction qualified as marketable risk, are normally prohibited.

36. The measure at hand provides public support with regard to insuring risks on a significant part of the market that faces unavailability of the insurance cover for certain countries. Insofar as countries not listed in the Annex to the Communication are

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6 The list includes EU and OECD countries.
concerned, such risks are 'non-marketable' within the meaning of the Communication and public support for insuring them is in compliance with the Communication.

37. According to the Communication and in particular point 4.4, risks incurred on debtors established in countries listed in the Annex to the Communication are considered temporarily non-marketable only if it can be demonstrated that private insurance cover for the risks generally viewed as marketable is unavailable in a certain Member State. In such circumstances, those temporarily non-marketable risks may be taken in to the account of a public or publicly supported export-credit insurer for non-marketable risks insured for the account of or with the guarantee of the State. In particular, Member States who wish to invoke this escape clause normally have to provide a market report and produce evidence thereof from two well-known, international export-credit insurers as well as a national credit insurer, demonstrating the unavailability of cover for the risks in the private insurance market. Moreover, the public or 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 or publicly supported export-credit insurer intends to apply in respect of such risks.

38. In order to speed up the procedure, the Temporary Framework simplifies, until 31 December 2010, the proof that Member States need to produce to demonstrate the unavailability of cover. To this end, Member States have to submit evidence provided by a large well-known international private export credits insurer and a national credit insurer, or by at least four well-established exporters in the Member State.

4.1 Unavailability of Cover in the Private Insurance Market and the Application of the Escape Clause

39. According to the information provided by the Swedish authorities, the largest international export credit insurance companies (Atradius, Euler Hermes and Coface) are active in Sweden. No national private insurance company is active in that market. The role of the state-owned export credit insurer EKN is to complement the market by offering the cover for non-marketable risks.

40. In order to demonstrate the unavailability of cover in the credit insurance market in their territory, the Swedish authorities have provided evidence of refusal of cover from well-established exporters, who represent different industrial sectors and regions in Sweden. Each piece of evidence demonstrated lack of cover for transactions relating to a number of EU and high-income OECD countries. The estimate for withdrawal of insurance coverage of private credit insurers in Sweden is up to 20-30%.

41. The Commission considers the evidence as sufficient to demonstrate temporal unavailability of private coverage as a consequence of the current financial crisis at least for a significant part of the market.

42. In addition, the construction of the scheme ensures to a large extent that the state will only cover transactions for which private cover is not available in the market as a consequence of the financial crisis. Firstly, EKN could start processing a guarantee application on a case by case basis, only after lack of cover from the private insurers is demonstrated by the exporter by means of a formal statement as proof of refusal.
43. Secondly, the eligibility criteria mentioned in paragraph 17 provides safeguards which will prevent EKN from reinsuring financially unsound transaction, which have previously been 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 90% of the total transaction value and the exporter has to retain in any case at least 10% of the risk. The Swedish authorities estimate to have primarily transaction with the insurance cover amounting to 80% of the total transaction, leaving the exporter 20% of the risk. This way the insurance cover granted under the scheme will be based on both the risk assessment conducted by EKN and the counterparty risk monitoring by the exporter.

44. Therefore, these above-mentioned safeguards ensure that the state-owned agency will only cover transactions for which private cover is not available in the market as a consequence of the financial crisis and that the private insurers are not crowded out, should they still be willing to provide cover to any segment of the market.

4.2 ALIGNMENT OF PREMIUM RATES WITH RATES CHARGED ELSEWHERE BY PRIVATE CREDIT INSURERS

45. The premium for the cover provided within the scheme is set after taking into consideration the information on the market pricing of the certain risk types provided by the private market players.

46. The premium will be set high enough to encourage exporters to return to the banks and private insurers as soon as the market has recovered. According to the information provided by the Swedish authorities, the level of the premium charged by the private credit insurers oscillates between [...] and [...]. Under the state supported scheme, exporters will be charged premiums rates from 0.26% to 3.96%, depending on the class of risk and the length of the risk period etc.

47. 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 EKN 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 EKN reflect the higher risk associated with the individual transactions or smaller group of buyers, which otherwise would not be covered in the current market conditions.

48. The levels of the premiums charged by EKN 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 as the premium tends to be higher compared to the flat premium charged by the private insurers during the pre-crises period. Therefore the level of premium should ensure that the exporters return to the private insurers as soon as the market conditions allow and the risk becomes marketable again.

49. The Commission also notes that the requirement that the exporter must face the withdrawal of the private cover first, before applying for the insurance within the state supported scheme, should ensure that private insurers will not be crowded out of the
short-term export credit insurance market. Therefore the scheme contains an in-built mechanism that should lead to phasing out of the state intervention as soon as the private insurance market revives.

**Conclusion**

50. On the basis of the foregoing assessment, the Commission concludes that the scheme meets the requirements of the escape clause of the Communication (point 4.4) and the evidence is in line with the Commission’s temporary framework for state aid measures, which gives Member States additional scope to facilitate access to financing in the present economic and financial crisis.

**V. DECISION**

The Commission has accordingly decided to consider the notified measure to be compatible with the common market until 31/12/2010. The Commission notes that the Kingdom of Sweden accepts that the decision be adopted in the English language.

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Your request should be sent by registered letter or fax to:

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State Aid Greffe  
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We would ask you to state the case name and number in all correspondence.

Yours faithfully,  
For the Commission

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Member of the Commission