EUROPEAN COMMISSION

Brussels, 23.12.2020
C(2020) 9644 final

PUBLIC VERSION

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Subject: State Aid SA.60374 (2020/N) – Czechia
Second amendment to SA.57094 (2020/N) - COVID-19 Loan guarantee scheme

Excellency,

1. PROCEDURE

(1) By electronic notification of 17 December 2020, Czechia notified an amendment to the aid scheme SA.57094 (2020/N) which the Commission had approved on 5 May 2020 and subsequently amended under SA.58015 (2020/N), as approved on 20 July 2020. The original aid scheme and the amendment were approved under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, as amended ("the Temporary Framework").[1]

[1] Communication from the Commission - Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak, OJ C 91I, 20.3.2020, p. 1, as amended by Communication from the Commission C(2020) 2215 final of 3 April 2020 on the Amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, OJ C 112I , 4.4.2020, p. 1,by Communication from the Commission C(2020) 3156 final of 8 May 2020 on the Amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, OJ C 164, 13.5.2020, p. 3, by Communication from the Commission C(2020) 4509 final of 29 June 2020 on the Third Amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, OJ C 218, 2.7.2020, p. 3 and by Communication from the Commission C(2020) 7127 final of 13 October 2020 on the Fourth Amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak and amendment to the Annex to the Communication from the Commission to the Member States on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to short-term export-credit insurance, OJ C 340 I, 13.10.2020, p. 1.

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(2) Czechia exceptionally agrees 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 1/1958[2] and to have this Decision adopted and notified in English.

2. DESCRIPTION OF THE MEASURE

(3) The Czech authorities wish to amend the existing aid scheme SA.57094 (2020/N) "Loan guarantee scheme for exporting large undertakings[3]" ("the existing aid scheme") approved by Decision C(2020) 3040 final of 5 May 2020 ("the decision of 5 May 2020"), as amended by Decision SA.58015 (2020/N) approved on 20 July 2020.

(4) The objective of the existing aid scheme is to ensure sufficient liquidity for exporting large undertakings that were affected by the COVID-19 outbreak. The notified amendment pursues the same objective.

(5) The legal bases for the existing aid scheme are specified in recital (10) of the decision of 5 May 2020 and in recital (5) of the decision of 20 July 2020. An additional legal basis is relevant for the notified amendment:

- Government Decree, to be published, which amends Government Decree No. 308/2020 Coll., and Government Decree No. 215/2020 Coll. On Implementation of Certain Provisions of the Act on Insurance and Financing of Exports with State Support, as amended.

(6) On 13 October 2020, the Commission adopted a Communication[4] prolonging the validity of the Temporary Framework, which would otherwise expire at the end of 2020, and expanding its scope. Following the prolongation of the Temporary Framework, Czechia wishes to extend the duration of the amended scheme until 30 June 2021. All the references to the date 31 December 2020 in the decision of 5 May 2020 are replaced by 30 June 2021.

(7) Czechia also wishes to introduce the following changes in the terms of the guarantees:

(a) The maximum guarantee duration will be extended from three to six years for working capital loans and from five to six years for investment loans.

(b) The maximum coverage of the guarantee provided will be increased from 80% to 90% of the loan principal for beneficiaries with a credit rating by EGAP of B or higher, and from 70% to 80% of the loan principal for beneficiaries with a credit rating by EGAP of B-.

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

[3] Large enterprises are defined as undertakings with 250 employees or more.

[4] Communication from the Commission C(2020) 7127 final of 13 October 2020 on the Fourth Amendment of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak and amendment to the Annex to the Communication from the Commission to the Member States on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to short term export-credit insurance.

(c) The applicable guarantee premiums will be as follows:

Rating of the undertaking	Guarantee coverage	Guarantee premium for 1st year (p.a.)	Guarantee premium for 2nd and 3rd years (p.a.)	Guarantee premium for 4th – 6th (p.a.)
B+ and higher	90%	0,50%	1,00%	2,00%
B	90%	0,68%	1,35%	2,00 %
B-	80%	1,30%	2,00%	2,25 %

(8) As regards the additional condition described in recital (29) of decision SA.57094, the caps for the interest rate margins to be charged by the financial intermediaries are lowered. The financial intermediaries are required to set the caps on interest rate margins at:

(a) 1.5% per annum for loans with maturity of up to one year,

(b) 1.75% per annum for loans with maturity of up to three years, and

(c) 3.00% per annum for loans with maturity of up to six years.

(9) All the other conditions of the existing aid scheme, as described in the decision of 5 May 2020 and amended by the decision of 20 July 2020, remain unchanged.

3. Assessment

3.1. Lawfulness of the measure

(10) By notifying the amendment before putting it into effect, the Czech authorities have respected their obligations under Article 108(3) TFEU.

3.2. Existence of State aid

(11) 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.

(12) The Commission’s decision of 5 May 2020 concludes that the measure constitutes aid within the meaning of Article 107(1) TFEU and the amendment decision of 20 July 2020 does not change that conclusion (recital (11)). The notified amendments, which mainly provide the possibility to set six years as maximum maturity of the loan, adapt the respective guarantee premiums and lower the maximum interest margin caps to be charged by the financial intermediaries (see recitals (7) and (8) above), do not affect that conclusion.. The Commission therefore refers to the assessment contained in recitals (34) to (39) of the decision of 5 May 2020, which applies also to this amendment.

3.3. Compatibility

(13) Since the amended scheme involves aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether that measure is compatible with the internal market.

(14) 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*".

(15) By adopting the Temporary Framework on 19 March 2020, the Commission acknowledged (in 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*".

(16) The objective of the scheme remains unchanged and continues complying with Section 2 of the Temporary Framework.

(17) The Commission refers to its analysis of compatibility as set out in recitals (43) to (46) of the decision of 5 May 2020 and in recitals (16) and (17) of the decision of 20 July 2020, with the exception of compliance with points 25 (a), (c) and (f) and points 29 to 31 of the Temporary Framework.

(18) The amended measure is valid until 30 June 2021 and aid can be granted until that date at the latest (recital (6)). The amended measure therefore complies with all the conditions in point 25 (c) of the Temporary Framework.

(19) Czechia amends the maximum guarantee durations, guarantee coverages and accordingly the guarantee premiums (recital (7)):

(a) The duration of guarantees is limited to six years (recital (7)(a)), in line with point 25(f) of the Temporary Framework.

(b) As described in recital (7)(b), the maximum coverage of the guarantee is set at 90% of the underlying loan for beneficiaries. This is in line with point 25 (f) of the Temporary Framework.

(c) The amended measure sets minimum levels for guarantee premiums for large enterprises (recital (7)(c)) in line with point 25(a) of the Temporary Framework, while there is no modulation under point 25(b) of the Temporary Framework.

(20) Czechia intends to lower the cap for interest credit margins that financial intermediaries can charge to final beneficiaries (recital (8)). This amendment, together with the provisions already foreseen in this respect by the decision of 5 May 2020 (recitals (20), (27) and (29)) contributes to ensure that the commercial banks, to the largest extent possible, pass on the advantages of the measure to the final beneficiaries. The amended measure therefore remains compliant with points 29 to 31 of the Temporary Framework, as already assessed in recital (46) of the decision of 5 May 2020.

(21) Apart from the modifications referred to in recitals (6), (7) and (8) above, the Commission notes that there are no other alterations to the existing aid scheme (recital (9)). Consequently, the notified amendments to the existing aid scheme do not alter the finding of compliance of the scheme with the remainder of the conditions set out in Section 3.2 of the Temporary Framework.

(22) The Commission accordingly considers that the notified amendment does not alter the Commission's conclusions on the compatibility of the existing aid scheme. Therefore, the amended scheme remains necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State and meets all the conditions of the Temporary Framework.

4. 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.

The decision is based on non-confidential information and is therefore published in full on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

CERTIFIED COPY
For the Secretary-General

Martine DEPREZ
Director
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