EUROPEAN COMMISSION

Brussels, 11.01.2012
C(2011) 10052 final

Subject: State aid SA.33844 (2011/N) - Denmark
Prolongation of the Danish export credit financing scheme

Sir,

1. Procedure

1. On 26 January 2009 the Danish authorities notified to the Commission their plan to set up a scheme to support long term export credits (hereinafter "the Scheme") until 31 December 2011.

2. After informal discussions with the Commission services, the Danish authorities withdrew the notification on 13 March 2009 on the ground that the measure does not constitute aid.

3. In parallel, the Scheme was notified by the Danish authorities to the OECD according to the OECD Arrangement on Officially Supported Export Credit (hereinafter "the OECD Arrangement")[1]. There were no objections to the OECD procedure and the scheme was introduced by Danish authorities on 17 March 2009.

4. On 9 February 2010, the Commission decided (State aid ex-officio case SA.29638 NN4/2010)[2] that the scheme does not constitute State aid and accordingly not to raise objections against it for the period until 31 December 2011.

5. On 31 October 2011, the Danish authorities notified to the Commission a request to prolong the Scheme until 31 December 2015. The Commission sent questions on the transactions financed until now under the scheme, which were answered by letter of 1 December 2011.

6. The Commission notes that for reasons of urgency, the Danish authorities exceptionally accept the adoption of the decision in the English language.

[1] OECD, July 2009 (TAD/PG/(2009)21).
[2] OJ C 94, 14.04.2010, p. 3.

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2. Description

The objective of the scheme

7. The Danish market for financing of export credits is dominated by foreign banks. The financial crisis has led many banks to scale down their export lending activities and some major foreign banks have decided to close their local operation branches in Denmark.

8. Notwithstanding the widespread State support for banks during the crisis, banks have not restored their appetite for large long maturity loans (typically the case of export loans). The banks' restricted activity in long-term export loans is due to a general unwillingness in committing funding for maturities longer than three to five years.

9. With the abrupt and widespread stop of liquidity for export transactions, the Danish government introduced a Scheme, until 31 December 2011, that supplies Danish exporters[3] and their customers with the required liquidity to continue trading.

10. The Scheme provides financing on commercial terms for clients of Danish exporters in compliance with the OECD Arrangement. If banks' tightened liquidity position restricts them from financing a long-term export loan requested by a Danish exporter and/or its client, they can enter into an agreement with the Danish State-owned export finance agency (EKF) for a later assignment of the loan to the Scheme. Banks then play a mere role of intermediary and administrator of the loan. The pricing (i.e. interest rate) of the loans is calculated by EKF, which has extended experience in assessing the creditworthiness of borrowers and the value of the collateral they intend to provide. EKF always carefully benchmarks the interest rate on the loan to market prices and to the Commission's Reference Rate Communication. The details of the design of the Scheme are explained in the Commissions Decision of 9 February 2010.

11. Due to the continued lack of liquidity for financing exports of long-term maturity capital goods the Danish authorities intend to prolong the Scheme until 31 December 2015.

Operation of the Scheme until October 2011

12. According to the Danish authorities, the Scheme has contributed positively to the easing of the impact of the crisis on the financing of long term export loans.

13. As of 30 November 2011, nine loans with a total principal of DKK 6.8 billion have been issued under the scheme. The aggregate take-up rate of the Scheme is 34% of the total budget (DKK 20 billion).

3 i.e. any firm having economic activities in Denmark including Danish subsidiaries of foreign companies.

14. The pricing of loans is benchmarked to the reference rate methodology set up in the Communication from the Commission on the revision of the method for setting the reference and discount rates[4] (hereinafter the Reference Rate Communication). In two cases a downward deviation from the pricing following the application of the methodology of the Reference Rate Communication was allowed. In those two cases, in line with the Commission decision of 9 February 2010, the EKF provided very clear market benchmarks indicating lower prices.[5]

3. Position of Denmark

15. In line with the Commission decision of 9 February 2010, the Danish authorities consider that the Scheme does not constitute State aid.

16. The Danish authorities are planning to prolong the Scheme until 31 December 2015. Nonetheless, the proposed prolongation does not involve an increase of the budget of the Scheme which remains at DKK 20 billion. Furthermore, according to information provided in the notification, in October 2011, the Scheme had 18 loans amounting to a total budget of DKK 10.2 billion in the pipeline.

17. The magnitude of the pipeline of loans conveys that the banks continue to have difficulties in obtaining long term funding in normal market operations. The crisis exacerbated the vulnerability of an already thin market for long-term maturity financing and marginalizes some projects' ability to obtain financing from banks.

4. Assessment of the scheme

18. In its Decision of 9 February 2010, the Commission concluded that the scheme does not constitute State aid within the meaning of Article 107(1) of the Treaty.

19. In particular, the Commission considers that the Scheme does not entail benefits for participating banks as they act on a pure agent basis and receive only a normal market priced remuneration paid by the borrower for their agent services.

20. Further, the Commission verified that the pricing of loans granted under the Scheme was always benchmarked according to the methodology set up in the Reference Rate Communication in terms of both the rating of the borrower and liquidation value of the collateral. The Commission observes that the total cost for borrowers resulting from the pricing methodology used by Denmark can normally not be below the rate laid down under the Reference Rate Communication. In addition, in its decision of 9 February 2010, the Commission clearly stated that a downward deviation from the pricing following the application of the methodology of the Reference Rate Communication could only be accepted if there was very clear recent market benchmarks indicating lower borrower prices for that borrower. According to information provided by Danish authorities, in the two cases where the pricing deviated downward from the Reference Rate Communication methodology, the rate was still above an appropriate market benchmark. In those cases, the Commission also monitored that the loans were properly classified in terms of value of the collateral (loss given default). In all other cases, the Commission notes positively that if the

[4] OJ C 14, 19.1.2008 p. 6.

[5] The EKF provided data of two market indicators not older than three months.

market benchmarks indicate a higher price than the one derived from the Reference Rate Communication, EKF sets the price at the market benchmark level. It demonstrates that the Scheme tries to the largest extent possible to mimic market prices. The Commission therefore considers that the Scheme does not contain aid to the borrower.

21. The Commission takes note that the prolongation notification does not change any provisions of the Scheme assessed in the Decision of 9 February 2010. Should the Danish authorities intend to extend the implementation of the scheme beyond 2015, they would have to renotify the scheme and to provide information on the loans granted so far. It would allow the Commission to assess whether the previous conclusions are still valid for the years after 2015 on the basis of the assessment of the functioning of the scheme until that date.

Conclusion

22. The Commission considers that the prolongation of the Scheme until 31 December 2015 does not constitute State aid within the meaning of Article 107(1) of the Treaty.

5. Decision

The prolongation of the Scheme notified for the period until 31 December 2015 does not constitute State aid and the Commission has accordingly decided not to raise objections against it.

The Commission notes that Denmark exceptionally accepts that the decision be adopted in the English language.

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Your request specifying the relevant information should be sent by registered letter or fax to:

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Yours faithfully,

For the Commission

Joaquín ALMUNIA
Vice-President