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<p>In the published version of this decision, some information has been omitted, pursuant to articles 30 and 31 of Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...]</p>		<p style="text-align: center;">PUBLIC VERSION</p> <p>This document is made available for information purposes only.</p>
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**Subject: State Aid SA.56809 (2020/N) – Finland
COVID-19: State loan guarantee for Finnair**

Excellency,

1. PROCEDURE

- (1) By electronic notification of 13 May 2020, Finland notified aid in the form of a State guarantee on a loan for Finnair Plc (“the measure”) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (“the Temporary Framework”).¹
- (2) By letter of 13 May 2020, Finland exceptionally agreed to waive its rights deriving from Article 342 of the Treaty on the Functioning of the European Union (“TFEU”), in conjunction with Article 3 of Regulation 1/1958² and to have this Decision adopted and notified in English.

¹ Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, 19 March 2020, OJ C 91I, 20.3.2020, p. 1-9.

² Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

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2. DESCRIPTION OF THE MEASURE

2.1. Objective of the measure

- (3) Finland considers that the COVID-19 outbreak has started to affect the real economy, and particularly Finnair Plc (“Finnair”, the “beneficiary” or the “company”). The measure aims to preserve the continuity of Finnair’s economic activity during and after the outbreak by providing it with sufficient liquidity.
- (4) Due to the COVID-19 outbreak, the Finnish authorities consider that, in the absence of support from the State, Finnair will likely face the risk of bankruptcy due to the sudden erosion of its business, which has led the company into a liquidity crisis. The Finnish authorities also consider that a bankruptcy of Finnair, in turn, would contribute to affect severely the Finnish economy, including its supply chain security. Finland claims that a well-functioning air transport network is instrumental for the economy of the country as a whole, and its potential disappearance would have harsh consequences for many regions as well. The Finnish authorities eventually conclude that the bankruptcy of Finnair would further aggravate the serious current disturbance in the economy of the country, in view of its importance to the Finnish economy.
- (5) In order to secure additional liquidity to Finnair, Finland plans to enable a State guarantee to help Finnair obtain a EUR 600 million loan (“the Loan”) as back-up funding.
- (6) The measure is based on Article 107(3)(b) TFEU, as interpreted by Section 2 and Section 3.2 of the Temporary Framework.

2.2. The form of the measure

- (7) The measure takes the form of a State guarantee on the Loan for Finnair to cover its working capital needs.

2.3. National legal basis

- (8) The measure will be granted by Governmental decision based on the Act on Central Government Lending and Central Government Guarantees (449/1988) as implemented by the Government decree on Fees Charged for Central Government Guarantees (82/2017), the latter setting specific conditions for the grant of State guarantees. The authorization for the guarantee was approved by the Parliament in the first supplementary budget for 2020 in early April.

2.4. Administration of the measure

- (9) The Ministry of Finance (*Valtiovarainministeriö*) is responsible for granting and administering the measure.

2.5. Budget and duration of the measure

- (10) The State guarantee covers 90% of the EUR 600 million loan, and is limited to a maximum duration of three years.

- (11) Aid may be granted under the measure as from its approval until no later than 31 December 2020.

2.6. Beneficiaries

- (12) The beneficiary of the measure is Finnair, an undertaking that was not in difficulty within the meaning of the General Block Exemption Regulation (“GBER”)³ on 31 December 2019. The measure is granted directly by the State to the beneficiary.

2.7. Main elements of the measure

- (13) The measure involves a State guarantee that will help Finnair to obtain the Loan from the Ilmarinen pension fund (“the Pension fund”). According to national legislation, loans from pension funds can only be granted against certain securities (such as a state guarantee, a bank guarantee or a real estate security) providing full collateral on the outstanding loan amount. Without this full collateral, the Pension fund would not have granted the same loan amount to Finnair.

2.7.1. Eligible loan to be secured by the State guarantee

- (14) The Finnish authorities consider that a State guarantee is the only option currently available for Finnair to obtain the Loan from the Pension fund, as on one hand, the collaterals proposed by Finnair⁴ were not considered by the Pension fund as eligible securities and on the other hand, no commercial bank is willing to offer a 100% guarantee on the Loan.
- (15) The maximum outstanding amount of the Loan to be granted to Finnair will be EUR 600 million, which represents less than 25% of total turnover of the beneficiary in 2019⁵.
- (16) The financial costs of the Loan are currently envisaged at [...] *% service fee at drawdown plus [...] % per annum on the outstanding amount. These fee and interest rate are below the current market interest rates that Finnair could obtain⁶.
- (17) The maximum maturity of the Loan from the moment of disbursement, which must occur before 31 December 2020, is set at 3 years.

³ As defined in Article 2(18) of the Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187 of 26.6.2014, p. 1

⁴ According to Finnair, the only potential available facility it owns as guarantee is a cargo terminal, whose book value is less than 60 million EUR. As this cargo terminal is a property specifically designed for air cargo, its use for other purposes is very unlikely. Additionally, part of the infrastructure is also owned by the airport operator, Finavia.

⁵ Finnair’s 2019 revenues amounted to 3.10 billion EUR.

⁶ Finnair’s average bid yield with similar maturity for the last month was 5.313% (30 March – 29 April).

- (18) The proceeds of the Loan, when drawn, will be used for working capital cash flows.

2.7.2. *State guarantee on the loan*

- (19) The Finnish State will issue a guarantee to cover 90% of the Loan amount. The remaining 10% guarantee to match the total outstanding Loan will be provided by a commercial bank at market conditions. The guaranteed amount will decrease proportionately to continuously match the outstanding Loan during its amortization over time. When applicable, both losses and net recoveries will be sustained proportionally (90/10) and in the same way by the Finnish State and the commercial bank. The Finnish authorities confirm that similar collateral (if any) will be pledged on the part of the Loan guaranteed by the State and on the part of the Loan not guaranteed by the State, to ensure that losses are sustained under the same conditions by the State and the bank.
- (20) The level of the State guarantee premium is set above the minimum required by the Temporary Framework⁷, so that the beneficiary retains incentives to return to pure market financing once the current market situation stabilizes. Apart from the 90% State guarantee, the national legislation also requires to guarantee the remaining 10% of the outstanding amount of the Loan. Finnair has already obtained the consent of a commercial bank to cover, by means of a guarantee, the remaining 10% of the loan amount.
- (21) The fee structure of the guarantee is comprised of two payable premiums:
- a one-off service fee of the overall guaranteed amount at drawdown (0.25% for the 90% State guarantee and [...] % for the 10% banks guarantee); and
 - an annual fee charged on the outstanding amount guaranteed (3.0% for the 90% State guarantee and [...] % for the 10% banks guarantee).
- (22) The guarantee can be granted by 31 December 2020 at the latest.
- (23) The duration of the guarantee will match the maturity of the Loan over time.
- (24) Triggering of the guarantee is contractually linked to the event of default by Finnair to the Pension fund.

2.8. Cumulation

- (25) The Finnish authorities confirm that aid granted under the measure may be cumulated with aid granted under other measures approved by the Commission under other sections of the Temporary Framework provided the provisions in those specific sections are respected.
- (26) The Finnish authorities confirm that aid granted under Section 3.2 of the Temporary Framework shall not be cumulated with aid granted for the same

⁷ See para. 25.a of the Temporary Framework for minimum levels, which sets for large enterprises a minimum credit risk margin of 100 bps.

underlying loan principal under Section 3.3 of that framework and vice versa. Aid granted under Section 3.2 and Section 3.3 may be cumulated for different loans provided the overall amount of loans per beneficiary does not exceed the thresholds set out in point 25(d) or in point 27(d) of the Temporary Framework.

- (27) A beneficiary may benefit in parallel from multiple schemes under Section 3.2 provided the overall amount of loans per beneficiary does not exceed the thresholds set out in point 25(d) of the Temporary Framework.

2.9. Monitoring and reporting

- (28) The Finnish authorities confirm that they will respect the monitoring and reporting obligations laid down in Section 4 of the Temporary Framework.

3. ASSESSMENT

3.1. Legality of the measure

- (29) By notifying the measure before putting it into effect, the Finnish authorities have respected their obligations under Article 108(3) TFEU.

3.2. Existence of State aid

- (30) For a measure to be categorised as aid within the meaning of Article 107(1) TFEU, all the conditions set out in that provision must be fulfilled. First, the measure must be imputable to the State and financed through State resources. Second, it must confer an advantage on its recipients. Third, that advantage must be selective in nature. Fourth, the measure must distort or threaten to distort competition and affect trade between Member States.
- (31) The measure is imputable to the State, since it is directly granted by decision of the Government and will be administered by the Ministry of Finance. It is also financed through State resources, since it is financed by the State budget.
- (32) The measure confers an advantage on the beneficiary in the form of guarantee on a loan. As explained in recital (14) of the present decision, no commercial bank was willing to provide a full guarantee to the envisaged loan under the same conditions as the State. The measure thus relieves Finnair of costs that it would have had to bear under normal market conditions.
- (33) The advantage granted by the measure is selective, since it is conferred to only one undertaking, Finnair.
- (34) The measure is liable to distort competition, since it strengthens the competitive position of the beneficiary. It also affects trade between Member States, since the beneficiary is active in a sector in which intra-Union trade exists.
- (35) In view of the above, the Commission concludes that the measure constitutes aid within the meaning of Article 107(1) TFEU. Finland does not contest that conclusion.

3.3. Compatibility

- (36) Since the measure involves aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether that measure is compatible with the internal market.
- (37) Pursuant to Article 107(3)(b) TFEU the Commission may declare compatible with the internal market aid “*to remedy a serious disturbance in the economy of a Member State*”.
- (38) By adopting the Temporary Framework on 19 March 2020, as amended on 3 April 2020, the Commission acknowledged (Section 2) that “*the COVID-19 outbreak affects all Member States and that the containment measures taken by Member States impact undertakings*”. The Commission concluded that “*State aid is justified and can be declared compatible with the internal market on the basis of Article 107(3)(b) TFEU, for a limited period, to remedy the liquidity shortage faced by undertakings and ensure that the disruptions caused by the COVID-19 outbreak do not undermine their viability, especially of SMEs*”.
- (39) The measure aims at ensuring sufficient liquidity to Finnair to maintain its viability and air services at a time when the normal functioning of credit markets is severely disturbed by the COVID-19 outbreak and when that outbreak is affecting the wider economy and leading to severe disturbances of the real economy of Finland.

3.3.1. Necessity of the aid

- (40) Firstly, the Commission notes that demand for both domestic and international flights has suffered severely from the spread of the COVID-19 and the consequent flight restrictions. The collapse in demand has had an immediate and dramatic adverse effect on Finnair’s cash flow. The company has cancelled nearly all its flights and cut its capacity by 90% as of beginning of April. The company is also bound to carry out flights linked to the repatriation of nationals located abroad, shipping of medical equipment or other freight volumes and continuity of essential business matters as well as to ship medical supplies.
- (41) Finland estimates that without fresh funding, Finnair will rapidly face a liquidity shortage during the second quarter of 2020 and will not be able to maintain its operations. According to the Finnish authorities, even in the event of an optimistic scenario where Finnair would continue operating at approximately 10% of its capacity during the second quarter of 2020 (with a demand rising up as of the third quarter to reach its pre-coronavirus level by November 2020), the company will face a funding need up to EUR [...] billion at the end of the second quarter of 2020. The Commission notes that the confinement measures and the flight restrictions were applicable in Finland until 13 May 2020. International travellers from the EU Schengen Area may enter Finland from 14 May if they have a permanent employment contract with an undertaking established in Finland or having its place of business in Finland or if they have an essential reason to do so. Flights to/from destinations outside the EU Schengen area are still restricted.

- (42) The Commission considers therefore that the scenario provided by the Finnish authorities appears realistic, and shows that Finnair will face serious and immediate difficulties to maintain its operations.
- (43) Secondly, the Commission notes that Finnair has tried to obtain funding from the markets, but due to the current situation and uncertain outlook, it has not been able to cover all its liquidity needs. First, it managed to secure on the market a funding revolving credit facility of 175 million EUR. Moreover, it is currently negotiating a sale and lease back facility for a value of [...] million EUR concerning unencumbered aircrafts to obtain additional funding. However, these measures are not sufficient to cover the EUR [...] billion liquidity shortage. The company has also initiated significant cost saving measures across the organization to preserve cash. On 29 April 2020, Finnair announced that the company's Board of Directors had resolved that the company would commence preparations for a rights offering (share issue) due to losses caused by the COVID-19 outbreak, which had decreased the company's equity. The amount of the rights offering would total up to approximately 500 million EUR. At the date of the present decision, it remains uncertain whether the rights offering will be successful. Last, the measure under assessment will only be activated as a last resort in case Finnair will face a liquidity shortage as currently projected at the end of the second quarter of 2020⁸.
- (44) It follows from the above that the proposed aid measure is necessary.

3.3.2. Importance of Finnair for the Finnish economy

- (45) The Commission observes that Finnair operates an important domestic and international network that ensures connectivity within and outside Finland. Finnair is the principal air service carrier in Finland, with almost 15 million passengers transported in 2019 (67% of the total passengers transported within, to and from Finland in 2019)⁹. Norwegian and SAS¹⁰ are the biggest airline companies in Finland after Finnair, followed by Lufthansa, KLM and Air Baltic¹¹. The Commission notes that Finnair is the only airline with services to the majority of the Finnish regional airports, which it carries out all yearlong at a regular frequency¹².

⁸ See recital 41 of the present decision.

⁹ According to Finavia's statistics in 2019, Finnair had a 62% share of passengers transported on international flights and 83% transported on domestic flights. Its total market share amounts to 44% of the airline operations at Finavia's airports.

¹⁰ Norwegian transported 12% of the passengers in 2019, while SAS services accounted for 3.4% of the passengers transported.

¹¹ The three companies' shares amount to 5.4% of the passengers transported in Finland

¹² Besides Helsinki-Vantaa airport, Norwegian operates to four regional airports all of which are located in the northern part of the country and to a number of European destinations serving primarily leisure traffic. SAS operates to Helsinki-Vantaa Airport and three regional airports. Air Baltic operates to two regional airports besides Helsinki-Vantaa Airport, while Lufthansa and KLM only operate to Helsinki-Vantaa Airport. Low-cost carriers such as Easyjet connects Helsinki-Berlin and London/Manchester to

- (46) Finnair also ensures freight services that account approximately for 30% of Finland's in and outbound air freight, positioning the company as the leading air freight operator in the market supplying several companies located on the Finnish territory, both in terms of exports and imports of goods¹³. The Finnish authorities point out that, without Finnair's extensive Asian network, trade between Finnish and Asian companies would be substantially reduced¹⁴. In order to supply the Finnish demand for goods, and in particular for pharmaceutical products and medical equipment to face the COVID-19 crisis, Finnair is currently operating daily freight routes to South Korea, China and Japan as requested by the Finnish National Emergency Supply Agency.
- (47) The Commission also observes that Finnair is an important direct and indirect employer in Finland. At the end of 2019, Finnair had approximately 6,800 employees in active employment relationships. According to the Finnish authorities, employee turnover of Finnair has been relatively low, and thus the staff possesses significant accumulated experience and expertise in air transport.
- (48) Moreover, the Commission notes that Finnair contributes significantly to the Finnish economy. The company's purchases amounted to EUR 1.900 million in 2019, 40% of which were from Finnish suppliers. The Finnish authorities underline that for a number of these suppliers, Finnair stands for more than half of the total revenue of each of these suppliers. One of Finnair's main local suppliers is Finavia, which manages Helsinki-Vantaa Airport and all regional airports in Finland. Finnair's share of Finavia's total revenue is [...]%. As Finnair is the only airline with a hub at Helsinki-Vantaa Airport, Finavia is highly dependent on Finnair's success. The Finnish authorities indicated that Finavia is currently carrying out an extensive investment program estimated to 1 billion EUR, distributed between Helsinki airport and several regional airports, in order to face the strong increase of passengers mainly generated by Finnair's routes, in particular from its intensive Asian network¹⁵. Finnair is also currently associated to a research project with the aim to develop electric aircrafts to reduce the aviation carbon-print¹⁶, demonstrating the ability of the company to promote innovation in the light of the European Green Deal policy.
- (49) In 2017, according to the Finnish authorities, Finnair was ranked as the 16th most important company in Finland in terms of GDP contribution with a value-added in Finland amounting to EUR 600 million. Almost 30% of the demand

a regional airport in the northern part of Finland for touristic purposes, while Wizz Air only connects Turku to London.

¹³ The Finnair cargo volume in 2019 represented 173 282 tons of good transported, with a 10% increase compared to 2018. For an illustration of the network covered by Finnair's freight services, see <http://aycg.fltmaps.com/en>

¹⁴ See for example <https://www.aviationbusinessnews.com/cargo/east-meets-west-finnair-cargo/>.

¹⁵ In 2019, out of more than 20 million passengers hosted by Helsinki airport, approximately one third were in transfer mainly from Asia through Helsinki to Europe or Northern Finland.

¹⁶ <https://simpleflying.com/finnair-sas-electric-aircraft/>.

transported by Finnair on international flights to/from Finland is work related, while this number raises to 50% for domestic flights. The Commission also takes note of a study published by the International Air Transport Association (IATA) in 2018, showing the substantial contribution of the air services to the Finnish economy¹⁷.

- (50) It follows from the above that the bankruptcy of the beneficiary would be likely to involve serious social hardship and aggravate the serious disturbance that the Finnish economy is currently facing. Finnair is a strong economic and innovative undertaking contributing to the economic development and foreign trade of Finland thanks to its wide domestic and international network. These air services are all the more necessary for Finland given its relatively remote geographical position in Europe, which alternative modes of transport are not able to address to the same extent (if at all) as aviation. A substantial amount of Finnish companies and citizens rely on Finnair's services, which in their absence would not be replicated by other airlines to the same extent, if at all. Considering the above elements as well as the severe impact of the COVID-19 crisis on the aviation sector, it can reasonably be assumed that in the short term, there will not be any viable alternative to Finnair's contribution to the economy and connectivity needs of Finland.
- (51) Given the importance of Finnair in the Finnish economy, the Commission considers that a failure of this company would have serious consequences for the Finnish economy in the context of the current health and economic crisis.
- (52) The Commission accordingly considers that the notified measure is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State.

3.3.3. Compatibility of the aid with sections 3.2 and 3.4 of the Temporary Framework

- (53) The Commission considers that the notified aid meets all the relevant conditions of the Temporary Framework. In particular:
- The measure sets an annual guarantee premium of 300bps for Finnair (large enterprise) on a loan with a maturity of 3 years, with an additional one-off service fee of 25bps of the overall guaranteed amount at drawdown (recital (20)). It therefore complies with the condition set out in point 25 (a) of the Temporary Framework.

¹⁷ See <https://www.iata.org/en/iata-repository/publications/economic-reports/finland--value-of-aviation/>. 2,5% of Finland's GDP was supported by inputs to the air transport sector and foreign tourists arriving by air. The gross added value GDP contribution of the air transport industry was estimated to amount to 4,5 billion USD enhanced by the estimated 1,6 billion USD spending by foreign tourists. Jobs supported by the air transport sector reached almost 69.000. See also the Oxford Economics 2011 report on the economic benefits from air transport in Finland, http://www.barif.com/web_documents/benefits_of_aviation_-_finland_2011.pdf.

- The guarantee must be granted by 31 December 2020 at the latest (recital (22)). The measure therefore complies with point 25(c) of the Temporary Framework.
- The maximum loan amount covered by the guarantee is limited in line with point 25(d)(ii) of the Temporary Framework (recital (15)).
- The duration of the guarantee is limited to maximum 3 years (recital (23)). The guarantee covers 90% of the loan principal and losses stemming from the loan are sustained proportionally and under the same conditions by the credit institutions and the State (recital (19)). Furthermore, when the size of the loan decreases over time, the guaranteed amount decreases proportionally (recital (19)). The measure therefore complies with point 25(f) of the Temporary Framework.
- The guarantee relates to a working capital loan (recital (18)). The measure therefore complies with point 25(g) of the Temporary Framework.
- The guarantee is granted to an undertaking that was not already in difficulty on 31 December 2019 (recital (12)). The measure therefore complies with point 25(h) of the Temporary Framework.
- The Finnish authorities have confirmed that they will respect the monitoring and reporting rules laid down in Section 4 of the Temporary Framework (recital (28)).
- The applicable cumulation rules are respected (recitals (25) to (27)).
- As stated in recitals (13) and (16), without the State guarantee, Finnair would have not obtained the same loan amount from the Pension Fund. In addition, the service fee and the interest rate charged by the Pension fund on the Loan granted to Finnair are well below those that Finnair would pay on the market to obtain a similar loan without State guarantee. The measure provides therefore sufficient safeguards to ensure that the advantage is passed on to the largest extent possible to the final beneficiary in the form of higher volumes of financing and lower interest rates. The measure therefore complies with section 3.4 of the Temporary Framework.
- Lastly, the mobilisation of the guarantee is contractually linked to specific conditions that have to be agreed between the parties when the guarantee is initially granted (recital (22)).

4. COMPLIANCE WITH INTRINSICALLY LINKED PROVISIONS OF DIRECTIVE 2014/59/EU AND REGULATION (EU) 806/2014.

(54) Without prejudice to the possible application of Directive 2014/59/EU on bank recovery and resolution (“BRRD”)¹⁸ and of Regulation (EU) 806/2014 on the

¹⁸ OJ L 173, 12.6.2014, p. 190-348.

Single Resolution Mechanism (“SRMR”)¹⁹, in the event that an institution benefiting from the measures meets the conditions for the application of that Directive or of that Regulation, the Commission notes that the notified measure does not appear to violate intrinsically linked provisions of the BRRD and the SRMR.

- (55) In particular, aid granted by Member States to non-financial undertakings as final beneficiaries under Article 107(3)(b) TFEU in line with the Temporary Framework, which is channeled through credit institutions or other financial institutions as financial intermediaries, may also constitute an indirect advantage to those institutions.²⁰ Nevertheless, any such indirect aid granted under the measure does not have the objective of preserving or restoring the viability, liquidity or solvency of the Pension fund. The objective of the measure is to remedy the liquidity shortage faced by a specific undertaking, Finnair, that is not a financial institution and to ensure that the disruptions caused by the COVID-19 outbreak do not undermine the viability of such undertaking. As a result, aid granted under the measure does not qualify as extraordinary public financial support under Art. 2(1) No 28 BRRD and Art. 3(1) No 29 SRMR.
- (56) Moreover, as indicated in recital (53) above, the measure introduces safeguards in relation to any possible indirect aid in favour of the Pension fund to limit undue distortions to competition. Such safeguards ensure that the Pension fund, to the largest extent possible, passes on the advantages provided by the measure to the final beneficiary.
- (57) The Commission therefore concludes that the measure does not violate any intrinsically linked provisions of the BRRD and the SRMR.

5. CONCLUSION

The Commission has accordingly decided not to raise objections to the aid on the grounds that it is compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union.

If this letter contains confidential information that 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: <http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Your request should be sent electronically to the following address:

¹⁹ OJ L 225, 30.7.2014, p. 1-90.

²⁰ Points 6 and 29 of the Temporary Framework.

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Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
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EUROPEAN COMMISSION