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
This document is made available for information purposes only.

Subject: State aid No SA. 36377 - Germany - Financing of airport infrastructure at Memmingen airport

Sir,

1 PROCEDURE

(1) By electronic notification dated 20 March 2013, Germany notified to the Commission a measure concerning the airport infrastructure at Memmingen airport. The measure was registered under the state aid case number SA. 36377.

(2) By letter dated 25 March 2013, the Commission requested further information on the notified measure. On 23 April 2013, Germany submitted additional information to its notification.

2 DESCRIPTION OF THE MEASURE

2.1 Memmingen airport

(3) Memmingen airport is situated 3.8 kilometres from the town of Memmingen in Allgäu. Memmingen airport is owned and operated by the Allgäu Airport GmbH & Co. KG (hereinafter “AAG”) owned by 70 different shareholders (68 private companies located in the region, mainly SMEs, and two local authorities).¹

(4) After Munich airport² (around 38.4 million passengers per annum) and Nürnberg airport³ (around 3.5 million passengers per annum), Memmingen airport is Bavaria’s

¹ 7.38% of AAG’s shares are owned by public authorities, the remaining 92.17% are owned by private investors.
² Munich airport is located at a distance of about 145 km (~1 hour 20 minutes travelling time).
third largest airport. Other airports in the area are Stuttgart airport (distance ~140 km, ~1 hour 25 minutes travelling time), Innsbruck airport (distance ~170 km, ~2 hours 10 minutes travelling time) and Friedrichshafen airport (distance ~90 km, ~1 hour travelling time from Memmingen).

(5) Memmingen airport is a conversion of former military airfield Memmingerberg. The airport started its commercial passenger operation in 2004. The airport mainly serves scheduled passenger traffic, charter operations and individual business travel purposes (i.e. general aviation).

(6) From 2005 to 2010, Memmingen airport experienced a significant increase in passenger traffic from around 4,700 passengers (mainly general aviation) in 2005 to 912,000 in 2010. The development of traffic at the airport since 2005 is as follows:

Table 1: Passenger development at Memmingen airport 2005 – 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers (in thousand)</td>
<td>4.7</td>
<td>4.7</td>
<td>173.1</td>
<td>462.0</td>
<td>812.0</td>
<td>912.0</td>
<td>765.0</td>
<td>870.0</td>
</tr>
</tbody>
</table>

Table 2: Development of aircraft movements at Memmingen airport 2005 – 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircrafts (in thousand)</td>
<td>5.3</td>
<td>5.7</td>
<td>10.9</td>
<td>17.8</td>
<td>20.2</td>
<td>19.6</td>
<td>17.1</td>
<td>18.0</td>
</tr>
</tbody>
</table>

(7) The expected development of passenger traffic up to 2028, if the notified infrastructure measures are implemented, is as follows:

Table 3: Expected passenger development at Memmingen airport 2014 – 2028.

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2018</th>
<th>2022</th>
<th>2025</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers (in million)</td>
<td>[…]*</td>
<td>[…]</td>
<td>[…]</td>
<td>[…]</td>
<td>[…]</td>
</tr>
</tbody>
</table>

2.2 The investment project and its financing

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3 Nürnberg airport is located at a distance of about 245 km (~2 hours 20 minutes travelling time).
4 The public funding (EUR 7.3 million, 50 % aid intensity) of the conversion project was approved by the Commission decision of 7 March 2007 in the State aid case N 620/2006 – Germany – Memmingen airport, OJ C 133, 15 June 2007, p.8 (hereinafter: "2007 Decision").

* Confidential information.
The notified infrastructure project mainly aims at completing the conversion of a former military airport into a civil aviation airport and includes in particular the following measures:

- Widening of the runway from 30 to 45 meters
- Construction of the storm water holding tank
- Installation of an Instrument Landing System (ILS) and lights CAT II/III (increasing the availability of the airport in bad weather conditions)
- Construction and modernisation of apron 2 north
- Adaptation of the luggage compartment
- Construction and modernisation of several taxiways and aprons

According to the information provided by Germany the infrastructure project at stake became necessary because the number of passengers increased faster than initially foreseen (the number of passengers expected initially for 2015 was already reached in 2008). The work is planned to be undertaken until 2016 (including).

The investment amounts to EUR 15.5 million. The total estimated investment costs can be broken down as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Cost in 1,000 EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widening of the runway</td>
<td>[…]</td>
</tr>
<tr>
<td>Storm water holding tank</td>
<td>[…]</td>
</tr>
<tr>
<td>ILS system and lights CAT II/III</td>
<td>[…]</td>
</tr>
<tr>
<td>Construction and modernisation of apron 2 north</td>
<td>[…]</td>
</tr>
<tr>
<td>Adaptation of the luggage compartment (security requirements)</td>
<td>[…]</td>
</tr>
<tr>
<td>Construction and modernisation of several taxiways and aprons</td>
<td>[…]</td>
</tr>
<tr>
<td><strong>Total investment costs</strong></td>
<td><strong>15,500.00</strong></td>
</tr>
</tbody>
</table>

According to Germany, investments amounting to EUR 15.5 million will be financed partially through public funding (EUR 7.75 million) and partially through AAG's shareholders⁵ (EUR 7.75 million). The aid will be granted in five tranches: [period from 2013 to 2017]

The aid amount is limited to the funding gap of the investment project (EUR 7.8 million), which is determined on the basis of an ex ante business plan of the airport as the difference between the total estimated investment costs (EUR 15.5 million) and the net present value (hereinafter: "NPV") of the net cash flows expected to be generated by the project under consideration (EUR 7.7 million). The discount rate used for the calculation of the NPV reflects the opportunity cost of capital of AAG's shareholders (i. e. cost of equity as the investment project will be financed only through equity) and

⁵ [...]
amounts to […] %. Without the aid the NPV of the investment project would be negative. The aid intensity amounts to around 50%.

2.3 Legal basis

(13) The legal bases for the aid grant are the following:

- Articles 23 and 44 of the Bavarian Budget Code ("Artikel 23 und 44 der Bayerischen Haushaltsordnung");
- The Budget of 2013/2014 of the Free State of Bavaria, Section 07 ("Haushaltsplan 2013/2014 Einzelplan 07 des Freistaates Bayern");
- The planning approval notice dated 1 March 2013 ("Erlass des Planfeststellungsbeschlusses am 01.03.2013");
- The operating licence of the airport pursuant to § 38 II No. 1 of the Air Traffic Licensing Regulation ("Betreiben des Flughafens gemäß § 38 Abs. 2 Nr. 1 Luftverkehrs-Zulassungs-Ordnung");

3 ASSESSMENT OF THE MEASURE

3.1 Existence of aid

(14) By virtue of Article 107(1) of the TFEU "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market."

(15) The criteria laid down in Article 107(1) of the TFEU are cumulative. Therefore, in order to determine whether the notified measures constitute State aid within the meaning of Article 107(1) of the TFEU all of the following conditions need to be fulfilled. Namely, the financial support:

- is granted by the State or through State resources,
- favours certain undertakings or the production of certain goods,
- distorts or threatens to distort competition, and
- affects trade between Member States.

The discount rate is based on the following assumptions: (i) the current risk-free rate of […] %; (ii) an average inflation of approximately […]%; (iii) the expected return on capital of […]% and (iv) a risk premium of […]%. 
Economic activity and notion of undertaking

(16) According to settled case law, the Commission must first establish whether AAG is an undertaking within the meaning of Article 107 (1) of the TFEU. The concept of an undertaking covers any entity engaged in an economic activity, regardless of its legal status and the way in which it is financed and any activity consisting in offering goods and services on a given market is an economic activity.

(17) In its "Leipzig-Halle airport" judgement the Court of Justice confirmed that the operation of an airport for commercial purpose and the construction of the airport infrastructure constitute an economic activity. Once an airport operator engages in economic activities, regardless of its legal status or the way in which it is financed, it constitutes an undertaking within the meaning of Article 107(1) of the TFEU, and the Treaty rules on State aid therefore apply.

(18) In this regard the Commission notes that the infrastructure, which is the subject of the present decision, will be operated on a commercial basis by the airport manager AAG. Since the airport operator will charge users for the use of this infrastructure, the latter is commercially exploitable. It follows that the entity exploiting this infrastructure constitutes an undertaking for the purposes of Article 107 (1) of the TFEU.

State resources and imputability to the State

(19) The grant of EUR 7.75 million in favour of AAG, the operator of Memmingen airport, is financed out of the budget of the Bavarian government, hence it involves State resources. The notified measure is directly taken by the Bavarian authorities, thus it is imputable to the State.

Economic advantage

(20) The above-mentioned public financing from the Bavarian State budget provided without any remuneration reduces the investment costs that the airport operator would normally have to bear, if it wanted to expand or improve its efficiency, and therefore it confers an economic advantage to the airport.

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Selectivity

(21) Article 107 (1) TFEU requires that a measure, in order to be defined as State aid, favours "certain undertakings or the production of certain goods". The Commission notes that the advantages in question were granted to AAG only. Thus it is a selective measure within the meaning of Article 107 (1) of the TFEU.

Distortion of competition and effect on trade

(22) When aid granted by a Member State strengthens the position of an undertaking compared with other undertakings competing in the internal market, the latter must be regarded as affected by that aid. In accordance with settled case law\(^{11}\), for a measure to distort competition it is sufficient that the recipient of the aid competes with other undertakings on markets open to competition.

(23) As previously explained, the operation of an airport is an economic activity\(^{12}\). Competition takes place between airports and between airport operators, which may compete between themselves to be entrusted with the management of a given airport.

(24) Also relatively small airports (i.e. Memmingen with around 800,000 passengers per year) compete to attract airlines. As mentioned in paragraph 40 of the 2005 Aviation Guidelines, it is not possible to exclude even smaller airports from the scope of application of Article 107 (1) of the TFEU. The forecast in terms of passenger traffic\(^{13}\) at Memmingen airport shows an increase in traffic over the coming years (for example in 2025, 2.8 million passengers and 40,000 aircraft movements are expected). In addition, the measures will allow Memmingen airport to attract new airlines.

(25) In view of the above, the measures at stake are capable of affecting competition between airports by strengthening the attractiveness of Memmingen airport for airlines.

(26) Moreover, the economic advantage which AAG receives as grant to finance the infrastructure enhancement projects at Memmingen airport will strengthen its position vis-à-vis its competitors on the European market of providers of airport services. Since the market for the provisions of airport services is not closed to competition at EU level, the public funding under examination distorts or threatens to distort competition and affects trade between the Member States.

Conclusion

(27) For the reasons set out above the Commission concludes that the public financing of the infrastructure measures at Memmingen airport involves State aid within the meaning of Article 107 (1) of the TFEU. As the grant at stake is subject to Commission's approval, Germany has respected the prohibition of Article 108 (3) of the TFEU.


\(^{12}\) See above, paragraph 18.

\(^{13}\) See above, table 3.
3.2 Compatibility of the aid

(28) The Commission has to assess, if the aid can be found compatible with the internal market.

Compliance with the 2005 Aviation Guidelines

(29) The measure in question should be assessed upon the basis of Article 107 (3) (c) TFEU, which stipulates that: "aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest", may be considered to be compatible with the internal market. In this regard, the 2005 Aviation Guidelines provide a framework for assessing whether aid to airports may be declared compatible pursuant to Article 107 (3) (c) TFEU. They set out a number of criteria which the Commission takes into account in this regard in its decision making practice since the "Aéroports de Paris" case-law.14

(30) According to point 61 of the 2005 Aviation Guidelines the Commission has to examine whether:

- the construction and operation of the infrastructure meets a clearly defined objective of general interest (regional development, accessibility, etc.);
- the infrastructure is necessary and proportional to the objective which has been set;
- the infrastructure has satisfactory medium-term prospects for use, in particular as regards the use of existing infrastructure;
- all potential users of the infrastructure have access to it in an equal and non-discriminatory manner;
- the development of trade is not affected to an extent contrary to the EU interest.

(31) In addition to the requirement to satisfy specific compatibility criteria specified in the 2005 Aviation Guidelines, State aid to airports, as any other State aid measure, should have an incentive effect and should be necessary and proportional in relation to the aimed legitimate objective in order to be cleared as compatible aid15.

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15 It is constant case law that the Commission can declare an aid compatible only if it is necessary for achieving a legitimate objective (cf. case 730/79, Philipp Morris, paragraph 17; case C-390/06, Nuova Agricast, paragraph 68; case T-162/06, Kronoply, paragraph 65).
(i) **Construction and operation of the infrastructure meets a clearly defined objective of common interest (regional development, accessibility, etc.)**

(32) The main aim of the financing of the infrastructure project at stake is to improve the accessibility of the region, and thus to stimulate the regional development and creation of new jobs.

(33) Apart from Memmingen airport, the Donau-Iller and Allgäu regions are not served by any other airport. The airport has attracted a significant number of incoming tourists visiting the Allgäu region or the whole of Bavaria, especially during the winter season. The percentage of incoming passengers at Memmingen airport amounts to around 40%. This is of a particular importance, because tourism plays a central role in Allgäu's economy. The airport itself plays also an important role as an employer. According to information provided by Germany, the airport has created more than 300 jobs at the airport itself or at companies operating from the airport (~92%).

(34) According to Germany, the other means of transport (road network and train connections) cannot meet the region's demands for mobility. Memmingen airport provides in particular a higher mobility to the local companies. The importance of the airport for these undertakings is also demonstrated by the high participation of private investors (local companies) in the airport operator.

(35) The new investment will not constitute a duplication of existing non-profitable infrastructure. On the contrary, Memmingen airport plays an important role in decongesting Munich and Stuttgart airport, particularly because of their capacity limits. Neither Stuttgart airport nor Munich airport will expand in the short-term. Moreover, according to the traffic forecast submitted by Germany, there is sufficient demand for the additional capacity created. Without the project at stake there would be risk that the region would be underserved.

(36) The Commission can therefore conclude that the construction and operation of the infrastructure meets a clearly defined objective of common interest.

(ii) **The infrastructure is necessary and proportional to the objective which has been set**

(37) According to Germany the planned modernisation of Memmingen airport is necessary to complete the conversion of a former military airbase into a civil aviation airport. In particular, because the number of passengers at the airport has grown faster than expected the investments at stake, such as construction and modernisation of taxiways and aprons, need to be carried out.

(38) The cost/benefit analysis submitted by Germany provides that the infrastructure project will be undertaken only to the extent it is necessary to attain the goals set (i.e. to meet the actual and expected traffic demand) and that the project is not disproportionately large or elaborate.

(39) The Commission can therefore conclude that the infrastructure in question is necessary and proportional to the objectives, which have been set.
(iii) The infrastructure has satisfactory medium-term prospects for use, in particular as regards the use of existing infrastructure

(40) As previously explained, Memmingen airport has reached in 2008 the expected number of passengers for 2015 (i.e. 462 thousand passengers). The significant growth of Memmingen airport results from the important role of the airport in decongesting Munich and Stuttgart airports. Moreover, the Allgäu region is not served by another regional airport.

(41) According to the information provided by Germany, in case the infrastructure measures at stake are carried out and financed as intended, 2.8 million passengers per year and around 40,000 aircraft movements are expected in 2025.

(42) On the basis of the above mentioned forecasts for passenger numbers, in the medium-term, the development project for Memmingen airport offers good perspectives for use, especially in relation to existing infrastructure at the airport, which the planned works will optimise.

(iv) All potential users of the infrastructure have access to it in an equal and non-discriminatory manner

(43) According to Germany the infrastructure will be operated by AAG and will be open to all potential users without any commercially unjustified discrimination.

(v) The development of trade is not affected to an extent contrary to the interest of the EU

(44) Memmingen airport currently serves less than 1 million passengers per annum, which qualifies it according to the 2005 Aviation Guidelines as a small regional airport (category D).16 As previously indicated, after the development of the airport infrastructure, Memmingen airport is expected to serve around 2.8 million passengers in 2025.

(45) Memmingen airport's catchment area is Southern Germany. One of its nearest competitors is Munich airport, which is approximately 145 kilometres and 1 hour and 20 minutes travelling time by car away. As previously explained, Memmingen airport will serve for decongestion of Munich airport, which according to the information provided by Germany is not expected to be expanded in the medium-term. According to Germany, also Stuttgart airport (distance ~140 km, ~1 hour 25 minutes travelling time) operates near its capacity limits and does not plan any further expansion.

(46) According to Germany, the investment project at stake will have only very limited or no competition impact on Friedrichshafen, Nürnberg and Innsbruck airports. According to Germany, Friedrichshafen airport, which is located 90 kilometres and around 1 hour travelling time away, is not sufficient to serve the whole catchment area of Memmingen airport for various reasons. First of all, Friedrichshafen airport is 231 kilometres and around 2 hours travelling time away from Munich and around 200 kilometres and 2 hours travelling time from Stuttgart. Moreover, the catchment areas of Memmingen and Friedrichshafen airports show only a small overlap. The other airports, such as Nürnberg airport and Innsbruck airport, are located more than 170

16 See paragraph 15 thereof.
kilometres and 2 hours travelling time away, and therefore, according to Germany, these airports do not share the catchment area with Memmingen airport.

(47) Moreover, according to Germany Memmingen airport has mainly created its own demand for tourists coming to the Allgäu region. According to Germany, Memmingen airport serves passengers (private persons and people on business trips) coming from the Allgäu region as it provides scheduled and charter connections from/into a region that was only poorly served before.

(48) In addition, the aid intensity of the project (see section on the necessity and proportionality of the aid further below) is limited to its funding gap. The shareholders of the airport operator will finance around 50% of the investment costs.

(49) On the basis of the above, the Commission can therefore conclude, that the development of trade is not affected to an extent contrary to the common interest.

(vi) **Aid is necessary and proportional**

(50) The Commission must establish, whether the State aid granted to AAG has changed the behaviour of the beneficiary undertaking in such a way that it engages in activity that contributes to the achievement of a public-interest objective that (i) it would not carry out without the aid, or (ii) it would carry out in a restricted or different manner. In addition, the aid is considered to be proportionate, only if the same result could not be reached with less aid and less distortion. This means that the amount and intensity of the aid must be limited to the minimum needed for the aided activity to take place.

(51) According to the counterfactual scenario provided by Germany, without the aid the investment could not be realised to the same extent. Only a limited number of investments could be carried out, such as the widening of the runway, and certain investments would need to be substantially delayed. As a result, the airport would not meet the expected demand of airlines and passengers in the catchment area. Moreover, the investment costs exceed the NPV of the expected operating profits of the investment.

(52) The Commission observes that the aid measure at stake will not subsidise the costs of an activity that an undertaking would anyhow incur and it will also not compensate for the normal business risk of an economic activity.

(53) Therefore, it can be concluded that the aid measure at stake has an incentive effect, as it will enable the beneficiary to realise the notified investment.

(54) With regard to the assessment of the proportionality, Germany provided a calculation of the funding gap of the investment project showing that the aid is limited to the funding gap (EUR 7.8 million). As described further above\(^\text{17}\), the funding gap was determined on the basis of an ex ante business plan as the difference between the investment costs (EUR 15.5 million) and the NPV of the expected operating profits of the investment (EUR 7.7 million) over the next 15 years (i.e. 2014 – 2028). The discount rate used for the calculation of the NPV reflects the opportunity cost of capital of AAG's shareholders (i.e. cost of equity as the investment project will be financed only through equity) and amounts to around [...] %. The funding gap of the

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\(^{17}\) See paragraph 12 further above.
investment project amounts to EUR 7.8 million. Without the aid the NPV of the investment project would be negative.

(55) The funding gap corresponds to the public funding actually granted to the airport (i.e. EUR 7.75 million). The remaining amount (EUR 7.75 million) will be financed through capital injections from AAG's shareholders (the majority of which is privately owned). The aid intensity amounts to around 50%.\(^{18}\)

(56) As the 2005 Aviation Guidelines leave open the issue of aid intensities, the maximum permissible aid amount has to be limited to the funding gap calculated on the basis of an ex ante business plan of the airport. Moreover, the Commission notes that the investments concerned are similar to the investments at airports with comparable characteristics.\(^{19}\) Therefore, the aid intensity of ~50% is justified in the case at stake.

Conclusion

(57) In view of the above assessment the Commission concludes that the measure is compatible with the internal market on the basis of Article 107(3)(c) of the TFEU.

4 Decision

The Commission has accordingly decided to consider that:

- The measure amounting to EUR 7.75 million constitutes State aid within the meaning of Article 107(1) of the TFEU, compatible under Article 107(3)(c) of the TFEU with the internal market.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

http://ec.europa.eu/competition/elojade/isef/index.cfm

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

\(^{18}\) Aid intensity = \(\frac{\text{Aid amount (or Funding gap)}}{\text{Investment costs}}\) = \(\frac{7.75}{15.5} = 50\%\)

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Yours faithfully,
For the Commission

Joaquin ALMUNIA
Vice-President