State aid: Commission approves French guarantee scheme mobilising up to €20 billion support from private investors for companies affected by coronavirus outbreak

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The European Commission has approved, under EU State aid rules, a French State guarantee scheme to support the economy in the context of the coronavirus outbreak. The scheme aims to provide long-term funding to companies and thereby facilitate new investments supporting recovery from the current economic crisis.

Executive Vice-President Margrethe **Vestager**, in charge of competition policy, said: "*This French guarantee scheme will support small, medium and mid-cap businesses affected by the coronavirus outbreak and will help them continue their activities despite the current economic uncertainty. By mobilising up to €20 billion support from private investors in the form of participating loans and subordinated debt, the guarantee scheme will help mitigate the economic impact of the coronavirus outbreak by crowding in private investments. We continue working in close cooperation with Member Stats to ensure that national support measures can be put in place as quickly and effectively as possible, in line with EU rules*."

The French support measure

France notified to the Commission a guarantee scheme to support companies in the context of the coronavirus outbreak. The support takes the form of a State guarantee on private investment vehicles, funded by private investors, that will acquire participating loans distributed by commercial banks as well as subordinated bonds, thereby improving their capital position. The scheme will be accessible to small and medium-sized enterprises and midcaps on the basis of the submission of an investment plan and minimum credit ratings.

The French scheme is expected to mobilise up to €20 billion of private long term funding to support for companies affected by the economic impact of the coronavirus outbreak.

The State guarantee will cover up to 30% of the portfolio of participating loans and subordinated bonds acquired by the private investment vehicles and is calibrated to ensure that the risk borne by the private investors remains limited, in line with an investment grade credit rating, thus incentivising private investors (such as insurance companies, pension funds and asset management companies) to channel funding to the real economy. The participating loans and subordinated bonds eligible under the scheme must: (i) be issued before 30 June 2022, (ii) be used to finance investments and not pre-existing debt, (iii) have a maturity of 8 years, with a 4-year grace period on principal repayments.

The Commission assessed the measure under EU State aid rules, and in particular Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU), which enables the Commission to approve State aid measures implemented by Member States to remedy a serious disturbance to their economy.

The Commission found that the French scheme is in line the principles set out in the EU Treaty and is well targeted to remedy to a serious disturbance to the French economy.

In particular, the French scheme is designed to address risks related to the inability of companies to invest due to the long-lasting economic impact of the coronavirus outbreak and the related uncertainties. The Commission found that the measure is strictly necessary to achieve its objective: (i) the scheme relies on an important involvement of private stakeholders, as financing providers and intermediaries, aimed at minimising the use of public support; (ii) the features of the State guarantee are limited to the amount necessary to attract investors by adjusting the risk profile of their investments; and (iii) the choice of long term subordinated instruments aims at making the scheme attractive and effectively used by final beneficiaries, offering them time to properly develop their activity over the years to come. The Commission also noted that the structure of the scheme and the constraints related to its deployment would warrant a granting period lasting until end-June 2022.

Finally, the Commission concluded that the measure is proportionate, having regard in particular to the criteria used to define the eligible companies, the remuneration of the State guarantee and the maximum amounts of aided instruments per beneficiary.

The Commission therefore concluded that the measure will contribute to managing the economic impact of the coronavirus in France. It is necessary, appropriate and proportionate to remedy a serious disturbance in the economy of a Member State, in line with Article 107(3)(b) TFEU and the general principles set out in the Temporary Framework.

On this basis, the Commission approved the measure under EU State aid rules.

Background

In case of particularly severe economic situations, such as the one currently faced by all Member States due the coronavirus outbreak, EU State aid rules allow Member States to grant support to remedy a serious disturbance to their economy. This is foreseen by Article 107(3)(b) TFEU of the Treaty on the Functioning of the European Union.

On 19 March 2020, the Commission adopted a State aid Temporary Framework based on Article 107(3)(b) TFEU to enable Member States to use the full flexibility foreseen under State aid rules to support the economy in the context of the coronavirus outbreak. The Temporary Framework, as amended on 3 April, 8 May, 29 June, 13 October 2020 and 28 January 202, provides for the following types of aid, which can be granted by Member States:

(i) **Direct grants, equity injections, selective tax advantages and advance payments** of up to €225,000 to a company active in the primary agricultural sector, €270,000 to a company active in the fishery and aquaculture sector and €1.8 million to a company active in all other sectors to address its urgent liquidity needs. Member States can also give, up to the nominal value of €1.8 million per company zero-interest loans or guarantees on loans covering 100% of the risk, except in the primary agriculture sector and in the fishery and aquaculture sector, where the limits of €225,000 and €270,000 per company respectively, apply.

(ii) **State guarantees for loans taken by companies** to ensure banks keep providing loans to the customers who need them. These state guarantees can cover up to 90% of risk on loans to help businesses cover immediate working capital and investment needs.

(iii) **Subsidised public loans to companies (senior and subordinated debt)** with favourable interest rates to companies. These loans can help businesses cover immediate working capital and investment needs.

(iv) **Safeguards for banks that channel State aid to the real economy** that such aid is considered as direct aid to the banks' customers, not to the banks themselves, and gives guidance on how to ensure minimal distortion of competition between banks.

(v) **Public short-term export credit insurance** for all countries, without the need for the Member State in question to demonstrate that the respective country is temporarily "non-marketable".

(vi) **Support for coronavirus related research and development (R&D)** to address the current health crisis in the form of direct grants, repayable advances or tax advantages. A bonus may be granted for cross-border cooperation projects between Member States.

(vii) **Support for the construction and upscaling of testing facilities** to develop and test products (including vaccines, ventilators and protective clothing) useful to tackle the coronavirus outbreak, up to first industrial deployment. This can take the form of direct grants, tax advantages, repayable advances and no-loss guarantees. Companies may benefit from a bonus when their investment is supported by more than one Member State and when the investment is concluded within two months after the granting of the aid.

(viii) **Support for the production of products relevant to tackle the coronavirus outbreak** in the form of direct grants, tax advantages, repayable advances and no-loss guarantees. Companies may benefit from a bonus when their investment is supported by more than one Member State and when the investment is concluded within two months after the granting of the aid.

(ix) **Targeted support in the form of deferral of tax payments and/or suspensions of social security contributions** for those sectors, regions or for types of companies that are hit the hardest by the outbreak.

(x) **Targeted support in the form of wage subsidies for employees** for those companies in sectors or regions that have suffered most from the coronavirus outbreak, and would otherwise have had to lay off personnel.

(xi) **Targeted recapitalisation aid** to non-financial companies, if no other appropriate solution is available. Safeguards are in place to avoid undue distortions of competition in the Single Market: conditions on the necessity, appropriateness and size of intervention; conditions on the State's entry in the capital of companies and remuneration; conditions regarding the exit of the State from the capital of the companies concerned; conditions regarding governance including dividend ban and remuneration caps for senior management; prohibition of cross-subsidisation and acquisition ban and additional measures to limit competition distortions; transparency and reporting requirements.

(xii) **Support for uncovered fixed costs** for companies facing a decline in turnover during the eligible period of at least 30% compared to the same period of 2019 in the context of the coronavirus outbreak. The support will contribute to a part of the beneficiaries' fixed costs that are not covered by their revenues, up to a maximum amount of €10 million per undertaking.

The Commission will also enable Member States to convert until 31 December 2022 repayable instruments (e.g. guarantees, loans, repayable advances) granted under the Temporary Framework into other forms of aid, such as direct grants, provided the conditions of the Temporary Framework are met.

The Temporary Framework enables Member States to combine all support measures with each other, except for loans and guarantees for the same loan and exceeding the thresholds foreseen by the Temporary Framework. It also enables Member States to combine all support measures granted under the Temporary Framework with existing possibilities to grant de minimis to a company of up to €25,000 over three fiscal years for companies active in the primary agricultural sector, €30,000 over three fiscal years for companies active in the fishery and aquaculture sector and €200,000 over three fiscal years for companies active in all other sectors. At the same time, Member States have to commit to avoid undue cumulation of support measures for the same companies to limit support to meet their actual needs.

Furthermore, the Temporary Framework complements the many other possibilities already available to Member States to mitigate the socio-economic impact of the coronavirus outbreak, in line with EU State aid rules. On 13 March 2020, the Commission adopted a Communication on a Coordinated economic response to the COVID-19 outbreak setting out these possibilities.

For example, Member States can make generally applicable changes in favour of businesses (e.g. deferring taxes, or subsidising short-time work across all sectors), which fall outside State Aid rules. They can also grant compensation to companies for damage suffered due to and directly caused by the coronavirus outbreak.

The Temporary Framework will be in place until the end of December 2021. With a view to ensuring legal certainty, the Commission will assess before this date if it needs to be extended.

The non-confidential version of the decision will be made available under the case number SA.58639 in the State aid register on the Commission's competition website once any confidentiality issues have been resolved. New publications of State aid decisions on the internet and in the Official Journal are listed in the Competition Weekly e-News.

More information on the temporary framework and other action the Commission has taken to address the economic impact of the coronavirus pandemic can be found here.

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Press contacts:

Arianna PODESTA (+32 2 298 70 24)
Giulia ASTUTI (+32 2 295 53 44)
Maria TSONI (+32 2 299 05 26)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email