EUROPEAN COMMISSION

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SENSITIVE[*]: *COMP Operations*

Subject: **State Aid SA.58540 (2020/N) – Lithuania**
COVID-19: Trade credit insurance portfolio guarantee scheme

Excellency,

1. PROCEDURE

(1) By electronic notification of 2 September 2020, Lithuania notified a trade credit insurance portfolio guarantee scheme (“the measure”) pursuant to Article 108(3) of the Treaty on the Functioning of the European Union (“TFEU”). The notification was completed by further submission of information on 29 October 2020 and 1 December 2020.

(2) Lithuania exceptionally agrees to waive its rights deriving from Article 342 TFEU, in conjunction with Article 3 of Regulation 1/1958[1] and to have this decision adopted and notified in English.

2. DESCRIPTION OF THE MEASURE

(3) Lithuania considers that the COVID-19 outbreak has affected the real economy and that the extreme contraction or even collapse in the economic activity and trade due to the COVID-19 outbreak may soon generate significant liquidity gaps for a large number of non-financial corporations. Liquidity being a key risk driver in credit worthiness assessment, the Lithuanian authorities expect a crunch in corporate borrowing opportunities and credit limits covered by credit insurance companies, even for borrowers with acceptable solvency.

* Handling instructions for SENSITIVE information are given at https://europa.eu/!db43PX

1 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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(4) Lithuania reports that the COVID-19 outbreak has already led to significant reductions of trade credit limits in the period from 1 April 2020 to 1 September 2020, impacting negatively Lithuanian companies. Trade credit insurers tightened the conditions for insured turnover, resulting in the decrease of insurance limits, and granted fewer new limits. The Lithuanian authorities estimate that ca. 20-25% of requests for new credit limits have been declined and the overall portfolio of credit limits decreased by ca. 29 % in the period from 1 April 2020 to 1 September 2020.

(5) Lithuania further reports that the volume of credit limits has decreased significantly for domestic buyers compared to the buyers in other Member States, which benefitted from State aid measures in their Member States.

(6) The Lithuanian authorities further report that the reduction of insurance limits had a significant impact on the decrease of the Lithuanian banks' factoring portfolios, which decreased by 50% in the second quarter of 2020 compared to the end of 2019. Non-bank factoring providers also saw a reduction of credit limits to their customers and reported that a large number of companies do not receive new limits.

(7) The measure forms part of an overall package of measures adopted by the Lithuanian authorities and aims to ensure that sufficient liquidity remains available in the market, to counter the liquidity shortage faced by undertakings because of the COVID-19 outbreak, to ensure that the disruptions caused by the outbreak do not undermine the viability of the undertakings and thereby to preserve the continuity of economic activity during and after the outbreak. In particular, its objective is to ensure the availability of the trade credit insurance to all companies of the real economy so that buyers of goods or services avoid paying in advance for goods or services, creating immediate liquidity needs, and that sellers or service providers can continue to market their products.

(8) The measure is based on Article 107(3)(b) TFEU to remedy a serious disturbance in the Lithuanian economy. The Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak ("the Temporary Framework")[2] is not applicable, because guarantees on credit insurance activities are not covered therein. However, the measure is designed in analogy to the principles set out in the Temporary Framework.

2.1. The nature and form of the measure

(9) The measure takes the form of capped portfolio guarantees granted to the participating trade credit insurers for the coverage of the losses related to insured eligible trade credit insurance portfolios.

[2] 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. 1-9), as amended on 3 April 2020 (OJ C 112I, 4.4.2020, p. 1–9), on 8 May 2020 (OJ C 164, 13.5.2020, p. 3–15), on 29 June 2020 (OJ C 218, 2.7.2020, p. 3–8) and on 13 October 2020 (OJ C 340 I, 13.10.2020, p. 1-10).

2.2. Legal basis

(10) The legal basis for the measure is the *Order of the Minister of Economy and Innovation of the Republic of Lithuania Regarding The Confirmation Of The Incentive Financial Instrument Trade Credit Insurance Portfolio Guarantee Scheme*.

2.3. Administration of the measure

(11) Investicijų Ir Verslo Garantijos ("INVEGA"), the Lithuanian national promotional bank, is responsible for administering the measure on behalf of the Ministry of Economy and Innovation of the Republic of Lithuania.

(12) The measure will be implemented by way of guarantee agreements between INVEGA and the participating trade credit insurers. These guarantee agreements have not been concluded yet.

2.4. Relevant context of the measure

(13) Trade credit insurance is a risk management product offered to all types of companies wishing to protect their accounts receivable from losses due to credit risks. In the absence of such products, sellers of goods or services may ask buyers to switch to paying in advance or at the time of delivery, which would have a direct impact on the ability of sellers to continue their business as usual. It would also have an indirect impact on the liquidity requirements of buyers up to a point where business activities may cease if liquidity were to be unavailable or too costly. This again would hurt suppliers. Hence, reduced availability of limits of insurance coverage, would further weaken the resilience of the economy in the face of the COVID-19 outbreak.

(14) An important function of the trade credit products that insurers offer to the policy holders (the sellers of goods or providers of services) lies in the capacity of the insurers to constantly monitor the creditworthiness of buyers and immediately alert the policyholder of a deterioration of this creditworthiness. In the event of a creditworthiness downgrade of a buyer, the credit insurance can thus immediately reduce the limit assigned to that buyer, up to the point that the buyer could be asked for an up-front payment. In normal times, this risk-monitoring function is relevant for policyholders, since in all trade credit insurance contracts, the policyholder still retains at least 5% of the amount of receivables on their own risk.

(15) At the end of 2019, the total amount of outstanding trade credit limits of the main Lithuanian private trade credit insurers was around EUR 4 billion. Premiums collected in 2019 amounted to EUR 12 million and the ratio of losses to premiums has been around 52 %. The Lithuanian authorities consider it difficult to estimate the exact effect of the COVID-19 crisis on the ratio of losses due to its unprecedented nature and the significant deterioration of the crisis. They estimate that the ratio of losses to premiums could increase to 200-300%, or even to a much higher level, in 2021.

(16) Due to the recent surge in COVID-19 infections and the imposition of lockdown measure in Lithuania and around the world, the Lithuanian authorities report that Lithuanian companies face significant liquidity problems and cannot obtain trade credit insurance without the measure.

2.5. Sectoral and regional scope of the measure

(17) The measure is open to all trade credit insurers legally authorised to operate in Lithuania that were not already in difficulty within the meaning of the General Block Exemption Regulation ("GBER")[3] on 31 December 2019. The Lithuanian authorities have already confirmed that the two largest Lithuanian trade credit insurers, which together hold ca. 65% of the market, would participate in the measure.

(18) Eligible insurance policyholders are legal entities that operate in Lithuania[4]. Policyholders that have received State aid illegally and that have not fully repaid any illegal State aid are not eligible.

(19) The measure covers trade credits provided to buyers of goods, services or works, which can be Lithuanian or foreign legal entities and which meet the requirements set in internal risk assessment of trade credit insurers.

2.6. Budget and duration of the measure

(20) The budget of the measure is EUR 90 million.

(21) Support under the measure may be granted as of the date of the notification of the Commission's decision and until 30 June 2021.

(22) The measure will concern exclusively risks arising from short-term trade credit up to a maturity of 24 months granted by insurance policyholder to a buyer in connection with invoices for the sale of goods or services that were issued between 1 January 2021 and 30 June 2021. The latest date by which losses on those trade credits can be covered is 30 June 2025[5].

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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 The policyholder is considered to be operating in Lithuania if it creates jobs in Lithuania or pays taxes or contributions arising from its activities to the budget of the Republic of Lithuania or to the State Social Insurance Fund Board under the Ministry of Social Security and Labour. In case when the same insurance contract also covers several companies, these companies must be subject to the same policyholder eligibility conditions as the policyholder.

5 To the extent that the measure concerns agricultural products within the meaning of Annex 1 to the WTO Agreement on Agriculture, then as regards such products, the measure must comply with any relevant requirements of paragraph 15 of the WTO Ministerial Decision on Export Competition of 19 December 2015 (WT/MIN(15)/45 — WT/L/980) on maximum repayment term and self-financing.

2.7. Basic elements of the measure

(23) The capped guarantees will be granted in the name and on behalf of the Lithuanian State to the trade credit insurers participating in the measure. The guarantees will cover their losses related to insured eligible trade credit portfolios. The guarantees will cover up to 90% of the value of trade credits insured by the participating trade credit insurers in connection with the trade transactions carried out in the period described in recital (22).

(24) In any event, the maximum amount paid under the measure to each participating trade credit insurer will not exceed the ceiling allocated to it on the basis of its market share, in terms of outstanding limits as of 31 December 2019. Furthermore, participating credit insurers can individually receive not more than 40% of the budget of the measure.

(25) As a remuneration for the guarantee, the participating trade credit insurers will pay to the Lithuanian State the insurance premiums collected between 1 January 2021 and 30 June 2021.

(26) Lithuania submits that, by retaining an amount of 10% of losses in case of default, participating trade credit insurers will still have an incentive to provide an individualised credit risk assessment of buyers in a market logic, a function that is also vital for policyholders who also participate in potential losses.

(27) Participating trade credit insurers will receive a reimbursement for management costs, corresponding to 35% of premiums paid to the State. Lithuania has explained that the ratio of 35% is below the average cost ratio of the Lithuanian trade credit insurers.

(28) In exchange for the guarantee, participating trade credit insurers commit to restore, if the limits had been reduced, and then maintain the trade credit limits at their level that existed on 1 April 2020 for the entire duration of the scheme. A participating trade credit insurer can only reduce trade credit limits:

(a) when the participating trade credit insurer determines a significantly increased probability of insolvency of the buyer;

(b) when the participating trade credit insurer and the policyholder mutually agree on the reduction of the limit;

(c) when the policyholder has not used up the granted trade credit limit in the last 12 months or has used it only partially due to the reduced turnover with the buyer.

(29) Lithuania considers that the requirement for participating trade credit insurers to transfer all premiums, excluding the share of origination and management costs amounting to 35%, to the Lithuanian State in return for a guarantee is an important contribution. Lithuania also explains that the measure removes risks from the portfolios of the participating trade credit insurers, in exchange of their commitment to restore, if limits had been reduced, and maintain the existing trade credit limits. Trade credit insurers can usually manage their risk effectively by adjusting insurance limits for a given buyer for future trades as an immediate reaction to sudden credit risk changes as well as to their own capacity to bear risk

going forward. The participating credit insurers' commitment to refrain from using their normal risk adjustment techniques for the sake of a wider policy consideration to restore, if limits had been reduced, and maintain the existing trade credit limits, requires that they receive a partial guarantee on exposures in exchange.

2.8. Monitoring and reporting

(30) The Lithuanian authorities set up a reporting mechanism to monitor the compliance of the participating trade credit insurers with the principles laid out in guarantee agreements. The participating trade credit insurers must report to INVEGA information on outstanding limits per policyholder and information on the collected premium volumes on a quarterly basis. The Lithuanian authorities have the right to request from the participating trade credit insurers all the necessary documents and information at any time during the duration of the measure to verify whether a payment of the covered losses is eligible.

(31) Lithuania will publish information on the measure, specifying all applicable conditions, on the official website of INVEGA. At the latest on 30 June 2022, the Lithuanian authorities will provide a report to the Commission outlining how the measure was implemented and confirming that the conditions under which the State guarantee is granted have been respected by INVEGA and by the participating trade credit insurers.

3. ASSESSMENT

3.1. Lawfulness of the measure

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

3.2. Existence of State aid

(33) 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.

(34) The measure is imputable to the State, since it is granted by the Lithuanian national promotional bank INVEGA on behalf of the Lithuanian State (recital (11)) and is based on a national legal act (recital (10)). It is financed through State resources, since it is financed by public funds, i.e. by the funds of INVEGA and ultimately by the funds of the Lithuanian State (recitals (11) and (20)).

(35) The measure confers an advantage on the participating trade credit insurers as direct beneficiaries but entails design features to ensure that the advantage is as much as possible passed on to the wider economy (recital (9)). The measure removes risks from the portfolios of the participating trade credit insurers, in exchange of their commitment not to reduce the existing credit limits subject to limited exceptions as described in recital (28). Therefore, the measure allows participating trade credit insurers to operate in an improved economic

environment, as compared to the market conditions that would prevail absent that measure.

(36) The measure also positively impacts the non-financial sector, namely the policyholders, who are suppliers of goods and services and provide the trade credit to their buyers. Trading sellers will be able to continue using trade credit insurance without a reduction of the credit limits that would follow if the trade credit insurers were to set limits according to their usual underwriting principles in the face of continuing unprecedented uncertainties and major risks to the outlook for economic activity and for the functioning of the financial markets. The commitment not to reduce limits will avoid that buyers are faced with a demand for advance payment, adding to their existing liquidity crunch. In that way the measure also provides positive secondary effects to the wider economy.

(37) The advantage granted by the measure is selective, since it is awarded only to certain undertakings, in particular participating trade credit insurers (recitals (17)-(19)).

(38) The measure is liable to distort competition, since it strengthens the competitive position of the participating trade credit insurers. It also affects trade between Member States, since those beneficiaries are active in sectors in which intra-Union trade exists.

(39) In view of the above, the Commission concludes that the measure constitutes aid within the meaning of Article 107(1) TFEU. The Lithuanian authorities do not contest that conclusion.

3.3. Compatibility

(40) Since the measure involves aid within the meaning of Article 107(1) TFEU, it is necessary to consider whether that measure can be declared compatible with the internal market.

(41) 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*".

(42) By adopting the Temporary Framework, the Commission acknowledged 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*".

(43) The measure aims at facilitating trade between companies at a time when the normal functioning of markets, including the trade credit insurance market, is severely disturbed by the COVID-19 outbreak, and that outbreak is affecting the wider economy.

(44) While the Commission has provided guidance in the Temporary Framework as to when aid under Article 107(3)(b) TFEU can be declared compatible with the internal market in light of the current shock to the economy, the Temporary

Framework is not directly applicable to the measure proposed by Lithuania, as it does not cover guarantee of trade credit insurance.

(45) Therefore, the measure proposed by Lithuania has to be assessed based on general criteria for compatibility under Article 107(3)(b) TFEU. However, the Temporary Framework can provide general guidance and its principles can be applied *mutatis mutandis* as far as appropriate[6].

(46) The measure applies to overall portfolios of both domestic and export-related transactions within the same guarantee mechanism. The Commission therefore has to assess the overall measure under Article 107(3)(b) TFEU.

(47) As for any derogation from the prohibition on State aid enshrined in Article 107(1) TFEU, the compatibility exception pursuant to Article 107(3)(b) TFEU provision must be interpreted and applied restrictively. Such a strict application requires taking into account, in particular, the nature and the objective seriousness of the disturbance of the economy of the Member State concerned, on the one hand, and the appropriateness, necessity and proportionality of the aid to address it, on the other. It also requires taking into account the possibly systemic importance and position of the beneficiaries and the sector concerned and any safeguards proposed to avoid undue negative effects on competition and trade between Member States.

(48) As regards the part of the measure which concerns short-term export-credit risks, the Commission considers that all commercial and political risks associated with exports to the countries listed in the Annex to the Short-term export-credit Communication are temporarily non-marketable until 30 June 2021.[7] Consequently, as stated in point 29 of that Communication, there is in principle no obligation for Member States to notify reinsurance of short-term export-credit risks until 30 June 2021, provided that the conditions in Section 4.3 of the Short-term export-credit Communication are respected. Nevertheless, the Commission will also consider the respect of the relevant conditions in the Communication for the sake of completeness.

(49) For the avoidance of doubt, the Commission notes that the Banking Communication of 2013 (the "Banking Communication")[8] is not applicable to the measure, as the beneficiaries of the proposed measure are not credit institutions. The Commission considers further that it is also not appropriate to apply the principles of the Banking Communication by analogy to the current situation[9],

[6] This corresponds to the approach already applied in other trade credit schemes: DE (SA.56941), DK (SA.57112), BE (SA.57188), LU (SA.57708), NL (SA.57095), FR (SA.57607), UK (SA.57451), IT (SA.57937) and RO (SA.58531).

[7] 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 392, 19.12.2012, p. 1) as amended (OJ C 340I, 13.10.2020, p. 1.).

[8] Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis (OJ, C 216 of 30 July 2013, p. 1).

[9] See point (26) of the Banking Communication.

because the measure is not intended to address concerns related to financial stability or existing liquidity or solvency needs of the credit insurers. This is because the insurers could simply avoid assuming any further risks that may over-burden their capital position by withdrawing existing limits going forward. By incentivising participating credit insurers to uphold limits also in the future, the measure addresses the direct consequences of the COVID-19 outbreak in the real economy. As a result, applying the Banking Communication to the measure would not be appropriate.

3.3.1. Appropriateness

(50) In order to be appropriate, the aid has to be well targeted to its objective, i.e. in this case to remedy a serious disturbance in the Lithuanian economy. This would not be the case if the disturbance disappeared in the absence of the measure or if the measure were not appropriate to remedy the disturbance.

(51) The measure aims at restoring and maintaining credit limits by trade credit insurers and indirectly preventing liquidity shortages to companies at a time when the normal functioning of credit markets is severely disturbed by the COVID-19 outbreak. The ensuing economic shock is unprecedented and affects demand and supply at the same time. The Commission recognises that this outbreak is affecting the wider economy and leading to severe disturbances of the real economy of Member States. The measure is one of a series of measures conceived at national level by the Lithuanian authorities to remedy this serious disturbance in their economy. The importance of the measure to maintain credit limits during the COVID-19 outbreak has been emphasized by the Lithuanian authorities and the measure is of a scale which can be reasonably anticipated to produce effects across the entire Lithuanian economy.

(52) In addition, the measure is also unique as regards the direct beneficiaries and the specificities of the trade credit sector. Trade credit insurers can usually manage their risk effectively by adjusting insurance limits for a given purchaser for future trades as an immediate reaction to sudden credit risk changes as well as to their own capacity to bear risk going forward. Any measure that should have the intended effect needs to take this peculiarity into account, namely that the beneficiaries would not require support, unless they should be convinced to refrain from using their normal risk adjustment techniques for the sake of a wider policy consideration. Restoring and maintaining the trade credit limits is specifically the wider policy consideration in question here.

(53) The measure will be effective for the Lithuanian economy, as it is expected to be applied by at least the largest two trade credit insurers active in Lithuania, which account for a combined market share of approximately 65%. In addition, the measure is open to any other trade credit insurer authorised to operate in Lithuania (recital (17)).

(54) The Commission considers that the measure will thus allow the policyholders (suppliers) to be able to rely on the credit limits as they stood on 1 April 2020. This will allow them not to demand advance payments from the buyers, which will in turn alleviate and prevent liquidity needs for the buyers that have already and would likely occur in the absence of the measure.

(55) Furthermore, the Commission accepts that the serious disturbance in the Lithuanian economy due to the effects of the COVID-19 outbreak could worsen, if existing trade credit insurance limits were to be fully adapted to the unprecedented uncertainties and major risks to the outlook for economic activity. The impact on liquidity needs for purchasers that would be required to provide advance payments as well as the potential losses spreading on to suppliers would be significant, sudden and widespread across the whole economy. This restoring and upholding of limits available before the COVID-19 outbreak thus provides systemic stabilisation for the whole economy.

(56) The Commission notes that in order to benefit from the proposed measure, trade credit insurers have committed themselves to maintain or, if applicable, restore limits as they stood on 1 April 2020, subject to limited exceptions (recital (28)) and to monitoring by the Lithuanian State (recital (30)). The Commission therefore considers that the measure has the intended effect to stabilise the trade credit market in Lithuania and to avoid large-scale reductions of the trade credit limits in the face of unprecedented uncertainties and major risk to the outlook for economic activity, avoiding thereby the negative effects which would lead to a significant deterioration of the economic situation in Lithuania.

(57) In light of the above, the Commission considers that the measure proposed by Lithuania is appropriate, because it addresses the current malfunctioning of the credit insurance market with its associated imminent and serious risks of a significant further damage to the real economy of Lithuania.

3.3.2. Necessity

(58) In order to meet the compatibility criterion of necessity, the aid measure must in its amount and form be necessary to achieve its objective. That implies that it must be of the minimum amount necessary to reach this objective.

(59) It should be considered that the normal risk remediation technique the trade credit insurers would take in face of the unprecedented uncertainties and in absence of the measure – namely the significant de-risking going forward via reducing limits – is what the measure intends to avoid by implementing clear rules as described in recital (28) to which the participating trade credit insurers must adhere when considering limit reductions. The Commission understands that this measure is conditional upon obtaining the acceptance of those rules, and therefore the requirement to maintain credit limits by the insurers.

(60) Second, insurers already in difficulty on 31 December 2019 are excluded from participating in the measure, and risks related to debtors (buyers) for which the credit limit had been withdrawn before 1 April 2020 are also excluded. The Commission therefore considers that the measure is limited to the minimum necessary in that it only addresses companies affected by the COVID-19 outbreak.

(61) Third, the measure is limited in time and applies only to risks underwritten between 1 January 2021 and 30 June 2021 (see recital (22)). It is therefore limited to events that occurred after the COVID-19 outbreak.

(62) Fourth the coverage provided should be seen in relation to the remuneration provided. In return for the guarantee coverage, participating credit insurers will

transfer to INVEGA all of the insurance premiums collected between 1 January 2021 and 30 June 2021 less a share of 35% of those collected insurance premiums to cover their operating costs (recitals (25) and (27)). As explained by Lithuania, the cost compensation is also below the level of the average cost level of the Lithuanian trade credit insurers (see recital (27)). The remuneration thus results in the insurers passing on all of their profits net of operating cost on their activity for the first half of 2021 to the State even before the materialisation of any losses.

(63) Finally, the estimated maximum budget of the measure of EUR 90 million represents 2.25% of the total outstanding credit limits of EUR 4 billion. The estimated maximum budget of the measure represents the estimated maximum losses under the measure and implies an increase in losses by over 15 times in comparison to 2019[10]. In light of the current uncertainties, it cannot be excluded that such a significant increase in losses may be expected given the unprecedented economic impact of the COVID-19 outbreak. Therefore, the Commission considers the upper limit for loss coverage of this magnitude as justified.

(64) It should also be taken into account that the measure is in any case contingent upon actual losses in the real economy and will only be utilised in an exceptional situation. In the current unprecedented situation, any estimates of future economic activity and the evolution of insolvencies are still fraught with a high degree of uncertainty beyond the limits of traditional financial modelling. At this stage of the COVID-19 crisis, a quantification of default probabilities in the real economy is still difficult and subject to large variations. With this in mind, the Commission considers that the maximum amount of losses estimated to be EUR 90 million is justified to address the factual and unprecedented uncertainties in which insurers are operating and which requires a coverage also of less likely scenarios. The amount therefore appears justified to reach the intended result, namely to stabilise the trade credit insurance activity and to avoid negative effects leading to widespread reduction or cancellation of trade credit insurance limits of the real economy.

(65) Based on the above, it can be concluded that the measure is limited to the minimum amount and form necessary to achieve the objective pursued. No less distortive instrument is available that would be as effective.

3.3.3. Proportionality

(66) The positive effects of the measure must be properly balanced against the distortions of competition, in order for the distortions to be limited to the minimum necessary to reach the measure's objectives.

(67) The measure is designed in a way to keep market forces working under the safety net provided. By sharing losses and premiums, it is excluded that the participating private credit insurers conduct an adverse selection and transfer only bad risks to the State.

[10] Losses in 2019 amounted to ca. EUR 6.2 million (52% * EUR 12 million, see recital (15)).

(68) This model of sharing risks and return also ensures that the vital function of credit risk assessment provided by the industry is upheld. By retaining a significant amount of risk, the insurers still have an incentive to provide an individualised credit risk assessment of purchasers – a function that is also vital for policyholders who also participate in potential losses. It therefore appears that the chosen model is well justified as a methodology that effectively limits State intervention while still providing the envisaged result that would not be achievable as an outcome of pure market forces alone.

(69) As already considered in recital (45) above, the Temporary Framework – although not directly applicable – serves as a reference point to identify relevant principles to assess the proportionality of the measure.

(70) The measure requires participating trade credit insurers to restore and retain risk exposures and ensures that the State does not cover proportionally more than 90% of the losses, as described in recital (23). Such State coverage is equal to the threshold of 90% provided for in point 25(f)(i) of the Temporary Framework.

(71) The guarantee premium to be paid amounts to all of the premiums net of operating costs, charged by the trade credit insurers between 1 January 2021 and 30 June 2021. Based on 2019 figures, this would amount to a total guarantee premium of approximately EUR 3.9 million[11] to be paid to the State. This amounts to more than 2.5% of the total budget of the measure, i.e. guarantee volume, of EUR 90 million, which is significantly above the minimum premiums of 0.25% and 0.5% as defined in point 25(a) of the Temporary Framework for a one-year guarantee protection.

(72) Based on the points above, the Commission considers that the measure proposed by Lithuania ensures a participation of trade credit insurers that is at least as strict as the one foreseen in the Temporary Framework.

(73) As regards the underlying logic of point (31) of the Temporary Framework, namely that any advantage of aid should be passed on to the economic operators in the real economy directly affected by the current shock to the largest extent possible, the following should be considered:

- First, in order to benefit from the proposed measure, participating trade credit insurers have to restore, if the limits had been reduced, and maintain the insurance limits of their policyholders as described in recital (28).

- Second, the measure is open to all trade credit insurers legally authorised to operate in Lithuania (recital (17)). This will safeguard competition between these providers and therefore provide an additional lever to ensure that benefits are channelled through to the real economy to the largest extent possible.

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[11] Amount corresponding to 65% of the EUR 6 million of premiums estimated to be collected for the 6-month period 1 January 2021 – 30 June 2021 (the annual premium volume in 2019 was EUR 12, see recital (15)).

- Third, participating trade credit insurers are also retaining a significant part of the losses under the measure (recital (23)). That design ensures that the insurer's decision-making process incorporates economic considerations and is not detached from a market logic. This ensures an overall risk monitoring by the insurers, and is in line with the intention of Section 3.2 of the Temporary Framework.

(74) Based on the above, the Commission considers that the measure as proposed by Lithuania is proportionate to reach the intended goal while minimising the distortive effects on competition.

3.3.4. Conclusion on compatibility

(75) Based on the above considerations, the Commission concludes that the measure is compatible under Article 107(3)(b) TFEU.

3.3.5. Short-term export-credit Communication

(76) Following the prolongation of the Temporary Framework and the amendment to the Short-term export-credit Communication of 13 October 2020, the Commission considers all countries as non-marketable or as temporarily non-marketable risk countries until 30 June 2021.

(77) In as far as the measure covers export-credit insurance with a risk period of less than two years that may fall under the Short-term export-credit Communication, the Commission notes that the quality of cover will be consistent with market standards, as it will remain the one offered by the private insurers in normal conditions.

(78) The Commission notes that the measure is temporary in nature as it only covers trade credit provided before 30 June 2021 with the aim to remedy the disturbance caused by the COVID-19 outbreak in the trade credit insurance market in Lithuania. The measure is therefore designed to keep the credit insurance available in the Lithuanian economy within the pre-crisis limits to the largest possible extent.

(79) The cover is accessible to all commercial insurers in Lithuania in an open, transparent and non-discriminatory manner (recital (17)). The measure essentially allows the market to remain as it was for all private insurers, with respect to all short-term credits and for all Lithuanian policyholders. In that regard, the reinsurance is being offered on a large scale to all types of risks, including a significant number of creditworthy buyers with clean claims record and good financial ratings. The remuneration resulting from the risk and premium sharing is therefore justified and adequate in light of objective of the measure to preserve the existing credit insurance limits available for a limited period of time to the real economy in Lithuania.

(80) On the basis of the above and in view of the principle set out in point 31 of the Short-term export-credit Communication, the Commission considers that the measure fulfils the requirements of the Short-term export-credit Communication in as far as it is applicable.

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) TFEU.

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