Ministry of Agriculture and Forestry **20.9.2016**

Programme of Finland concerning the granting of State guarantees to farmers facing temporary liquidity problems

A. Specific conditions

Macroeconomic data

Over the past two years there have been unexpected disturbances on the agricultural market that have been independent of the producers and have caused producer prices to fall strongly, both in Finland and in the whole of Europe. What hit the markets particularly strongly was the ban on food imports to Russia imposed in August 2014. The EU milk quotas were abolished in March 2015, which led to oversupplies and disturbances on the milk markets within the EU. As a result, the producer price for milk in Finland decreased by 16% between February 2014 and February 2016 (Table 1).

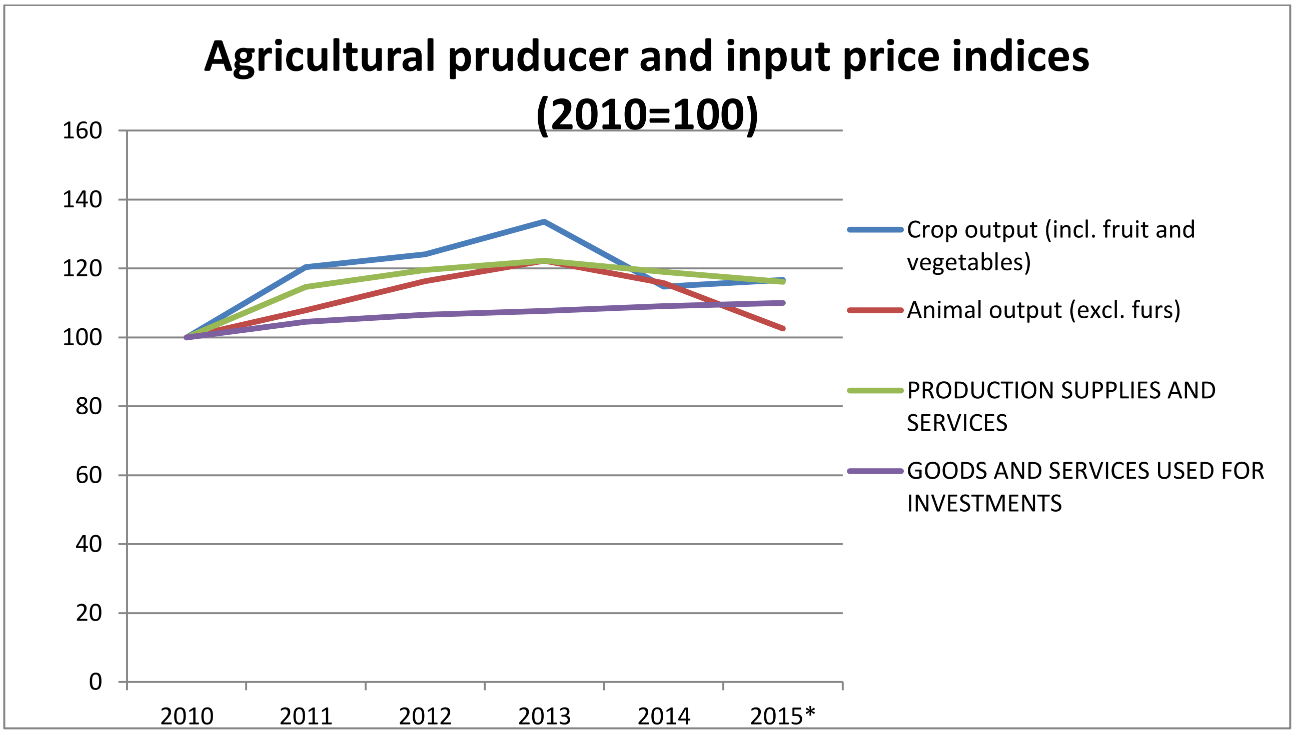
Table 1. Average producer prices in 2014/Feb, 2015/Feb and 2016/Feb (sources statdb.luke.fi and Kasvistieto Oy)

	2014/Feb	2015/Feb	2016/Feb	change % 2016-2014	change % 2016-2015
Milk, average producer price (c/l)	45.83	37.52	38.52	-16.0	2.7
Beef, average producer price (€/100kg)	307.81	298.46	284.89	-7.5	-4.5
Pigmeat, average producer price (€/100 kg)	162.62	150.65	138.27	-15.0	-8.2
Broiler meat, average producer price (€/100 kg)	148.82	140.35	131.99	-11.3	-6.0
Wheat of bread-making quality, basic price (€/tonne)	176.53	168.86	162.15	-8.1	-4.3
Tomato, average producer price (€/100 kg)	168.69	168.13	152.17	-9.8	-9.5
Cucumber, average producer price (€/100 kg)	138.06	132.58	129.80	-6.0	-2.1
Onion, average producer price (€/100 kg)	64.54	55.54	57.73	-10.6	+3.9

During this period the producer price for pigmeat fell by 15%, that of broiler meat by 11%, wheat of bread-making quality by 8% and beef by 7.5%. There is more variation in the prices for fruit, vegetables and berries; for some products the trend has been decreasing, but the annual price variations depend on several factors and the prices for some products may have risen e.g. due to crop yield variation.

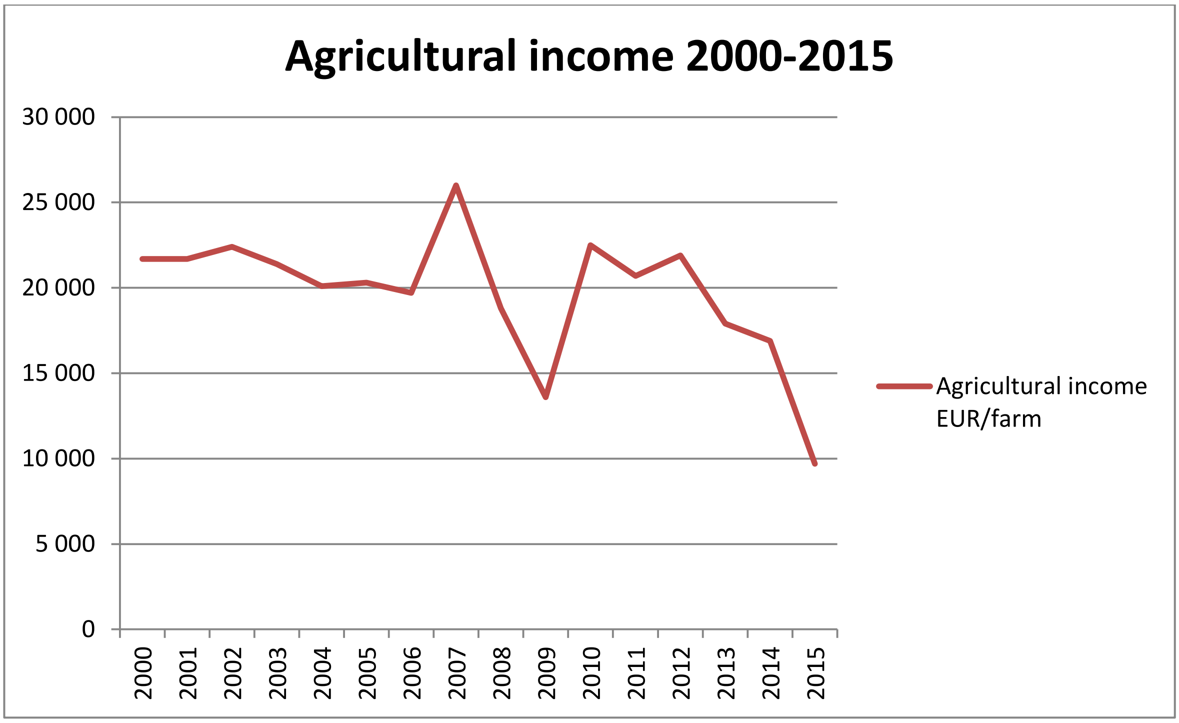
While the producer prices have been decreasing, the input prices have stayed about the same as before (Figure 1), which has led to rapid decline in the short-term liquidity of farms. The farms have difficulties in coping with the running costs of their regular operations and loan repayments, and they lack the opportunities to develop their activity or to make the necessary replacement investments.

Figure 1. Trend in the agricultural producer and input price indices (2010 = 100)



The preliminary estimate of the results for 2015, published by the Natural Resources Institute Finland on 10 March 2016, shows a decrease of 40% in the entrepreneurial income of farms from 2014 to the average of EUR 9 700 per farm. On the total level agricultural income, i.e. the sum of the entrepreneurial income of agriculture in the whole country, is forecast to fall from the about EUR 558 million in 2014 to about 350 million in 2015. According to this forecast, agricultural income in 2015 would have been as much as 60% lower than it was in 2010 (EUR 892 million).

Figure 2. Trend in agricultural income per farm in 2000–2015



At the moment the greatest liquidity problems are being faced by dairy and pig farms, and the problems are particularly severe on farms which have invested heavily in recent years, which thus have a heavy debt burden and have not been capable of preparing for the unexpected price fluctuations.

The objective of the aid scheme and the design of the scheme

Objective
The objective of the programme is to ease the temporary liquidity problems face by the Finnish farms. This is to be done by granting State guarantees for liquidity loans granted by banks. At the moment all the available guarantees of farms that have made investments recently, in particular, are committed to the loans related to the investment and the banks cannot, due to their own solvency rules, grant loans without new securities. This means that it is difficult for farms to find temporary funding without additional securities. State guarantees would make it easier for these farms to obtain bank loans with a reasonable interest rate to bridge the acute gap, thus preventing their liquidity status from deteriorating further due to temporary credits from suppliers, buyers or banks that fall due in a short time and are difficult to manage.

Beneficiaries
Under the programme guarantees may be applied for by producers in the dairy, pig husbandry and fruit and vegetable sectors. As the acute liquidity problems concern all production sectors while beef production, for example, would be excluded from the aid scheme, in the case of farms in other production sectors a corresponding guarantee could be granted as *de minimis* support. The total number of farms facing temporary liquidity problems is estimated at 2 000 to 3 000. The estimate is based on statistics on farms that are the most indebted and the debt-turnover ratio of farms. In March 2016 about 5 500 farms applied for the temporary national additional aid for agriculture and horticulture. This aid was intended to farms that were the most indebted and had invested the most in recent years. Based on this application process it was estimated that about half of the beneficiaries of the temporary national additional aid would fulfil the conditions for the State guarantee under this programme. It is also to be expected that not all farms that fulfil the conditions for the State guarantee under this programme will apply for the guarantee. About 70% of the beneficiaries would be producers in the dairy and pig husbandry sectors, because of both the production structure and the fact that the liquidity problems are particularly severe in these sectors.

Is the aid scheme limited to SMEs?

State guarantee may be granted only to enterprises that fall within the category of SMEs specified in Annex I to Commission Regulation 702/2014.

Is the loan guarantee limited to what is necessary to overcome a temporary liquidity shortage?

Because the main reason for the liquidity problems is the fall in the producer prices, it is well justified to determine the loan amounts on the grounds of the turnover of the preceding years. The prices have been low for two years now, which should also be taken into account in the amount of the guarantee. The maximum amount of the loan to be granted to an individual farm under the guarantee programme would be 30% of the sum of the averages of the sales proceeds from agricultural products and agricultural support payments of the farm in the preceding two years, excluding VAT. In the case of a farm that has made a production investment by means of investment aid that increased the agricultural production volume but in a way that that the impact is not shown in the turnover of the preceding two years, the loan could be granted on the grounds of the turnover presented in the investment aid application under the basic payment scheme.

The State guarantee would be granted upon application as a one-off guarantee to farms suffering from temporary liquidity problems. The applications would be submitted to the local Centre for Economic Development, Transport and the Environment. The documents to be attached to the application are the tax form 2 (income tax return form for agriculture) and a liquidity plan concerning the farm where the conditions for profitable operations in the long term are shown by key figures for liquidity and profitability. The liquidity plan would also state the grounds showing that the amount of the loan applied for corresponds to the real need. Loan guarantees under the guarantee programme could only be granted to farms facing liquidity problems. In practice this means that these farms have no cash funds of their own and payments may also be overdue. The ceiling of 30% of the farm's turnover for the maximum amount of the loan means that the amount of the loan to be granted is such that it allows the farm to overcome the worst liquidity problems but it is does not make it possible to finance any other measures on the farm except for those relating to liquidity.

The maximum aid amount
The aid is to be granted in the form of State guarantee only. The maximum aid amount included in the guarantee per farm is EUR 15 000.

The maximum amount of the loan to an individual farm granted under the guarantee programme is EUR 110 000 and the minimum amount is EUR 30 000. The State guarantee could cover up to 70% of the amount of the loan in question, i.e. the maximum of EUR 77 000. The maximum loan period would be 7 years, including no more than two years when the repayments are exempted.

A lump-sum payment of 0.75% of the amount of the guarantee but no more than EUR 200 would be collected from the beneficiary as the guarantee premium, after which a payment of 0.75% of the outstanding amount of the guarantee would be collected retroactively every six months. The guarantee premium is to be deducted when calculating the total aid amount included in the guarantee.

The calculation of the aid amount included in the guarantee would be based on the approved calculation method that is based on State aid notification N 286/2010 and in accordance with Commission Decision C(2011) 1321. The risk to the State of the guarantees to be granted on loans taken out to improve liquidity is estimated to be greater than the risk of guarantees relating to loans granted for investments. The State liability is estimated to materialise for the maximum of 10% of the number of State guarantees to be granted for loans taken out to improve liquidity. The calculation method is presented in Annex 1.

Financing (Total budget and annual budget)
The authorisation to grant guarantees for liquidity loans totals EUR 160 million. Should the amounts of the guarantees applied for exceed the authorisation, the amount of the guarantee to be granted to individual farms would be adjusted to the total authorisation.

It is estimated about 10% of the farms to which this State guarantee is granted will still end up in bankruptcy within the next few years. This means that an estimated EUR 14 to 15.8 million will remain to be paid by the State as losses from these guarantees, depending on the timing of the bankruptcies of the farms to which guarantees have been granted. The guarantee premiums payable to the State, in turn, would total EUR 6.9–7.0 million. Thus the estimated net losses to the State would be EUR 7.0–8.9 million.

National legal basis
The implementation of the aid scheme would start immediately after the Commission has approved the programme of Finland concerning the State guarantees. For the implementation to be started the Finnish Parliament has to adopt the national Act on Temporary State Guarantees to Farms (xx/2016) and the arrangements for the implementation, including changes to information systems, are in place. The implementation of the guarantee programme also requires that the necessary authorisations to grant the guarantees have been allocated to the Centres for Economic Development, Transport and the Environment.

Implementation timetable (Is the granting of the aid limited to 2016?)
As a new act and changes to information systems are needed to implement the aid scheme, the timetable would be too tight if the granting of the aid were limited to the year 2016 only. Another reason why implementation in the early part of 2017 would be well justified is that the producer prices are still low, which further aggravates the liquidity crisis of farms.

B. Common assessment principles under the agricultural State aid Guidelines

Common objective
The objective is to prevent farms where the conditions for profitable operations exist from going bankrupt due to temporary liquidity problems, which would also mean that the investments the farms have made would not be utilised. The liquidity problems of farms escalated at the end of 2015 and beginning of 2016,

when all the financial buffers necessary for the farms and opportunities for financial arrangements had been exhausted. The fall in agricultural product prices is expected to stop towards the end of 2016 and the prices should turn into a slight increase as a result of the growth in the global demand and diminishing supply. The liquidity problems of farms are, however, expected to continue until the latter half of 2017.

The guarantee scheme has no negative environmental impacts. The guarantee scheme improves the operating conditions of farms, thus also contributing to the achievement of their environmental objectives.

Incentive effect
The loan for which the State guarantee is to be granted may be taken out only after the guarantee has been granted. The State loan is applied for using a form approved for this purpose. The documents, surveys and plans necessary for assessing whether the conditions for granting the guarantee are fulfilled must be attached to the application.

The application period for State guarantees is to be specified by the Finnish Agency for Rural Affairs. The application is to be submitted to the competent Centre for Economic Development, Transport and the Environment referred to in section 30(1) of the Act on Structural Aid for Agriculture, which makes the decision on granting the guarantee.

Avoidance of undue negative effects on competition and trade between MS
The guarantee scheme is intended for farms facing temporary liquidity problems with no opportunities to seek funding from the free market. The guarantees will not lead to any growth in production volumes or influence the producer prices, which means that they have no distorting impact on trade or competition.

Transparency and reporting
The principle of transparency is to be complied with in the implementation of the guarantee programme, in accordance with points 128, 131 and 132 of the Guidelines for State aid in the agricultural and forestry sectors and in rural areas 2014 to 2020 (2014/C 204/01).

C. General State aid principles

In accordance with the conditions specified in point 27 of the Guidelines for State aid in the agricultural and forestry sectors and in rural areas 2014 to 2020 (2014/C 204/01), State guarantee will not be granted to a farm which is subject to an outstanding recovery order under a Commission decision declaring an aid illegal and incompatible with the internal market.

The aid under the guarantee programme has no direct or indirect impact on the principle of free movement of goods under the Treaty on the Functioning of the European Union.

D. Lawfulness of the aid

The implementation of the aid scheme is to be started after the Commission has approved the programme of Finland concerning the State guarantees. A national Act on Temporary State Guarantees to farms (xx/2016) is to be issued on State guarantees.

E. Other information

The aid scheme is not financed by parafiscal levies.

To speed up the launch of the implementation Finland will accept the Commission Decision on the implementation of the guarantee programme in the English language

This notification contains no business secrets.