EUROPEAN COMMISSION

Brussels, 12 May 2009

C(2009) 3809 final

In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […].

PUBLIC VERSION

WORKING LANGUAGE

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Subject: **State Aid N251/2009 — French Republic**
Extension of the refinancing scheme for financial institutions

Sir,

I. PROCEDURE

(1) On 28 October 2008, France's financial authorities notified the Commission of an aid scheme to refinance financial institutions in France. The legal basis of this scheme is Article 6 of the 2008 Finance (Amendment) Act pertaining to the financing of the economy (Law No 2008-1061 of 16 October 2008).

(2) By decision of 30 October 2008[1], the Commission decided to view the scheme in question as a state aid scheme compatible with the common market under the exception provided for by Article 87(3)(b) of the EC Treaty.

(3) On 22 April 2009, in accordance with their undertakings, the French authorities sent the Commission a report on the application of the scheme after six months of existence. In that letter, the French authorities also submitted a request for authorisation to extend the application of the scheme for a further six-month period.

[1] State aid N548/2008 – Decision C(2008) 6617 of 30 October 2008, yet to be published (since the adoption of the present decision, the decision concerned has been published in the Official Journal: C 123, 3.6.2009, p. 1).

Mr Bernard Kouchner,
Minister for Foreign Affairs
37 Quai d'Orsay
75007 Paris

European Commission, 1049 Brussels, Belgium
Tel.: 00 32 (0) 2 299.11.11.

II. Description of the scheme

1. Objectives

(4) In a context of stasis in the financial markets, the scheme established allows for state intervention to set up a refinancing mechanism for credit institutions and thereby meet the need for refinancing which is not satisfied by the short-term mechanisms set up by the European Central Bank and the Eurosystem.

2. Description of the scheme (Commission decision of 30 October 2008)

(5) The *Société de financement de l'économie francaise* (funding entity for the French economy, hereinafter the SFEF), which is 34% held by the State and 66% by private banks, issues state-guaranteed securities and uses the funds generated to refinance credit institutions authorised to operate in France which meet the capital requirements established by the Monetary and Financial Code; in exchange for the sums lent and securities subscribed by the SFEF, the credit institutions transfer to it as collateral eligible loan outstandings within the terms of the legislation[2]. Those credit institutions must also remunerate the SFEF and subscribe to behavioural commitments in agreements made with the entity.

(6) The State guarantees debt securities issued by the SFEF before 31 December 2009 for a maximum duration of five years and a maximum amount of €265 billion. The loans granted by the SFEF and the securities it subscribes or acquires are of a maximum maturity of five years and the total volume of loans granted or securities subscribed or acquired by the SFEF cannot exceed 30% of total outstandings without the prior consent of the Commission.

(7) Remuneration of the state guarantee by beneficiary banks is in accordance with the Eurosystem recommendations of 20 October 2008:

- an annual flat-rate premium of 20 basis points;
- plus an add-on equivalent to the five-year value of the CDS of each credit institution or a default value treated as such for the period from 1 January 2007 to 31 December 2008.

(8) All the beneficiary institutions undertake to make use of the liquidities supplied by the scheme to finance the 'real economy'. In this respect, a target was set of sustained annual growth of 3-4% in overall loan outstandings to the French economy between the date when each beneficiary institution signs the agreement with the State and 31 December 2009.

(9) The total amount of refinancing from which a bank may benefit cannot exceed the greater of the two following amounts: 5% of its balance sheet total or €500 million. In the event of this threshold being exceeded, the French authorities

[2] 2008 Finance (Amendment) Act pertaining to the financing of the economy (No 2008-1061) of 16 October 2008 and the Finance (Amendment) Acts for 2009 (No 2009-122) of 4 February 2009 and 20 April 2009 (currently in the process of being published).

have undertaken to inform the Commission and notify it of an individual aid award.

3. Report on the financing operations carried out since 30 October 2008

(10) Since the scheme was established, the SFEF has issued €49 billion worth of bonds (€35 billion and $18.5 billion), with maturities ranging from 15 months to five years by way of public and private issues:

- an issue of €5 billion of promissory notes via the Caisse des Dépôts et des Consignations for a loan redeemed on 19 December 2008;

- €33 billion and $15.5 billion were raised through nine public bond issues;

- two private bond issues were also carried out for amounts of €2 billion and $3 billion respectively.

(11) At present, refinancing for maturities of more than three years accounts for €10 billion, i.e. 20.4% of the SFEF's loan outstandings, in accordance with France's undertaking not to exceed the limit of 30% of outstanding loans.

(12) To date, 13 institutions have benefited from loans from the SFEF. The major beneficiaries, accounting for 80% of the total loans granted by the banking sector, are BNP, Banques Populaires, Caisses d'Epargne, Crédit Agricole, Crédit Mutuel and Société Générale, but Crédit Immobilier de France and the lending arms of France's two carmakers, Renault and PSA Peugeot-Citroën, have also benefited from the scheme.

(13) The vast majority of the proceeds of each issue were allocated to the participating banks according to an allocation scheme agreed by the Board of Directors of the SFEF, weighted for [...]%* by their share of outstandings to French clients and for [...]% on the capital of each beneficiary (a 'key measure'). On 15 April 2009, the effective breakdown was as follows: […]

(14) As an exception to the above breakdown on the basis of the key measure, the Government Commissioner requested the use of €[...] billion of the reserve. Loans approved in this context by the Board of Directors of the SFEF represent [...]% of the SFEF's securities, in accordance with the limit of [...]% to which the French authorities committed themselves and which was accepted by the Commission in its Decision of 30 October.

(15) The use of the reserve was aimed at supporting the supply of credit in the motor vehicle sector, with the banking subsidiaries of the major French carmakers as the beneficiaries: […].

(16) The premiums paid by the banks benefiting from the scheme in exchange for the state guarantee were paid up front, after discounting, by subtraction from the loans granted, giving a total of €[...] million.

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* Confidential information

(17) Finally, growth of the total outstanding loans of the beneficiary banks of the SFEF refinancing mechanism stood at 7.2% in February in relation to February 2008, i.e. at a significantly higher level than the 3-4% growth undertaking.

III. POSITION OF THE FRENCH AUTHORITIES

(18) The French authorities emphasise the persistence of pressure on medium-term refinancing for banks conducting issues without a public guarantee, as well as the uncertainty, at this stage, concerning the onset of easing in the financial markets. In their view, a six-month extension of the refinancing scheme for financial institutions is necessary.

IV. ASSESSMENT OF THE SCHEME

1. Aid nature of the measures assessed

(19) As it indicated in its decision of 30 October 2008, the Commission is of the opinion that in the case of the refinancing scheme notified to it, the cumulative conditions of Article 87(1) of the EC Treaty have been met, namely that: (1) the measure in question confers an advantage through state resources; (2) the advantage is selective; and (3) the measure distorts or threatens to distort competition and is capable of affecting trade between Member States.

(20) The French authorities seek the extension of this scheme in view of the persistence of the market conditions which heralded its establishment; the Commission's analysis of the nature of the measure has not changed and the extension of the scheme must therefore be viewed as state aid within the meaning of Article 87(1) of the EC Treaty.

2. Compatibility of extension of the scheme with the common market

(21) For the reasons given in its decision of 30 October 2008, the Commission views the French scheme for refinancing financial institutions as a state aid scheme compatible with the common market under the exception provided for by Article 87(3)(b) of the EC Treaty.

(22) The Commission notes that the global financial crisis which prompted the establishment of the refinancing scheme for financial institutions continues and acknowledges that the exceptional conditions which still prevail in the financial markets pose a risk of serious disturbance to the French economy.

(23) Since the request to extend the scheme is devoid of any changes liable to alter its compatibility with the common market, the Commission has no objection to its extension.

V. CONCLUSION

The Commission has therefore decided not to raise any objection to the extension notified to it of the refinancing scheme for financial institutions.

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

- European Commission
  Directorate-General for Competition
  State Aid Registry
  SPA3 6/5
  B-1049 Brussels
  Fax No: +32 2 296 12 42

Yours faithfully,

For the Commission

Neelie KROES

Member of the Commission