12-3-2008

State Aid: Commission Clears State Aid to Rescue and Restructure Fortis Bank and Fortix Bank Luxembourg

European Union: European Commission

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State aid: Commission clears state aid to rescue and restructure Fortis Bank and Fortis Bank Luxemburg.

The European Commission has approved under EC Treaty state aid rules, a support package granted between 29 September and 5 October 2008 by Belgium, Luxembourg and the Netherlands to Fortis Bank and Fortis Bank Luxemburg following the crisis on the financial markets. Given Fortis Bank's size, market share in the retail sector and the prevailing crisis on the financial markets, the bank's collapse would have given rise to a systemic risk to the financial sector. The measures have restored the long term viability of the bank and are limited to the minimum necessary. To limit distortions of competition, Fortis Bank has, in particular, sold its Dutch operations, which accounted for 40% of its size, and thereafter was sold to BNP Paribas. The aid is therefore, compatible with the EU rules on state aid (Article 87(3)(b) of the EC Treaty), as explained in the Communication on how these rules apply to banks in times of crisis (see IP/08/1495).

Competition Commissioner Neelie Kroes said: 'The failure of Fortis would have had critical effects on the economy of several member States. The support measures have addressed the specific causes of the bank’s problems and allow it to return to viability. As they have also reduced Fortis Bank's size by 40%, there is no risk of undue distortions of competition.'

Fortis Bank was until recently one of Europe's largest banks. Part of the Fortis group, which included insurance operations, the bank held a pre-eminent position on the markets of Belgium, Luxembourg and The Netherlands. As a result of its participation in the purchase of ABN AMRO and of large investments in structured credits, Fortis Bank found itself very vulnerable when the sub-prime crisis started and the wholesale loans market dried up.

Between 28 September and 5 October 2008, Belgium, Luxembourg and The Netherlands took a series of aid measures because a failure of the bank would have severely compromised the stability of the financial system and the economy. On 28 September they announced a capital injection in exchange of a 49% stake in the bank. As this failed to restore market confidence in the bank and the liquidity crisis worsened, the Belgian authorities put in place on 29 September a special liquidity assistance amounting to tens of billions of euros. On 3 October, the Dutch operations of Fortis Bank, including ABN AMRO, were sold to the Dutch State. The remainder was bought by the Belgian state, which immediately sold 75 % to the French bank BNP Paribas. Through this sale, BNP Paribas will also control Fortis Bank Luxembourg.

The Member States involved claimed that they had acted as ordinary private investors and that the measures were therefore free of state aid. However, the Commission found that the interventions constitute state aid to the benefit of Fortis Bank and Fortis Bank Luxemburg.
The Commission concluded that the aid was compatible with EU state aid rules because it was necessary to save the bank and thus to remedy a threat to the financial system. The fact that Fortis Bank has been taken over by BNP Paribas, one of the world's largest and highest rated banks, indicates that Fortis Bank is likely to return to long term viability. Moreover, the sale of its Dutch operations - which accounted for 25% of Fortis Bank's income in the first six months of 2008, half its net profits, 35% of the retail branches and 47% of the workforce - has radically reduced Fortis Bank's market presence. This, in conjunction with other commitments by Fortis, ensures that the aid will not unduly distort competition.

The Commission also found that the sale of 75% of Fortis bank and 16% of Fortis Bank Luxembourg to BNP Paribas does not involve state aid in favour of BNP Paribas, as the latter paid the market price for these acquisitions.

This decision does not address the question whether the purchase of the Dutch activities of Fortis on 3 October entails state aid to Fortis Bank Nederland, i.e. to the purchased undertaking. This matter will be assessed by the Commission in a separate decision. As regards the purchase of Fortis Insurance Nederland by the Dutch State on the same day, the Commission concluded that it does not constitute state aid.

The non-confidential version of the decision will be made available under the case number NN 42/2008, NN 46/2008, and NN 53/2008/A in the State Aid Register on the DG 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 State Aid Weekly e-News.