II

(Non-legislative acts)

DECISIONS

COMMISSION DECISION
of 24 February 2010
concerning public transport service contracts between the Danish Ministry of Transport and Danske Statsbaner (Case C 41/08 (ex NN 35/08))

(notified under document C(2010) 975)

(Only the Danish text is authentic)

(Text with EEA relevance)

(2011/3/EU)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof (1),

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having given interested parties notice to submit their comments in accordance with those Articles (2),

Whereas:

1. PROCEDURE

(1) Following two complaints and numerous exchanges between the Commission and the two complainants on the one hand and the Commission and the Danish authorities on the other, the Commission decided on 10 September 2008 to initiate a formal investigation procedure concerning this case and to publish the relevant decision in the Official Journal of the European Union (3), inviting Denmark and other interested parties to submit their comments.

(2) The Commission’s decision to initiate a formal investigation procedure was in part the subject of an application for annulment lodged with the Court of First Instance of the European Union by one of the complainants. That application was rejected as inadmissible by Order of the Court of First Instance of 25 November 2009 (4).


2. PRESENTATION OF THE BENEFICIARY AND THE COMPLAINANTS

2.1. THE BENEFICIARY OF THE MEASURES: DANSKE STATSBANER

2.1.1. THE INCUMBENT DANISH RAIL UNDERTAKING

(4) Danske Statsbaner SV (DSB) is the incumbent rail undertaking in Denmark.

(5) DSB is wholly owned by the Danish State (6). It now operates only rail passenger transport services and related services (7). It also operates via its subsidiaries in Sweden, Norway and the United Kingdom in particular.

(1) With effect from 1 December 2009, Articles 87 and 88 of the EC Treaty became Articles 107 and 108 of the Treaty on the Functioning of the European Union (TFEU). Each provision is essentially identical to the previous provision. For the purposes of this Decision, references to Articles 107 and 108 of the TFEU should be understood as references to Articles 87 and 88 of the EC Treaty, respectively.


(3) See footnote 2.

(4) Case T-87/09 Jørgen Andersen v Commission


(6) Act No 485 of 1 July 1998, which established the independent public undertaking DSB SV and DSB Cargo on 1 January 1999 (the DSB Act).

(7) DSB’s freight transport activities were sold to Deutsche Bahn in 2001.
In 1998, the Danish Parliament adopted an act separating the rail infrastructure from DSB’s rail transport activities (8).

In 2008, DSB had approximately 9,200 employees. Its turnover in 2008 was around DKK 9,85 billion (EUR 1.32 billion).

2.1.2. THE CREATION OF THE INDEPENDENT PUBLIC UNDERTAKING DSB

In 1999 DSB was transformed into an independent public undertaking (9).

A new financial management model for the undertaking was established at that time. Its opening balance sheet was prepared on the basis of a valuation of the undertaking’s assets and liabilities. The Danish authorities have indicated that for all significant items DSB obtained a second valuation by independent experts.

The Danish authorities have explained that DSB’s equity capital was determined by comparison with similar undertakings with substantial fixed assets. The undertaking’s final opening balance sheet was based on a 36% equity ratio and upfront financing.

It should also be noted that the legal framework applying to DSB was supplemented by accounting standards and national guidelines in the area of competition which require the undertaking to keep separate accounts for its most important activities and to avoid any form of cross-subsidisation. The contractual payments made to DSB on the basis of the public transport service contracts are therefore entered in the accounts separately from the other activities carried out on a purely commercial basis.

DSB’s revenue accounts are kept for each activity and are based on a documented activity-based cost accounting methodology using formulae for apportioning costs and revenues (10).

2.1.3. THE DSB GROUP

i. DSB S-tog a/s

The DSB Group also includes the subsidiary DSB S-tog a/s, which is wholly owned by DSB SV and which operates all suburban rail services in Greater Copenhagen.

The accounts of DSB S-tog a/s are kept separately from those of DSB SV because it is an independent company. Similarly, DSB’s accounting regulations provide that transactions between DSB and DSB S-tog a/s are to be conducted in accordance with market conditions.

The profit generated by the subsidiary DSB S-tog a/s is included, after tax, in the consolidated results of DSB SV. The Danish State’s dividend policy is defined in relation to the parent company DSB SV in that dividends are paid by DSB SV.

ii. Other holdings

DSB owns 100% of DSB Sverige AB, DSB Norge and DSB UK Ltd AS whose activities, as mentioned above, involve the provision of passenger transport services and other related activities in Sweden, Norway and the United Kingdom respectively.

DSB also owns 60% of Roslagståg AB, which operates the Roslag line in the Stockholm region. DSB owns the private company BSD ApS, which is responsible for the protection of intellectual property rights.

In addition, DSB and DSB S-tog a/s jointly own the holding company DSB Rejsekort A/S, which owns 52% of Rejsekort A/S, a public transport electronic ticketing operator.

Finally, DSB owns 100% of Kort & Godt, a chain of shops in the stations.

2.2. THE COMPLAINANTS

2.2.1. THE FIRST COMPLAINANT

The first complainant is Gråhundbus, a private undertaking providing passenger transport services by bus (hereinafter ‘Gråhundbus’).

2.2.2. THE SECOND COMPLAINANT

The second complainant is Dansk Kollektiv Trafik, a professional association representing several Danish transport operators (hereinafter ‘DKT’).

3. DETAILED DESCRIPTION OF THE PUBLIC TRANSPORT SERVICE CONTRACTS BETWEEN THE DANISH MINISTRY OF TRANSPORT AND DSB

3.1. THE LEGAL FRAMEWORK GOVERNING PUBLIC TRANSPORT SERVICE CONTRACTS IN DENMARK

Until 1 January 2000, DSB held the monopoly on national rail passenger transport services. Since then, the Danish legislator has abolished the monopoly and introduced two alternative schemes for the provision of rail passenger transport services (11):
— on the one hand, rail passenger transport operated on a commercial basis without compensation from public authorities ('free traffic'),

— on the other hand, transport operated under public service contracts with compensation from the public authorities ('public service traffic'),

According to the Danish authorities, no passenger transport service is currently operated in a regular manner under the free traffic scheme.

As regards public transport service contracts, the Danish regulatory framework distinguishes between two types of contract:

— Public transport service contracts negotiated directly between the competent public authorities and the operator without a prior tendering procedure. The Ministry of Transport is the competent authority in Denmark for the negotiation of public transport service contracts, except in the case of routes run by a number of small regional operators.

— Public transport service contracts awarded following a tendering procedure. The competent authority for such contracts awarded by tender is Trafikstyrelsen, a regulatory authority established by the Ministry of Transport.

In this context, DSB operates main line, regional and local rail passenger services under public transport service contracts concluded with the Ministry of Transport.

Moreover, the use of tendering procedures has evolved gradually over the years. In 2002, Arriva won the right to provide a portion of the regional public transport services in the west of Denmark. In 2007, a joint undertaking between DSB and First Group (DSB First) also won the right to provide a portion of the regional public transport services in eastern Denmark and southern Sweden, including the region's transnational public transport links.

The Danish authorities also indicated that they intended more contracts to be awarded on the basis of a tendering procedure.

3.2. THE PUBLIC TRANSPORT SERVICE CONTRACT FOR THE PERIOD 2000-04

This contract concerns main line and regional transport operated as a public service by DSB during the period 2000-04.

Section 1 provides that 'the objective of this Agreement is to promote the positive development of rail passenger transport by taking as its starting point the sound financial situation of DSB, the Danish public rail undertaking'.

The following recitals summarise the main provisions relevant to an analysis of this public transport service contract.

3.2.1. CONTENT OF THE CONTRACT

Article 3 defines the scope of the contract. It refers to the provision of rail transport services and user services. The contract does not cover public transport services awarded by tender or transport under the free traffic scheme, including the transport of goods under that scheme.

The transport services provided by DSB are defined in detail in Article 7 of the contract. DSB is obliged to provide a certain volume of services (measured in rail kilometres) over the term of the contract.

Production of rail kilometres over the term of the contract

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>rail km (million)</td>
<td>41.0</td>
<td>41.7</td>
<td>41.9</td>
<td>42.1</td>
<td>43.3</td>
</tr>
</tbody>
</table>

Article 7.1.a sets the target of 51 million rail kilometres per year from 1 January 2006.

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<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>rail km (million)</td>
<td>41.0</td>
<td>41.7</td>
<td>41.9</td>
<td>42.1</td>
<td>43.3</td>
</tr>
</tbody>
</table>

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Article 8 of the contract states, however, that the Danish Ministry of Transport may decide to launch a tendering procedure for part of the production of rail kilometres, which would entail the end of the contract. The provisions of Article 8 set out in detail the legal regime applicable to putting transport services out to tender. They also specify the consequences of doing this, particularly with regard to the reduction of compensation and the implications relating to rolling stock.

Article 7 also lays down the rules relating to timetables and the frequency of transport services. With regard to timetables, Article 9 provides for the coordination of schedules. Several provisions seek to ensure that DSB will endeavour to create a coherent public transport system with coordination between buses and trains.

Article 10 contains provisions concerning the use and acquisition of new rolling stock corresponding to a total amount of DKK 5.6 billion until 2006. This new rolling stock is a new model of diesel train known as IC4. The technical characteristics of these new trains in terms of speed, number of seats or level of comfort are defined in Article 10, as are the conditions for the use of these trains on certain routes. These investments are compensated for via the contractual payments described below.

(12) The contract contains a preamble, 22 articles and 5 annexes.
The other relevant provisions which should be mentioned are:

— Article 11, which specifies the conditions relating to infrastructure and defines the relationship with Rail Net Denmark,

— Article 12, which contains provisions relating to user services,

— Article 13, which defines the penalties for poor punctuality,

— Article 14, which lays down the conditions for setting transport prices,

3.2.2. THE CONTRACTUAL PAYMENTS

The financial compensation received by DSB is defined in Article 4 of the contract.

DSB retains the income from ticket sales. In addition, DSB receives a contractual payment from the Danish Ministry of Transport for the services provided for under the contract.

The contractual payments are described in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>DKK</td>
<td>2 884.9</td>
<td>2 945.7</td>
<td>2 953.7</td>
<td>3 039.4</td>
<td>3 057.9</td>
</tr>
</tbody>
</table>

Those payments are indexed annually to net retail prices.

The level of the contractual payments is based on DSB’s 10-year forward budget, which was adopted on 11 June 1999 and which defines DSB’s long-term financial strategy.

Article 4 also provides for a number of adaptations connected with the implementation of the 5-year Framework Agreement of 26 November 1999 for the rail transport sector. The Framework Agreement led to the adoption of several specific addenda to the contract concerning:

— the acquisition and putting into service of new rolling stock (Article 10 of the contract),

— light rail transport pools and station modernisation,

— improving the quality of the Odense-Svendborg rail link,

— financial incentives aimed at promoting sound traffic production on a socioeconomic level,

The contractual payments cover depreciation and interest relating to the rolling stock acquired in accordance with Article 10 of the contract. However, the other addenda may result in an increase in the contractual payments.

Article 5 relates to rail charges. The contractual payments include DSB’s costs relating to the rail charges payable for the trains covered by the contract. Article 5 also provides for a mechanism for the annual adjustment of rail charges.

A contract was also concluded between the Danish Ministry of Transport and DSB S-tog a/s concerning the provision of public transport services on the electrified metropolitan rail network during the period 2000-04.

This contract follows the same model as the contract relating to main line and regional public transport services and contains similar provisions. It describes in detail the public transport services on the electrified metropolitan rail network that DSB S-tog a/s is expected to provide, and requires DSB S-tog a/s to carry out a certain volume of services (measured in terms of rail kilometres) over the term of the contract. It includes obligations relating to timetables and the frequency of transport services, as well as provisions concerning the use and acquisition of new rolling stock.

The system of compensation under the contract also corresponds to that in the contract relating to main line and regional public transport services. The contractual payments are determined on the same calculation bases (6 % return on equity after tax).

The contractual payments are described in the following table and are subject to the same conditions as for the contract relating to main line and regional public transport services:

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>DKK</td>
<td>547.2</td>
<td>701.9</td>
<td>855.7</td>
<td>1 016.6</td>
<td>1 127.3</td>
</tr>
</tbody>
</table>
3.3. THE PUBLIC TRANSPORT SERVICE CONTRACT FOR
THE PERIOD 2005-14

(50) The second contract between the Danish Ministry of
Transport and DSB concerns the provision of main line
and regional public transport services during the period

(51) The purpose of the contract is described in the intro-
duction as follows: ‘[t]o establish a clear framework for
performance so as to guarantee the State the best
possible result in terms of rail passenger transport for
the financial resources made available to rail transport
and to ensure that DSB has a sound financial situation’.

3.3.1. CONTENT OF THE CONTRACT (13)

(52) Article 1.1 defines the scope of the contract. It refers to
the specific sections of the network on which public rail
transport services are provided under the negotiated
contract.

(53) It should be noted that DSB does not receive the income
from ticket sales on two specific routes. The contract also
relates to international links with Germany and to the
Copenhagen–Ystad route, which was previously operated
under the free traffic scheme.

(54) The transport services to be provided by DSB are defined
in a traffic plan (number and spacing of trains), a stop
plan (servicing of stops) and a line plan (requirements in
terms of rail connections). The three plans are described
in Article 1, as are the rules relating to seating capacity,
frequency, reliability, user satisfaction, service inter-
ruptions and other special conditions.

(55) Article 2 concerns all forms of pricing, including specific
provisions concerning journeys across the Øresund.

(56) Article 3 concerns the scope of the transport services in
relation to those operated under the free traffic scheme.
In particular, Article 3.3 states that it is possible to
extend the public transport services provided beyond
the current framework of the contract, without increasing
the contractual payments.

(57) Article 4 lays down the rules, responsibilities and obliga-
tions in relation to station modernisation. DSB is to
prepare station modernisation plans to be submitted to
the Danish Ministry of Transport for information.

(58) Article 5 of the contract lists DSB’s obligations relating to
the operation of transport activities. Those obligations
concern, among other factors, duties of information,
equipment inspections, the obligation to make rolling
stock available to operators who win tenders on certain
routes, or specific conditions for the issue of tickets or
passes for certain categories of passenger.

(59) Finally, Article 6 provides for the possibility of tendering
procedures, and the conditions for organising such
procedures, on certain routes and the resulting
reduction of the contractual payments for the services
concerned.

3.3.2. CONTRACTUAL PAYMENTS

(60) The financial compensation received by DSB is defined in
Article 7 of the contract.

(61) Generally, DSB retains the income from ticket sales (14).
In addition, DSB receives a contractual payment from the
Danish Ministry of Transport for the services provided
under the contract.

(62) The contractual payments are described in the following
table:

<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>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>DKK (million)</td>
<td>2 985</td>
<td>3 021</td>
<td>2 803</td>
<td>2 669</td>
<td>2 523</td>
<td>2 480</td>
<td>2 486</td>
<td>2 433</td>
<td>2 475</td>
<td>2 470</td>
</tr>
</tbody>
</table>

(63) The contractual payments are fixed and are not subject to automatic adjustments unless indicated
otherwise in the contract. However, they are reviewed annually on the basis of the increase in the net
prices index presupposed in the Finance Act.

(64) The contract does not specify how the level of the contractual payments was calculated. The Danish
Ministry of Transport has stated that the payments are based on a 10-year budget founded on
estimates of costs and revenues.

(65) Among other factors, the contractual payments cover depreciation and interest relating to new rolling
stock, as described in the following table:

(13) The contract contains a preamble, 10 articles and 9 annexes.
(14) See exceptions above.
Depreciation of new rolling stock 2005-14

<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>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC4</td>
<td>50</td>
<td>167</td>
<td>247</td>
<td>258</td>
<td>258</td>
<td>258</td>
<td>258</td>
<td>258</td>
<td>258</td>
<td>258</td>
</tr>
<tr>
<td>IC2</td>
<td>1</td>
<td>24</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Local trains</td>
<td>15</td>
<td>44</td>
<td>74</td>
<td>89</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(66) The delivery schedule for the annual investments in new rolling stock is presented in the following table:

Delivery of new rolling stock

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>IC4</td>
<td>1</td>
<td>31</td>
<td>44</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IC2</td>
<td>1</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local trains</td>
<td></td>
<td>14 (*)</td>
<td>14 (*)</td>
<td>14 (*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Data not available when the contract was concluded.

(67) Several provisions have been inserted into the contract to take account of delays affecting the delivery of rolling stock under the contract for the period 2000-04.

(68) Article 7.1.2. provides for the possibility of adjusting the contractual payments annually based on the delivery of new rolling stock. Such adjustments could, however, not lead to DSB receiving greater compensation. The adjustments are not made where they would be of less than DKK 8 million.

3.3.3. URBAN TRANSPORT

(69) The second contract between the Danish Ministry of Transport and DSB S-tog a/s concerns the provision of public transport services on the electrified metropolitan rail network during the period 1 January 2005-31 December 2014.

(70) The contract is based on a system of provisions similar to those in the contract relating to main line and regional public transport services. It lays down the performance obligations of DSB S-tog a/s with regard to the lines concerned, transport services, requirements in terms of capacity, regularity and reliability of service as well as levels of user satisfaction and service interruptions. The contract also lays down the conditions relating to price fixing, station modernisation and reporting. It specifies the penalties in the event of non-compliance with the contract.

(71) The system of compensation under the contract also corresponds to that in the contract relating to main line and regional public transport services. The contractual payments are determined on the same calculation bases (6 % return on equity after tax).

(72) The contractual payments are described in the following table:

Contractual payments 2005-14

<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>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>DKK (million)</td>
<td>1 340</td>
<td>1 370</td>
<td>1 265</td>
<td>1 160</td>
<td>1 077</td>
<td>1 021</td>
<td>965</td>
<td>918</td>
<td>876</td>
<td>831</td>
</tr>
</tbody>
</table>
(73) As in the contract relating to main line and regional public transport services, the contract lays down the conditions for reviewing those payments as well as the contractual payments for the depreciation of rolling stock.

4. REASONS LEADING TO THE ADOPTION OF THE DECISION INITIATING THE PROCEDURE

(74) In its decision initiating the procedure, the Commission expressed doubts regarding the compatibility with the internal market of the public service compensation paid to DSB. The Commission stated that the purpose of the procedure was to determine whether the public transport service contracts in question involved State aid to DSB, and whether the contractual payments entailed overcompensation of the costs incurred by DSB in fulfilling the public service obligations defined in the contracts.

(75) First of all, the Commission questioned whether the arrangements gave DSB an economic advantage. To that end, it applied the criteria set out by the Court of Justice in the judgment in Altmark (15).

(76) Although the Commission considered that the recipient undertaking was indeed responsible for fulfilling clearly defined public transport service obligations (recitals 69 to 76 of the decision initiating the procedure), it did, however, express doubts as to the existence of parameters established in advance in an objective and transparent manner, on the basis of which the compensation for 2009-14 was calculated (recitals 77 to 80 of that decision).

(77) The Commission also expressed doubts about whether the compensation was limited to the amount necessary to cover all or part of the costs incurred in discharging public service obligations, taking into account the relevant revenues and a reasonable profit for discharging those obligations. In that regard, the Commission wished more specifically to examine DSB's surplus profits (recitals 83 to 90 of the decision initiating the procedure), the delays in the delivery of the rolling stock (recitals 91 to 100 of that decision) and the specific circumstances regarding the Copenhagen–Ystad route (recitals 101 to 103 of that decision).

(78) Moreover, the Commission noted that the public transport service contracts had not been awarded by tendering procedure. It therefore expressed doubts as to whether the level of compensation needed had been determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with means of transport so as to be able to meet the necessary public service obligations, would have incurred in discharging those obligations, taking into account the relevant revenues and a reasonable profit for discharging the obligations (recitals 104 to 107 of the decision).

(79) Public service compensation constitutes state resources and is likely to distort competition and affect trade between Member States, which is why the Commission expressed concern as to whether the public transport service contracts involved State aid to DSB.

(80) The Commission then considered whether the public transport service contracts were compatible with the internal market on the basis of Article 14 of Regulation (EEC) No 1191/69 (16).

(81) The Commission also expressed doubts as to whether the level of compensation, that is to say the price paid by the Danish Government, was limited to the amount needed to cover the costs entailed in fulfilling public service obligations, for the reasons explained above in the assessment of whether the third criterion established by the case-law in Altmark had been complied with. In particular, the Commission expressed doubts as to whether the Danish State's deduction of dividends from DSB's profits and the reduction in the annual contractual payments made it possible to avoid any risk of overcompensation (recitals 129 and 131 of the decision).

5. ARGUMENTS OF THE DANISH AUTHORITIES FOLLOWING THE INITIATION OF THE PROCEDURE

Preliminary remarks

(82) In their letter of 12 December 2008, the Danish authorities take the view that they have already provided, in response to the Commission's previous requests for information, all the factual and legal information required by the Commission in order to establish that the contractual payments do not constitute State aid or, at the very least, that any State aid would be...

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compatible with the Treaty. The Danish authorities have therefore quoted the factual and legal information already presented to the Commission. In addition, they have set out arguments concerning the factual and legal information which requires further explanation due to events occurring in the interim or in the light of comments made by the Commission in its decision to open a formal investigation.

(83) In principle, the Danish authorities also indicate that they support the argument set out by the Commission concerning, first, the verification of the existence of State aid by applying the criteria in the judgment in Altmark and, second, the legal basis for assessing compatibility with the Treaty.

(84) On the other hand, the Danish authorities disagree with the Commission’s interpretation of the judgment in Danske Busvognmænd (also known as the ‘Combus’ judgment) (17). The Commission has stated that, if the public transport service contract involves State aid, that aid should have been notified. Conversely, the Danish authorities consider that, if Regulation (EEC) No 1191/69 is applicable and if the compensation provided for under the public transport service contract complies with the Regulation, that compensation is exempt from the notification requirement pursuant to Article 17(2) of Regulation (EEC) No 1191/69.

(85) Lastly, Denmark wishes to emphasise that recent case-law, and particularly the judgment of the General Court of the European Union in Case T-289/03 BUPA and Others v Commission, states that the criteria set out in the judgment in Altmark should be applied, taking account of the situation in the sector concerned and the fact that the Member States have a wide discretion.

The second criterion in the judgment in Altmark

(86) The Danish authorities note that the Commission has acknowledged that the second criterion in the judgment in Altmark was fulfilled with regard to the compensation paid for the period 1998-2008, but that it expresses doubts regarding the period 2009-14.

(87) The Danish authorities take the view that those doubts are based on a misunderstanding, because, as in the case of the preceding period, the compensation was calculated on the basis of a 10-year budget for the period 2005-14.

(88) They have submitted that budget to the Commission, together with the estimates and assumptions underlying the budget, namely:

— general annual inflation of 2.5%,

— an increase in ticket prices of 2.5%, in line with inflation,

— an average increase in productivity of 2.5% a year,

— an annual interest rate of 5.15%,

— a 6% return on equity after tax,

— investments in rolling stock amounting to approximately DKK 10 billion,

— an increase of approximately 20% in the number of kilometres travelled,

— an increase of approximately 20% in the number of passengers,

— a payroll tax exemption for DSB’s staff,

(89) Furthermore, Denmark states that that budget was prepared on the basis of the obligations related to charges connected with infrastructure in 2003. The changes made to those obligations and the subsequent reduction in the compensation paid to DSB were, in the meantime, incorporated into the contract before it was signed. The Ministry of Transport set out the contents of the contract and the budget in Act No 112 of 2004, and those data were included in the Finance Act.

The third criterion in the judgment in Altmark

(90) The Danish authorities have submitted arguments and information on the three aspects in respect of which the Commission expressed doubts concerning a risk of overcompensation.

(17) Case C-157/01 Danske Busvognmænd [2004] ECR II-917, paragraphs 77 to 79.
i. DSB's surplus profits

(91) First of all, the Danish authorities consider that DSB's surplus profits are not due to overcompensation. According to Denmark, the bases of calculation of the compensation were correct and the surplus profits are not therefore attributable to overcompensation, but due to other circumstances.

Equity capital

(92) Denmark provides a detailed analysis of the changes in DSB's equity capital, which grew from DKK 4,797 billion to DKK 7,701 billion over the period 1999-2004 (an increase of DKK 2,852 billion). The increase in equity capital is due to certain circumstances which had not been taken into consideration when the budget was drafted, including an unexpected marked improvement in DSB's efficiency and higher extraordinary income resulting, for example, from the sale of real estate. These are not circumstances which the Danish Government could reasonably have taken into account in drafting the budget and hence in setting the level of compensation.

(93) The Danish authorities explain that the increase in equity capital is due, however, not to excessive operating grants paid by the State but to five other, essentially unforeseen factors:

— First, a very substantial part of the increase in DSB's equity capital results from the founding budget (DKK 1,709 billion). Act 249/1999 shows that there was a clear political and economic rationale for DSB's transformation into a sustainable independent public undertaking, according to which DSB was to achieve a solvency ratio of at least 30% within a few years. That rationale was based on an economic assessment of the necessary solvency ratio for an undertaking of DSB's size;

— Dividends were paid to the State at the end of that period in 2005 (DKK 736 million), which means that DSB could not therefore, in reality, have had that equity capital at the end of 2004;

— Part of the increase in equity capital is due to changes in accounting practices in 1999 and 2001 compared with the practices underlying the 1999 budget (upwards adjustment of equity capital to DKK 594 million). That change in accounting practices did not have any real commercial significance for the undertaking, and a correction should therefore be made. The Danish authorities therefore stress that, if a correction is made for the effects of the modified accounting practices, the change in equity capital was in fact negative, with a reduction of DKK 135 million;

— The rate of corporation tax, which was 32% at the time of the founding budget in 1999, was subsequently lowered to 30% (over the course of 2002, 2003 and 2004). That reduction in the rate of tax resulted in an unforeseen gain of DKK 43 million over the period. Without that gain, there would have been a negative impact on the equity capital of DKK 178 million;

— The downwards revision of the equity capital on the initial balance sheet by an amount of DKK 36 million,

(94) According to Denmark, those facts show that the increase in DSB's equity capital was not due to high operating grants paid by the State and that it must be seen in relation to the financial, accounting and tax information referred to above. DSB did not therefore use the aid received from the State to increase its equity capital to an extent greater than the amount provided for in the founding budget.

Operating Results

(95) With regard to the projected operating results before distribution of profits, the Danish authorities point out that the observed improvements in results are not an indication of DSB receiving overcompensation. Rather, the improvements are due to a range of factors – having both positive and negative effects – which could not be taken into consideration when the level of compensation was established.

(96) Denmark considers that such variations with respect to the initial budget are inevitable in the case of multiannual contracts relating to the discharging of a public service obligation. In such cases, it is not possible to fix the amount of compensation in a way which makes it possible to confirm, following an ex post examination, that it corresponded exactly to the real costs, minus the receipts and a reasonable profit.

(97) According to the Danish authorities, even in cases where a public service obligation results from the award of a tender, changes may occur in the market and in the situation of the undertaking concerned, such that the results actually obtained do not correspond to the results predicted by the successful bidder when the contract was concluded.
Denmark therefore takes the view that improvements or deteriorations in results attributable to such unforeseen factors cannot be used as an argument to claim that the compensation was fixed in a way such as to involve overcompensation or under-compensation.

In this case, the observed improvements in results are due to the combined effects of several factors such as general economic trends, developments in the market concerned, productivity gains (for example, reductions in the cost of labour or of access to infrastructure following the sale of the cargo branch, reductions in depreciation or improvements in financial management).

Denmark adds that the contracts concluded with DSB are characterised by the fact that the contracting partners agreed on payment on the basis of the usual considerations in a market economy, the level of payment having been determined in such a way as to cover DSB’s costs, taking account of the expected revenues and a reasonable profit. The fact that DSB ultimately achieved better results than budgeted for does not mean that the amounts of compensation fixed in the contracts was too high.

The Danish authorities point out that, even though, in their opinion, there was no overcompensation, the risk of overcompensation is in any case ruled out by the Danish Government’s dividend policy as set out in Finance Act No 249/1999 and by the subsequent reduction in compensation in the agreement concluded with DSB.

Denmark takes the view that it has made sure, with its dividend policy, that DSB will not increase its equity capital beyond the level provided for and hence beyond the level that is necessary. Although no binding legal rule was laid down, the dividend policy was designed to reconcile two considerations:

— the usual considerations in a market economy regarding what is economically justifiable taking account of the economic situation of the undertaking,

— socioeconomic considerations and considerations relating to competition having regard to the size of DSB’s equity capital and its operating grants,

The Danish authorities state that dividend payments to the State are to be used as a means of correcting the size of DSB’s equity capital in the years following its founding, and as a means of restoring the operating surplus if it were subsequently to emerge that DSB did indeed achieve better results than expected. That principle follows from Finance Act No 249/1999. The payment of dividends is to be used to regulate on an ongoing basis the structure of DSB’s capital and, hence, the real net operating grant. The dividend policy also meant that DSB had an incentive to improve its efficiency because the starting point was that the dividends should amount to half of DSB’s surplus after tax. Efficiency improvements would therefore benefit DSB to a certain extent and not solely result in a subsequent refund of the operating grant.

The Danish authorities consider that it is wholly in line with the general considerations of a market economy to be able to use incentives in determining what constitutes a reasonable profit, as advocated by the Commission (18).

Moreover, the Danish authorities consider that it is very difficult to establish rules relating to an a posteriori correction of the operating grant. However, the State is able – as a result of the dividend policy, in accordance with Danish company law – to ensure that the net operating grant is effectively corrected, if the profits for the year exceed the level which was expected or anticipated when the contract was concluded. According to the Danish authorities, distributions of dividends are therefore, in practice, an extraordinarily effective tool to guard against overcompensation.

According to the Danish authorities, the dividend policy therefore functioned de facto as a ‘refund mechanism’ making it possible to offset any overcompensation. They emphasise that the part of DSB’s compensation which was repaid to the State in the form of dividends is, moreover, much greater than the difference between the surplus anticipated in DSB’s budget and that which was actually achieved. As such, the dividend policy therefore helped to guarantee that DSB was not able to profit from the State operating grant in order to obtain a competitive advantage – for example, by increasing its equity capital beyond the specified level or by using annual surpluses.

Moreover, the Danish authorities consider that it is very difficult to establish rules relating to an a posteriori correction of the operating grant. However, the State is able – as a result of the dividend policy, in accordance with Danish company law – to ensure that the net operating grant is effectively corrected, if the profits for the year exceed the level which was expected or anticipated when the contract was concluded. According to the Danish authorities, distributions of dividends are therefore, in practice, an extraordinarily effective tool to guard against overcompensation.

(18) Commission Decision 2005/842/EC of 28 November 2005 on the application of Article 86(2) of the EC Treaty to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (OJ L 312, 29.11.2005, p. 67); see in particular Article 5(4).
Moreover, the Danish authorities state that the Court of First Instance also established that Member States could have a wide discretion as to the determination of compensation where that compensation depends on an assessment of complex economic facts (19). They also point out that Community law does not contain any obligation providing that a downwards revision of the net operating grant should always be carried out in a certain way, for example by applying contractual rules or in an equivalent manner. What is important, according to the criteria laid down in the judgment in Altmark, is that the State truly ensures that there is no overcompensation. However, it is for the Member States to decide how to proceed in practice.

ii. Delays in the delivery of rolling stock

According to the Danish authorities, the late delivery of the IC4 and IC2 trains did not lead to an economic advantage for DSB.

They confirm that the delivery of the new IC4 and IC2 trains, which were ordered before the conclusion of the transport contract for 2005-14 and should have been delivered from 2003, was affected by delays attributable to the manufacturer (Ansaldo Breda). The Danish authorities state that, if delivery had taken place as scheduled, DSB would have borne the net costs corresponding to the depreciation of the trains and to the interest, which were covered by the contractual payments.

2005-14 transport contract

Since DSB did not bear those costs, the contractual payments were subject to a reduction under the transport contract for 2005-14. The exact amount of the costs avoided is calculated on the basis of the loans actually entered into by DSB and a depreciation period of 20 years, in accordance with DSB’s accounting practices (that is to say DKK 4 million saved on account of a 1-year delay on the IC4 train and DKK 2.7 million saved on account of a 1-year delay on the IC2 train).

The payments to DSB were therefore reduced under the contract by DKK 645 million (DKK 252 million in 2005 and DKK 393 million in 2006).

Taking those facts into consideration, Denmark is of the view that the late delivery of the IC4 and IC2 trains cannot be regarded as having led to overcompensation for DSB as far as the 2005-14 transport contract is concerned.

Additional contracts

To have sufficiently modern rolling stock, DSB has been using hired rolling stock since 2001 (additional contracts). The term of those contracts had to be extended after 2006 due to the considerable delays on the part of the supplier, Ansaldo Breda (extension for up to 4 additional years).

The Danish authorities state firstly that the contractual payment made to DSB under the negotiated contract did not cover the costs of putting the trains into service (depreciation and interest) where those trains were not actually put into service, and, secondly that the negotiated contract did not provide for any obligation on the part of DSB to deploy replacement rolling stock on the aforementioned lines.

According to the Danish authorities, the additional contracts therefore impose additional public service obligations on DSB (putting into service of modern replacement stock on certain lines) at the same time as compensating it for the hire costs.

2000-04 transport contract

The Danish authorities consider that the net positive economic impact due to the delay is attributable to the fact that the initial 5-year contract, like the additional contract for 2001-04, did not contain any provisions relating to a reduction in compensation in the event of late delivery of the IC4 trains. Conversely, the 2005-14 transport contract currently in force does contain provisions relating to a reduction in compensation in the event of delay.

The Danish authorities estimate that net positive effect during the period 2001-04 to be DKK 104 million as a result of the late delivery of the trains. However, that direct effect does not cover the real economic consequences of the delay for DSB, which was unable to use the new trains (maintenance of the older trains, damage in terms of image and goodwill, and loss of income).

Denmark also states that the compensation received by DSB from Ansaldo Breda represents only provisional compensation for the economic losses resulting from the late delivery of the trains. The final amount of losses suffered by DSB will be determined at the time of delivery, and it will be possible to establish the total amount of compensation payable by Ansaldo Breda.

(120) The Danish authorities therefore consider that this compensation will correspond exactly to DSB's economic losses and will therefore be neutral in terms of DSB's accounting. For the same reason, the net effect of the compensation from Ansaldo Breda does not constitute overcompensation for DSB. The late delivery of the trains did not therefore confer an economic advantage on DSB and nor will it do so in the future.

(121) Finally, the Danish authorities point out that, even if these factors are not taken into account, the Danish Government's dividend policy ensures that any positive effect of the compensation received by DSB would be eliminated during the payment of dividends.

iii. Specific case of the Copenhagen – Ystad link

Public transport service compensation

(122) The Danish authorities specify that it was only the operation of the route by DSB in the period 2005-14 which gave rise to compensation.

(123) Three time periods should be differentiated regarding the operation of this route:

— until 2002, the route was operated as a 'free traffic activity', that is to say in conditions of full competition, with no compensation paid and no obligation imposed by the State. DSB was therefore required to keep separate accounts for this route, which was to show a surplus over a total period, with only income derived directly from the route being taken into account;

— in 2002, DSB decided to stop operating the route under the 'free traffic' scheme and a negotiated contract was concluded between the Ministry of Transport and DSB, for the operation of the route as 'public traffic' from 2002 to 31 December 2004 inclusive. However, the contract did not provide that any separate or additional payment should be made to DSB for discharging public service obligations.

— when the transport contract for the period 2005-14 was concluded, it became possible for the compensation paid to DSB also to apply to the Copenhagen-Ystad route,

(124) Denmark therefore states that no public funds were paid for the operation of the route before 2005.

(125) The Danish authorities also point out that this route made a loss when it was operated under the free traffic scheme, and the fact that a very small proportion of the revenues actually collected may be due to the indirect consequences of the start of operation of the Copenhagen-Ystad route by DSB cannot be used as an argument to claim that DSB must have received overcompensation. In any event, DSB would have been naturally entitled to obtain a reasonable profit in the form of a return on the capital invested. In the view of the Danish authorities, this is not sufficient to claim that the actual receipts resulted in overcompensation for DSB, if making a reasonable profit is taken into account.

Ferry crossing

(126) Regarding the question of DSB's costs for the sale of tickets which include the ferry crossing between Ystad and Rønne (the port of arrival on the island of Bornholm), the Danish authorities have submitted explanations of the prices charged by Bornholmstrafikken, the ferry operator. According to the Danish authorities, those explanations show that there was no application of different prices in relation to DSB and Gråhundbus.

(127) The Danish authorities have also provided information about the conditions under which the Rønne-Ystad ferry connection is operated by Bornholmstrafikken A/S. On the basis of a contract concluded with the Danish Government following a tendering procedure:

— the contract between the Danish Government and Bornholmstrafikken stipulates a general obligation requiring Bornholmstrafikken to coordinate its arrival and departure times with those of the operators of bus and train lines between Copenhagen and Ystad,

— it also contains clauses requiring Bornholmstrafikken to develop cooperation in terms of tickets with the bus or train line operator operating the Copenhagen-Ystad route by train or bus during the term of the contract, so that travellers can purchase a combined ferry and bus/train ticket at a discount;

— the maximum prices which Bornholmstrafikken is authorised to charge are fixed by the contract,

— the contract does not contain any other provision relating to price requirements or the introduction of discounts, and the Danish Government has no reason to stipulate further requirements subsequently in that respect,

(128) According to the Danish authorities, it follows therefore that the Danish Government cannot exert any influence over Bornholmstrafikken's operations other than ensuring that Bornholmstrafikken complies with the provisions of the contract. Bornholmstrafikken applies identical prices in relation to DSB and Gråhundbus respectively (and has always done so throughout the period in question since 2000), so DSB has not received an advantage.
The Danish authorities state, nevertheless, that the only price which applies only to DSB is the special price for DSB Orange with Great Belt crossing. This price concerns a very specific type of DSB ticket which can be used only by customers who purchase a DSB Orange ticket when leaving Jutland for Bornholm. According to the Danish authorities, Bornholmstrafikken gives a discount on this particular type of ticket because it wants to attract more custom from Jutland to Bornholm. This special discount is not imposed by the contract between the Danish State and the ferry operator. It is therefore the result of a commercial intention to develop business in Jutland and thereby to develop business as a whole.

In this respect, the Danish authorities regard it as a general commercial measure which involves giving discounts with the aim of growing the business. They specify that Gråhundbus operates the Copenhagen-Ystad route, and so does not cross the Great Belt. In their view, therefore, it is obvious that the discount relating to this journey should not appear in the prices charged by Gråhundbus.

The Danish authorities also specify that this offer was taken up by only around [...] (*) passengers during the period 2003-08. Since the initiative was taken by the operator, this offer could have been opened up to bus companies wishing to offer the same service. The Danish authorities also indicate that this commercial offer was withdrawn in 2009.

Denmark therefore considers that DSB did not receive an advantage associated with the operation of the Copenhagen-Ystad route, either in the form of overcompensation or in the form of particularly low prices for the Rønne-Ystad ferry crossing.

The fourth criterion in the judgment in Altmark

Regarding the question of whether the compensation was determined on the basis of an analysis of the costs which would be incurred by a typical, well-run undertaking, the Danish authorities take the view, in the context of DSB’s formation, as an independent undertaking, that all the necessary and practically feasible analyses were carried out.

They also point out that DSB’s separation from the State was based on the Bernstein report, which contained a detailed analysis of the options for increasing DSB’s efficiency (20) and which was subsequently implemented in a wider-ranging restructuring plan in 1996. These measures had the effect of causing DSB’s returns to rise, and its productivity increased by 32%.

In the context of DSB’s formation, the Danish authorities established a 10-year budget, based on several initial assumptions including an improvement in productivity, which was used to fix DSB’s operating grant for the period 1999-2004.

The budget, which was contained in Act No 249 of 11 June 1999, was based on the assumptions of a 6% return on equity after tax, which the Danish authorities had deemed to constitute a reasonable profit.

According to the Danish authorities, the operating grant was therefore the result of an overall assessment of costs, receipts and a reasonable profit carried out on the basis of the information which was available in 1999 and in accordance with market economy principles. They claim that the establishment of the 10-year budget and the subsequent calculation of the contractual payments made to DSB were carried out in compliance with the fourth criterion in the judgment in Altmark.

The Danish authorities also refer to EU case-law (21) and emphasise the difficulty, in this case, of making a specific comparison with another operator.

Compatibility

Should the Commission conclude nonetheless that State aid was granted to DSB, the Danish authorities are of the opinion that this compensation is in any case compatible with the internal market.

It is their view that, in the context of the conclusion of the negotiated contracts, the most exhaustive analyses and calculations possible in practice were carried out with a view to guaranteeing the correct calculation of the compensation.

The Danish authorities are in agreement with the Commission’s reasoning in its decision initiating the procedure, according to which the compensation may be deemed compatible with the internal market if it fulfils the third criterion in the judgment in Altmark.

As indicated above, the Danish authorities believe that everything that could reasonably be required to guarantee that DSB did not receive any overcompensation was done, and that it should be concluded – at the very least – that the contractual payment received by DSB under the negotiated contracts constitutes aid compatible with the internal market.

(*) Confidential information
(20) The Bernstein report was produced in 1993 following an expert report requested by the Danish Ministry of Transport.
COMMENTS SUBMITTED BY DSB

(143) On the other hand, as stated above, the Danish authorities do not agree with the Commission’s reasoning concerning the distinction between public transport service contracts and public service obligations as regards the legality of the aid. They consider that if DSB received State aid, that aid would not have had to be notified. If the Commission were to maintain its reasoning, this would be tantamount to making a fundamental and unwarranted distinction according to whether or not a Member State which imposes an obligation on a wholly State-owned undertaking to discharge transport activities falls under the description of the scope, quality and price of the services in a contract.

(144) In the light of the above, the Danish authorities are of the view that there is no reason to require a refund of State aid which could be regarded as incompatible with the internal market.

Payroll tax

(145) The Danish authorities point out that the Commission, having been informed that the exemption from payroll tax was due to be abolished, had not examined the issue of that tax in this procedure.

(146) For information, the Danish authorities have stated that the changes to payroll tax were introduced by Act No 526 of 25 June 2008 and that they entered into force on 1 January 2009.

The legal basis for the review of compatibility

(147) The Danish authorities stated by letter of 8 January 2010 that they had no particular comments concerning the Commission’s determination of the applicable legal basis (Regulation (EEC) No 1191/69 or Regulation (EC) No 1370/2007).

6. COMMENTS BY INTERESTED PARTIES FOLLOWING THE INITIATION OF THE PROCEDURE

(148) Comments have been submitted by DSB, the beneficiary of the measures in question, and by DKT, the second complainant. It should be emphasised that Gråhundbus, the first complainant, has not submitted any comments.

6.1. COMMENTS SUBMITTED BY DSB

(149) By letter of 30 December 2008, DSB submitted its comments on the Commission’s decision initiating the procedure.

(150) DSB indicates that it agrees with all of the Danish authorities’ comments and confines itself to examining whether the Commission may require recovery of the aid if it were to conclude that the public transport service contracts involve State aid that is incompatible with the internal market.

(151) DSB considers that the recovery of such aid, in this case, would be contrary to the principle of legitimate expectations, thus obstructing the application of Article 14(1) 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 (22).

(152) First, DSB considers that it could legitimately take the view that the contractual payments from the Danish Government relating to the 5-year and 10-year contracts did not constitute State aid. It considers that the situation was not clear regarding the controls to be carried out to verify the existence of State aid in the field of land transport.

(153) DSB takes the view that it is necessary to go back to the time the transaction took place to assess whether the Danish Government granted an advantage to DSB. The fact that there may be a degree of uncertainty concerning the costs to the service provider and other possible sources of revenue could not in itself lead to the State being prevented from concluding an agreement at a price reflecting the market conditions. According to DSB, any agreement generally involves some uncertainty and, in normal contractual relations, it is the undertaking which takes on that risk. An arrangement in which DSB alone bears the risk of unforeseen fluctuations in ticket sales or expenses would, more than any other, give DSB an incentive to improve its services and to attract more travellers (23), enabling the State to get the best value out of the contractual payments it makes to DSB, which bears the risk in the event of a decline in performance, for example due to poor management or loss of revenue. DSB is therefore of the view that, at the time when the two contracts were concluded, the State acted as a rational investor optimising its options for obtaining the best possible yield from those contracts.

(154) Second, DSB considers that it had a legitimate expectation that the contractual payments would in any case fulfil the criteria laid down by Regulation (EEC) No 1191/69 and qualify for block exemption under that Regulation. It expresses doubts regarding the Commission’s interpretation of Article 14 of the Regulation.

(155) DSB points out that Section V of the Regulation – which does not contain any provisions relating to the amount of compensation – contrasts with Sections II to IV of the Regulation where public service obligations are concerned. According to DSB, the underlying aim of the Regulation was to guarantee reasonable compensation for operators. In terms of commitments entered

into voluntarily, transport operators bound by public service contracts are in a very different situation from operators on which the State unilaterally imposes public service obligations, and this is reflected in the Regulation. In those circumstances, the Commission cannot interpret Regulation (EEC) No 1191/69 in the light of Article 106(2) of the TFEU (2).

Finally, DSB does not agree with the Commission’s interpretation of Article 17 of the Regulation, according to which the notification exemption provided for applies solely to compensation for public service obligations and not to public transport service contracts.

The legal basis for the review of compatibility

DSB submitted its comments by letter of 8 January 2010. DSB disputes in principle the Commission’s application of Regulation (EC) No 1370/2007 to this case.

DSB points out that the transport contracts at issue between DSB and the Danish State were concluded before the adoption of the Regulation and before its entry into force. If the Regulation were to be applied, it would be legislation with retroactive effect, which DSB considers to be contrary to fundamental legal principles, including both the principle of legal certainty and the principle of protection of legitimate expectations. DSB also points out that there is no reason to believe that the EU legislator wished to give Regulation (EC) No 1370/2007 retroactive effect.

DSB points out that, on the contrary, the Regulation provides for a gradual introduction of the new rules and that the provisions of the Regulation are not in general valid for contracts which have already been concluded if they have a limited term. Since the term of the contracts in question is in line with that prescribed in the transitional provisions, DSB considers that they are governed solely by the legislation in force at the time when they were concluded (Regulations (EEC) No 1191/69 and (EEC) No 1107/70).

DSB also relies on the Commission’s most recent decision-making practice, in which the Commission considered that it was not possible to apply Regulation (EC) No 1370/2007 to contracts concluded before the entry into force of the Regulation on 3 December 2009 (2). (161) In the alternative, DSB submits information in support of the view that the public transport service contracts comply in any case with the provisions of Regulation (EC) No 1370/2007.

6.2. COMMENTS SUBMITTED BY DKT

DSB points out that the transport contracts at issue between DSB and the Danish State were concluded before the adoption of the Regulation and before its entry into force. If the Regulation were to be applied, it would be legislation with retroactive effect, which DSB considers to be contrary to fundamental legal principles, including both the principle of legal certainty and the principle of protection of legitimate expectations. DSB also points out that there is no reason to believe that the EU legislator wished to give Regulation (EC) No 1370/2007 retroactive effect.

DSB points out that, on the contrary, the Regulation provides for a gradual introduction of the new rules and that the provisions of the Regulation are not in general valid for contracts which have already been concluded if they have a limited term. Since the term of the contracts in question is in line with that prescribed in the transitional provisions, DSB considers that they are governed solely by the legislation in force at the time when they were concluded (Regulations (EEC) No 1191/69 and (EEC) No 1107/70).

DSB also relies on the Commission’s most recent decision-making practice, in which the Commission considered that it was not possible to apply Regulation (EC) No 1370/2007 to contracts concluded before the entry into force of the Regulation on 3 December 2009 (2). (161) In the alternative, DSB submits information in support of the view that the public transport service contracts comply in any case with the provisions of Regulation (EC) No 1370/2007.

Preliminary remarks

DKT refers to the information submitted to the Commission in the context of its complaint and to the contacts that took place prior to the initiation of the procedure.

DKT points out that the Commission’s decision initiating the procedure appears to refer only to DSB’s public transport service contracts concerning its traditional rail transport activities, and not to relate to urban transport activities carried out by its subsidiary DSB S-tog a/s, which are nevertheless referred to in its initial complaint.

DKT points out that the contracts relating to urban transport are of the same type and raise the same questions. In the light of this, DKT emphasises the fact that the present review by the Commission should relate also to the urban transport public service contracts.

In general, DKT considers that the criteria in the judgment in Altmark are not fulfilled in this case and that the contracts in question therefore involve the granting of State aid. DKT considers that aid to be incompatible and illegal and that the Commission should order its recovery.

The first criterion in the judgment in Altmark

Even though the Commission did not express any doubts concerning compliance with the first criterion in the judgment in Altmark, DKT has nevertheless submitted comments in this respect.

DKT considers that the wide discretion available to Member States in establishing public service obligations should not lead to arbitrary situations in which third parties are not able to challenge the reason why an activity is carried out under a public transport service contract. According to DKT, the Commission is required to state the reasons for the need to impose a public service obligation.
On the basis of the case-law of the Court of Justice and the decision-making practice of the Commission, DKT disputes the Commission’s analysis that there is no manifest error of assessment. DKT considers in particular that the existence of objectives relating to punctuality, quality and regularity of service is not sufficient to establish that a service should be regarded as a public service mission.

Rather, the Commission should conduct this analysis in the light of the criteria set out in Regulation (EEC) No 1191/69 and examine the proportionality of the public service missions. According to DKT, the Commission should examine in particular whether the operation of the services in question in accordance with the requirements of punctuality, quality and regularity would not be profitable.

DKT considers that public service compensation is justified only where transport services are not profitable and where compensation is therefore essential for their operation, which implies carrying out a separate examination of the finances of each of the rail links concerned.

The second criterion in the judgment in Altmark

DKT disputes the Commission’s reasoning that the 10-year budgets on which the calculation of DSB’s compensation is based would allow the second criterion in the judgment in Altmark to be fulfilled. It takes the view that those budgets do not contain the parameters and detailed cost analysis making it possible to establish the level of compensation required for each of the rail lines concerned.

The third criterion in the judgment in Altmark

DKT considers that fulfilment of the third criterion in the judgment in Altmark should be analysed in conjunction with fulfilment of the fourth since, if an undertaking cannot be regarded as a typical, well-run undertaking, examination of whether or not the third criterion has been met becomes superfluous because it cannot be based on an analysis of that undertaking’s costs.

The fourth criterion in the judgment in Altmark

DKT points out that the award of the public transport service contracts in question was not the subject of a tendering procedure. In addition, DKT shares the Commission’s doubts as to whether the 10-year budgets and the methodology applied by the Danish State would allow the fourth criterion in the judgment in Altmark to be fulfilled.

In that regard, DKT submits, in particular, that the tendering procedures organised for certain lines showed that DSB’s competitors were able to operate services at a cost around 27% lower than DSB’s costs. Similarly, DKT points out that DSB uses statutory costs, which precludes compliance with the fourth criterion in the judgment in Altmark.

The incompatibility of overcompensation

DKT does not agree with the Commission’s reasoning concerning the issue of the compatibility of the aid. It takes the view that Regulation (EEC) No 1191/69 draws a distinction between, on the one hand, an approach based on real costs included in Sections II, III and IV of Regulation (EEC) No 1191/69 and, on the other hand, an approach based on the price quoted by one service provider compared with that quoted by a competitor for providing the same service, included in Section V of Regulation (EEC) No 1191/69. According to DKT, this distinction is reflected in the differences in nature between public service obligations and public transport service contracts, which are based on different procedural requirements.

Consequently, the Commission’s reasoning, based on a real costs approach and the principles associated with the implementation of Article 106(2) of the TFEU, cannot be applied to the examination of a price laid down in connection with public transport service contracts. DKT considers such an approach to be contrary to Community case-law (judgment in Combus), the Commission’s practice (Community framework for State aid in the form of public service compensation (26)) and the actual decision to initiate a procedure, which confirms the lex specialis nature of Article 93 of the TFEU.

Based on the observation that, in this case, the Commission intends to apply an approach based on the real costs where public transport service contracts are concerned, DKT has formulated comments on that approach.

DKT considers that the information submitted by the Danish authorities to support the absence of overcompensation is incorrect. DKT puts forward several arguments:

— DSB was able to reduce its costs significantly during participation in tendering procedures on certain lines,

— Furthermore, the public transport service contracts require DSB to have a sound financial situation, which reflects the fact that the contractual payments are greater than the payments that are strictly necessary to offset costs relating to public service obligations;

— The level of the contractual payments is not justified appropriately, and the 10-year budgets were tailor-made to guarantee DSB a certain level of profit without relying on a detailed analysis of DSB’s costs and income for each of the lines concerned,

— The compensation system is based on an anticipated return on equity, without being limited to compensation for additional expenditure,

— According to the calculations submitted by DKT, the main rail link between Copenhagen and Aarhus is profitable, taking into account the obligations currently imposed on DSB, and should not therefore have been the subject of a public service obligation,

— Moreover, DSB’s claimed productivity gains are not consistent with the financial data showing an increase in staff costs in relation to income over the period concerned,

— Similarly, DKT challenges the accuracy of the DKK 1 billion reduction in the contractual payments; it claims, rather, that the figure is DKK 647 million according to the company’s annual accounts,

— DKT claims that DSB’s targets (in train/kilometres) for the period 2000–04 were not achieved – which would have justified a reduction in the contractual payments – and that DSB received compensation for rolling stock costs which it was not obliged to bear in view of the late delivery;

— Finally, DKT considers that DSB could itself have borne the costs of the financial consequences of the late delivery of the rolling stock, particularly with regard to the replacement rolling stock, considering its substantial profits. DKT alleges that DSB received DKK 225 million from AnsaldoBreda as compensation for the delays, which should have been transferred to the Danish State which, according to DKT, suffered the related loss. DSB allegedly received surplus contractual payments of DKK 104 million for rolling stock which was not put into service.

(180) According to DKT, DSB’s high profit levels are, for the following reasons, proof that the company was overcompensated:

— DSB’s results exceed the profit levels that a company exposed to a similar risk, namely a low risk, could reasonably expect,

— DKT refers to a study carried out in connection with its complaint which shows that DSB’s pre-tax operating margin (12.3 % for 1999–2004 and 12.77 % for 1999–2007) exceeds that of other rail transport companies in Europe (2.21 %–4.47 % in the United Kingdom; 3.35 % in Sweden; 0.49–4.65 % in Germany and 0.8–3.77 % for France’s SNCF) and exceeds the level cited by the Commission in another, similar procedure (27);

— DKT considers that DSB’s profits are also far in excess of those of its domestic competitors, as far as public transport service contracts are concerned (DSB (12.77 %); DSB S-tog (10.45 %); Arriva (4.39 %); Metro Service (6.18 %)),

— DKT emphasises that DSB’s profits are clearly in excess of the 6 % return on equity fixed by the Danish State as a target for DSB, and DKT assesses these profits at DKK 3,678 billion,

(181) Finally, DKT considers that the argument that the payment of dividends made it possible to avoid any overcompensation must be disputed for the following reasons:

— public transport service contracts do not contain any mechanism for refunding contractual payments in the event of their exceeding the level that is strictly necessary for offsetting the costs of fulfilling a public service obligation,

— in this case the Danish State is confusing its role of investor and shareholder in a public undertaking with its role as a public authority, which allows it to provide compensation for public service obligations,

— the collection of dividends cannot in itself cancel out either the economic effects of overcompensation or the distortions of competition, the effects of which remain present on the market,

— the argument relating to the payment of dividends leads to discrimination between public and private undertakings,

— the Commission’s framework for aid in the form of public service compensation provides only for the option of carrying forward up to 10 % of an overcompensation each year,

— there is no direct link between overcompensation and the amount of dividends collected by the Danish State, the principle of which was stated, moreover, in the 10-year budgets before any overcompensation was established,

Payroll tax

(182) DKT indicates that the payroll tax exemption was abolished by the Danish State in 2008. It refers to a Danish draft law in which the cost of DSB’s no longer being exempt from that tax was estimated at DKK 80 million per annum. On that basis, DKT considers that the tax exemption had a significant negative effect on competition amounting to approximately DKK 800 million over 10 years, a sum which was to be recovered by the Danish State.

(183) Moreover, DKT has drawn the Commission’s attention to the fact that the Danish State had allegedly decided to compensate DSB for no longer being exempt from that tax in the future by increasing the contractual payments.

(184) DKT would like the Commission to examine this issue as part of this procedure, because procedure CP78/06, to which the Commission referred in the decision initiating the procedure, has since been closed.

The legal basis for the review of compatibility

(185) On 10 January 2010, DKT sent the Commission its observations on the choice of Regulation (EEC) No 1191/69 or Regulation (EC) No 1370/2007 as the appropriate legal basis.

(186) DKT considers that, since Regulation (EC) No 1370/2007 did not enter into force until 3 December 2009, the review of the compatibility of the aid measures in question on the basis of that Regulation was an error of law. After recalling a number of principles related to the use of the EU rules on State aid ratione temporis, DKT stated that a distinction should be made according to whether or not the case concerns notified aid measures. DKT referred to the judgment by the Court of First Instance in SIDE (28) as a basis for establishing that, in this case, the Commission should conduct the review of compatibility on the basis of Regulation (EEC) No 1191/69.

(187) DKT’s conclusion is based in particular on the fact that the public transport service contracts in question cover the periods 1999-2004 and 2005-14 and that the aid is granted at the time when the monthly contractual payments are made. DKT also points out that Regulation (EC) No 1370/2007 does not contain any provision concerning State aid that has already been granted or is the subject of an investigation procedure. In addition, the decision of 10 September 2008 initiating the procedure does not refer to the new Regulation, although that Regulation had already been adopted. Finally, DKT also highlights a contradiction with the Commission notice on the determination of the appropriate legal basis.

(188) At the very least, DKT considers that Regulation (EC) No 1370/2007 could constitute the appropriate legal basis for the review of compatibility only for the future effects of public transport service contracts, that is to say contractual payments made after 3 December 2009.

7. DENMARK’S COMMENTS ON THE OBSERVATIONS SUBMITTED BY INTERESTED PARTIES

(189) According to Denmark, DKT’s observations do not result in a different assessment of the facts in question. Denmark maintains that the four criteria in the judgment in Altmark are fulfilled in this case and that DSB did not receive any overcompensation.

The extent of the Commission’s review

(190) Denmark takes the view that contracts related to urban and suburban transport are not covered by the formal review procedure and that there is therefore no need to comment on DKT’s views with regard to those contracts.

(191) Denmark indicates nevertheless that DSB S-tog a/s is a wholly-owned subsidiary of DSB SV and that the data relating to DSB S-tog a/s are included in the consolidated accounts of the DSB group and the data submitted by the Danish authorities.

(192) The Danish authorities have specified that the projected and contractual payments relating to transport by S-tog were also determined on the basis of a 6 % return on equity after tax. The results obtained by DSB S-tog a/s were included in the budget of DSB SV, and the contractual payments to be made to the company for long-distance and regional transport were calculated accordingly. In addition, the operating profit generated by the subsidiary DSB S-tog a/s is included in the consolidated results of DSB SV. The profit from S-tog’s activities is therefore included in the overall financial results of DSB SV.

The criteria in the judgment in Altmark

(193) According to Denmark, the comments submitted by DKT do not challenge the fact that the four criteria in the judgment in Altmark are fulfilled in this case.

(194) With regard to the first criterion, the Danish authorities argue that the Commission has not expressed any doubts in this respect. The question of whether the Copenhagen-Århus line constitutes a public service obligation is, moreover, dealt with below.

(195) With regard to the second criterion, the Danish authorities argue that the Commission has not expressed any doubts regarding the period up to 2008 and specify that, for the period between 2009 and 2014, the compensation paid to DSB was also calculated on the basis of a 10-year budget submitted to the Commission.

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With regard to the third criterion, DKT has stated that it is only necessary to examine this criterion if the fourth criterion has been fulfilled. The Danish authorities do not share that opinion and consider that it is perfectly possible to examine the criteria independently of each other and in the order followed by the Court in the judgment in Altmark.

Concerning the fourth criterion, the Danish authorities dispute DKT's arguments tending to the conclusion that this criterion is not fulfilled. They specify that the 10-year budgets were prepared on the basis of all the available data and a satisfactory cost analysis including long-term prospects for improvement. In addition, the budget was revised during the negotiation of the second contract, and the contractual payments were reduced to take account of efficiency gains. The Danish authorities have also pointed out that the fact that, for historical reasons, the company bears extraordinary costs as regards employees taken on as public servants has no bearing on whether or not the company is well managed. They also state that there are substantial differences in terms of capital structure, risk profile, etc., between the various rail companies, which makes comparisons with other companies impossible. Similarly, the fact that DSB First was able to tender more cheaply — at first sight — for the Kystbanen line is not a reflection, or indeed an indication, of the fact that the payments hitherto made to DSB were excessive, because that tender was submitted by a separate company and was based on different parameters (contract staff only, newer equipment, fewer staff on board).

**Compatibility**

Denmark has pointed out its doubts as to the argument set out by the Commission concerning the implementation of Regulation (EEC) No 1191/69, which it regards as fraught with considerable legal uncertainty, particularly with regard to the notification requirement for public transport service contracts.

Denmark does not share DKT's interpretation, in particular as to the use of the word ‘price’ in Article 14(2)(b) and the non-applicability of the rules on State aid in cases where Regulation (EEC) No 1191/69 applies.

**i. General remarks concerning the analysis**

Denmark strongly disagrees with DKT’s argument that the compensation was to be determined on the basis of analyses of the costs for each individual line. There is no legal basis which makes it possible to require that the compensation paid under a global contract for the discharging of a public service obligation should be calculated on the basis of analyses, at a ‘microlevel’, of each of the obligations accepted by the service provider.

The Danish authorities also dispute DKT’s interpretation of the judgment in Case T-17/02 Fred Olsen S.A. v Commission and emphasise that this case concerns a coherent, integrated network operated under a global negotiated contract. The fixing of the level of compensation on the basis of a line-by-line analysis is superfluous and could lead to misleading results. It would cause greater uncertainty regarding the distribution of common charges than a summary statement of all receipts and costs connected with the discharging of the public service obligations imposed by the contract.

They point out, on the other hand, that DSB's accounting data relating to the services provided under the contract may be examined independently because they are based on separate accounts.

**ii. Copenhagen-Århus link**

The Danish authorities do not share the view that services which can be provided without financial assistance cannot constitute a public service obligation. The State is quite entitled to decide to include the provision of such services in a service obligation that is fairly wide in scope (requirements in terms of departure times, capacity, fares, etc.), which is the case here because this line is closely integrated with the rest of DSB’s services due to the connecting services to the north of Århus, the connection with other lines and the splitting and combining of trains from other sections of line.

In addition, the Danish authorities have stated that the compensation paid to DSB is calculated on the basis of the revenues and costs connected with all of its public service obligations. If lines or certain services likely to make a profit are included, the related receipts are therefore integrated into the accounts as a whole. Consequently, the exclusion of certain lines capable of making a profit in themselves would only result in an increase in the total aid paid to DSB, and the inclusion of a non-loss-making line does not necessarily lead to overcompensation.

Moreover, the Danish authorities have pointed out that DKT’s calculations concerning the Copenhagen-Århus line are inaccurate, and put forward evidence confirming that claim. They stress that DKT does not make it sufficiently clear how the calculations were done, and they say they are not familiar with the figures submitted. According to Denmark, an optimistic assessment leads to revenues on this line over DKK [...] million lower than those cited by DKT, [...]..

**iii. Productivity**

The Danish authorities dispute the argument that DSB had not made significant productivity gains in 1999-2007. They challenge DKT’s method of calculation based on a ratio between nominal staffing costs and turnover. DSB’s turnover is influenced, however, by a number of micro- and macroeconomic factors, which means that there is no constant proportional correlation between DSB’s production and turnover (factors: local competition, changes in the economic situation, political priorities, inflation, changes in the social composition of passengers, etc.).
The Danish authorities propose two methods for assessing the productivity of DSB’s activities:

— DSB’s production, measured in terms of the number of passenger-kilometres (increase of 1.8% a year between 1999-2007) related to the number of employees (full time equivalents),

— DSB’s production related to staffing costs in real terms (that is to say, corrected for wage inflation),

These two methods show an increase in productivity of, respectively, 1.9% and 2% per year.

iv. Reduction in the contractual payments

The Danish authorities assert that the figures put forward by DKT in that regard are incorrect. The ‘contractual payments’ appearing in DSB’s accounts and used by DKT concern both the contract concluded with the State which is involved in this case and other payments relating to other contracts (contracts concluded by DSB in Sweden; a contract with Hovedstadens Udviklingsråd (HUR) and a temporary transport contract on the Langå-Struer line).

They explain that the reduction of DKK 1 billion follows clearly from the Finance Act for 2003 (Article 28.61.01, paragraph 10). The Finance Acts for 2003 and 2004 also show that the amounts which had been reduced in 2003 and 2004 were adjusted upwards. Denmark submits a summary table showing that the total reduction amounted to DKK 1,018 billion.

v. Train-kilometres

The Danish authorities state that the obligation provided for in the contract in terms of production of train-kilometres is lower than the figure submitted by DKT, because account has to be taken of the tendering procedure relating to the transport service for Central and Western Jutland in November 2003. They provide the correct figures in a table, which show that, in total, DSB carried out 1.5 million train-kilometres more than was envisaged in the contract, and it cannot be claimed therefore that DSB received compensation for services which were not provided. In addition, they stress that DSB sent a quarterly report on its contractual production to the Ministry of Transport.

vi. DSB’s results

Denmark considers that DSB’s provisional budget – based on a predicted 6% profit ratio – was reasonable and realistic. The fact that the profit ratio turned out to be higher than projected is due to a series of unforeseeable circumstances, the effect of which the Danish Government eliminated by means of an extraordinary reduction in the contractual payments on the one hand, and by collecting dividends on the other.

Moreover, the Danish authorities challenge the relevance of the data on the performance of European passenger rail transport undertakings. They also highlight the difficulty of carrying out such comparisons (differences in capital structure and level of capital invested, operating risks, macroeconomic and structural factors influencing undertakings’ accounting data) and cite a report by the European Commission which does not portray DSB as being more profitable than its competitors on the European market.

Moreover, Denmark does not dispute that the progression in DSB’s trading performance proved more favourable than envisaged in the initial budgets. However, the Danish authorities provide clarification concerning the effects of the changes in rates of taxation and submit a summary table of DSB’s results.

Finally, Denmark has submitted recent data relating to DSB’s financial situation, specifying that the after-tax profit for the public service activity was DKK 670 million in 2007 and DKK 542 million in 2008 respectively.

vii. Dividend policy

Denmark takes the view that, combined with a detailed budget, dividend policy is a highly effective way of guarding against overcompensation because it is a tool which offers flexibility in avoiding overcompensation in the event that the working hypotheses in the budget prove deficient. Dividend policy acts as an addition to the detailed budget underlying the transport contract.

The Danish authorities state that the compensation is defined in advance on the basis of a substantiated estimate of income and costs and that it is not an unlimited resource for DSB. They also specify that if the real figures indicate a shortfall compared with the provisional budget – for example, due to an unintended increase in costs (management errors, increases in wages, costs or purchases) or due to a loss of income associated with a decline in business compared with predicted levels, DSB is also unable to obtain additional compensation from the State. DSB therefore assumes a share of the risk in the event of poor performance.

Consequently, dividend policy plays the role of an additional safeguard against overcompensation in cases where the results indicate a positive discrepancy compared with the provisional budget. It is a flexible instrument which the State can use to ensure that a given amount is collected from the company.
Denmark specifies that DSB was not able to profit from any advantage in terms of liquid assets so as to distort competition on the market by offering other services etc., in particular by means of cross-subsidisation.

The Danish authorities specify that DSB has in total paid DKK 3,469 billion more in dividends for the financial years 1999 to 2007 than projected. DSB paid the Danish State dividends of DKK 607 million in 2007 and 359 million in 2008.

Even though it is true that the dividend payments were not made exclusively on the basis of a calculation aimed at determining any overcompensation, the amount of the dividends charged by the Government clearly exceeded the disparity between the predicted results and the actual results. In so far as DSB achieved results in excess of the provisional figures, all of that surplus was taken out of the company in the form of dividends. Consequently, Denmark considers that no overcompensation took place.

viii. Introduction of a refund mechanism

In formulating its observations and in discussions with the Commission, Denmark indicated that it intended to introduce a refund mechanism in the relevant public transport service contracts with DSB.

The mechanism under consideration has the following features.

Operation of the refund mechanism

According to the Danish authorities, if they had perfect information about DSB’s performance in advance, the compensation mechanism would have to be expressed using the following formula:

\[ \text{Total revenue (passengers + contractual payments)} - \text{reasonable profit} - \text{Total expenditure} = 0 \]

The Danish authorities point out, however, that they do not have access to perfect information for the whole term of multiannual contracts and that, consequently, this formula is rarely equal to zero in practice.

In the current system, the formula is in fact adjusted on the results side (right side of the formula) by using the dividend policy. Another solution considered by the Danish authorities would be to carry out adjustments to the total revenue (left side of the formula) by adjusting the contractual payments using an annual refund mechanism.

The size of the adjustment should correspond to the gross reduction expressed in the formula below.

\[ \text{Total revenue} - \text{reasonable profit} - \text{Total expenditure} = \text{gross reduction} \]

Corrections concerning efficiency and qualitative improvements (net reduction)

In order to ensure that DSB continues to have an incentive to improve its efficiency and to attract new passengers, the refund clause should make it possible, according to the Danish authorities, to reward improvements in the undertaking’s performance gauged by predetermined parameters. DSB should therefore be able to retain part of the gross reduction in so far as the gross reduction (which is equivalent to a reasonable profit/return on equity greater than that specified in the formula) is due to:

— a reduction in costs per passenger-kilometre and/or,

— an increase in the number of passengers measured in terms of passenger-kilometres.

The Danish authorities are therefore considering modulating the refund mechanism as follows:

— if DSB has reduced its costs (per passenger-kilometre) compared with the average cost over the past 4 years, that improvement will be calculated (cost differential as a percentage multiplied by a total cost base), and

— if the number of passengers increases, the increase in passenger traffic measured in passenger-kilometres will be multiplied by DKK 0.80, and the gross reduction will also be reduced by that amount \( ^{30} \).

The Danish authorities have specified that the total reductions on account of improvements in performance may not exceed the gross reduction in a given year. The net reduction will therefore be between zero and the gross reduction.

The refund mechanism would therefore have to follow this formula:

\[ \text{Refund mechanism} = \text{gross reduction} - \text{variable (} \Delta + \text{Pas.km } \Delta ) \text{ = net reduction} \]

\( ^{30} \) The amount of DKK 0.80 is approximately equal to the unit yield per passenger-kilometre in regional and interregional rail transport.
Effect on dividend policy

(232) The Danish authorities have stressed that the introduction of such a refund mechanism would have a significant impact on the Danish State's dividend policy, as indicated in the table below:

<table>
<thead>
<tr>
<th>Public service activities</th>
<th>Comercial activities</th>
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</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>Income</td>
</tr>
<tr>
<td>— Total Costs</td>
<td>Revenue</td>
</tr>
<tr>
<td>— Refund mechanism</td>
<td></td>
</tr>
</tbody>
</table>

Profit/loss- Public service activities

Profit/loss- Commercial activities

DSB dividend policy

\[
\text{Profit/loss- Public service activities} + \text{Profit/loss- Commercial activities} \rightarrow \text{Tax, net profit/loss and dividends}
\]

Refund mechanism and maximum level of reasonable profit

(233) The Danish authorities have also indicated that this refund mechanism would be supplemented by the introduction of an upper limit which will ensure that DSB is not awarded an amount of profit exceeding what is regarded as a reasonable level.

(234) The Danish authorities are considering setting this upper limit in relation to DSB's return on equity which, above the 6 % level established in the contract, would take account of the additional profits generated by increases in efficiency or in passenger numbers. This upper limit would be established using the following formula:

\[
\frac{\text{Reasonable profit} \ (6 \%) + \text{variable} \ (\Delta, \text{pas.km} \Delta +)}{\text{Equity capital}} < 12 \%
\]

(235) The incentive factors in the refund mechanism may therefore give DSB an additional advantage if the company improves its costs structure or if passenger numbers increase (\(\Delta + \text{pas.km} \Delta\)).

(236) The Danish authorities have specified that the calculation takes into account only the share of DSB's equity capital which corresponds to its public service activity on the basis of the accounting separation.
According to this mechanism, the upper limit on the reasonable profit could be fixed at a 12% return on equity capital. The Danish authorities specify that the annual limit is set at 10% spread over 3 years.

**Empirical demonstration**

The Danish authorities have provided the Commission with an analysis demonstrating empirically what the impact of such a refund mechanism would have been over the period 2004-08, as indicated in the table below:

| Public service activities (million DKK) | Pre-tax result | Reasonable profit (return on equity 6% before tax) | Gross refund | Estimate of equity capital | Passenger km (million) | Cost per passenger km (DKK/km) | Difference cost per passenger km (4 years) | DSB's increase in efficiency | Improvements in passenger km | Refund – net reduction | DSB's total improvements | Refund – net reduction | DSB's returns | Return on equity after refund mechanism (%) | Average return on equity after refund (%)
<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>943</td>
<td>594</td>
<td>349</td>
<td>6 931</td>
<td>4 353</td>
<td>1,25</td>
<td>3%</td>
<td>151</td>
<td>78,4</td>
<td>230</td>
<td>119</td>
<td>824</td>
<td>11,9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>919</td>
<td>575</td>
<td>344</td>
<td>6 906</td>
<td>4 392</td>
<td>1,32</td>
<td>-3%</td>
<td>0</td>
<td>31.2</td>
<td>31.2</td>
<td>312</td>
<td>607</td>
<td>8,8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>977</td>
<td>583</td>
<td>394</td>
<td>6 994</td>
<td>4 526</td>
<td>1,3</td>
<td>-2%</td>
<td>0</td>
<td>107</td>
<td>107</td>
<td>287</td>
<td>690</td>
<td>9,9</td>
<td>10,2</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>724</td>
<td>569</td>
<td>155</td>
<td>7 108</td>
<td>4 635</td>
<td>1,31</td>
<td>2%</td>
<td>0</td>
<td>115</td>
<td>87</td>
<td>202</td>
<td>0</td>
<td>724</td>
<td>10,2</td>
<td>9,6</td>
</tr>
<tr>
<td>2008</td>
<td>717</td>
<td>523</td>
<td>188</td>
<td>6 609</td>
<td>4 759</td>
<td>1,33</td>
<td>-2%</td>
<td>0</td>
<td>99</td>
<td>99</td>
<td>89</td>
<td>628</td>
<td>9,5</td>
<td>9,9</td>
<td></td>
</tr>
</tbody>
</table>

According to the public service activities for DSB, the application of the refund mechanism would therefore have led to returns on equity varying between 8.8% and 11.9% over the period 2004-08.

Due to the rule specifying 10% on average over 3 years, which was exceeded by 0.2% in 2006, the refund mechanism would have resulted in a repayment of DKK 38 million for that financial year.

**Payroll tax**

Denmark states that the payroll tax exemption has now been abolished.

According to the Danish authorities, that exemption did not result in any economic advantage for the companies which benefited from it, such as DSB. The exemption was taken into account in the contract, just as it was taken into account during the tendering procedures relating to the transport contracts etc., thus ensuring that all bidders were on an equal footing.

As regards possible compensation for DSB following its no longer being exempt from payroll tax, the Danish authorities point out that the contractual payments made to DSB had initially been calculated on the basis that DSB was not required to pay payroll tax. The compensation had therefore been 'reduced' by that amount. As DSB is now liable for payroll tax, the basis on which the compensation is calculated was no longer valid, and compensation was paid to DSB to take account of this change in the calculation parameters.

The compensation amounts to approximately DKK 80 million a year and relates solely to DSB's public service activities.
According to Denmark, the payroll tax exemption and its subsequent abolition consequently had a neutral effect on DSB’s finances.

8. ASSESSMENT OF THE MEASURES CONTAINED IN THE PUBLIC SERVICE CONTRACTS

8.1. SCOPE OF THE DECISION

This Decision concerns the compatibility with the Community rules on State aid of the public transport service contracts concluded between the Danish Ministry of Transport and Danske Statsbaner.

The initiation of the procedure on 10 September 2008 and, in particular, the comments of the Danish authorities and the observations of the interested parties have enabled the Commission to define the extent and scope of the various public transport service contracts at issue, the procedures for determining the public service compensation and all of the circumstances that could have led to Danske Statsbaner being overcompensated.

Consequently, the Commission has identified four public transport service contracts relating to the periods 2000-04 and 2005-14 and concerning main line, regional and suburban transport services, which are likely to contain elements of State aid (see recitals 28, 46, 50 and 69 above). There are also the additional contracts concluded to deal with the late delivery of rolling stock (see recital 114).

The Commission points out in that regard that the interested parties have submitted their observations on the various outstanding problems and doubts expressed by the Commission in its decision initiating the procedure, in relation to all of those contracts.

The Commission has also examined whether there are any other fiscal measures of relevance to the compatibility of the public service compensation at issue (13).

8.2. EXISTENCE OF AID

Article 107(1) of the Treaty on the Functioning of the European Union reads as follows: ‘Save as otherwise provided in the Treaties, 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’.

8.2.1. STATE RESOURCES

The public transport service contract provides for the payment of compensation to DSB for the discharging of the public transport service contract through the budget of the Danish State. That compensation is therefore paid through State resources.

8.2.2. SELECTIVITY

DSB, an undertaking within the meaning of Article 107(1) of the TFEU, is the sole recipient of the public service compensation provided for in the contracts. The measure is therefore selective within the meaning of Article 107(1) of the TFEU.

8.2.3. ECONOMIC ADVANTAGE

According to the Court of Justice, an undertaking does not receive an economic advantage where the compensation for a public service complies with the four criteria laid down in the judgment in Altmark. It is therefore necessary to examine whether the public transport service contracts concluded between the Danish Government and DSB fulfil these four criteria cumulatively.

Since the four criteria laid down by the judgment in Altmark are cumulative, failure to comply with just one of those criteria is sufficient to verify that the measures under review confer a selective advantage. In the interests of clarity and in view of the specific circumstances of the case, the Commission will analyse first whether the undertaking in this particular case really has been charged with a public service obligation and, in that capacity, receives compensation which is established on an objective and transparent basis (the first two criteria in Altmark) and will then examine specifically whether that undertaking was chosen pursuant to a public procurement procedure or, failing that, whether the compensation was determined on the basis of an analysis of the costs that would be incurred by a typical, well-run undertaking in discharging its obligations (fourth criterion in Altmark).

First criterion: recipient undertaking must actually have clearly defined public service obligations to discharge

In its decision initiating the procedure, the Commission observed that DSB did indeed have clearly defined public service obligations to discharge and that the first criterion in the judgment in Altmark was therefore fulfilled.

Even though the Commission did not express any doubts concerning that criterion, DKT disputed its reasoning, taking the view that the Commission should have verified the necessity and proportionality of the public service obligations.

(13) The Commission also refers to its decision initiating the procedure, which has shown that DSB did not receive any explicit or implicit guarantee from the Danish State enabling it to obtain more favourable credit terms than those offered to private undertakings. For a similar situation and a similar conclusion, Case T-442/03, paragraphs 121 to 127.
DKT is also of the opinion that their necessity should be examined railway line by railway line and that their proportionality should be assessed in the light of the profitability of each of the lines concerned, taking into account the constraints and requirements imposed by the authority. To support its argument, DKT cites the example of the Copenhagen-Århus railway line, which is covered by the public transport service contracts even though it is profit-making according to an analysis carried out by DKT itself.

The Danish authorities have disputed those arguments and challenged DKT's calculations concerning the Copenhagen-Århus railway line, stating that the latter are not sufficiently detailed and do not match the figures they have. According to the Danish authorities, the line in question is also loss-making.

The Commission points out that, in the passenger land transport sector, the necessity of a service of general economic interest is to be assessed on the basis of Article 93 of the TFEU and the legislation, in this case Regulation (EEC) No 1191/69, until 3 December 2009, and after that, Regulation (EC) No 1370/2007.

Article 1(4) of Regulation (EEC) No 1191/69 provided that:

'in order to ensure adequate transport services which in particular take into account social and environmental factors and town and country planning, or with a view to offering particular fares to certain categories of passenger, the competent authorities of the Member States may conclude public service contracts with a transport undertaking'.

Article 14(1) of that Regulation defined the content and characteristics of public service contracts – standards of continuity, regularity, capacity and quality, rates and conditions.

Public service obligations are henceforth defined in Article 2(e) of Regulation (EC) No 1370/2007 as:

'a requirement defined or determined by a competent authority in order to ensure public passenger transport services in the general interest that an operator, if it were considering its own commercial interests, would not assume or would not assume to the same extent or under the same conditions without reward'.

The Commission thus points out that the specific legislation in force in no way limits the possibility of entrusting service missions covering a set of lines in order to establish a coherent transport system, particularly with the concern of allowing a certain continuity of transport. No criteria are laid down concerning the profitability or otherwise of the individual lines concerned. Finally, that possibility is, furthermore, not limited by the existence or otherwise of comparable transport services, as argued by the first complainant in the specific case of the Copenhagen-Ystad line.

The Commission also considers that the arguments put forward by DKT concerning other modes of transport are not relevant because the legislator has imposed different rules for each of those modes, which are explained in particular by a different degree of openness to competition of the markets and different inherent characteristics for the user and the public authorities.

Finally, the fact that a transport service concerns a cross-border or international link is no obstacle to the possibility of operating it as part of a public service. The Commission points out in this respect that, even in sectors which are fully open to competition, services of general economic interest exist for international links (32).

The Commission therefore considers that Denmark is not committing a manifest error of assessment by including one or more profitable lines in a public transport service contract, in so far as those lines are part of a coherent transport system, and this irrespective of whether such lines already exist – a state of affairs that Denmark denies in this case. The Commission also notes that, if a line in that system were to be profit-making, the revenue from it should be taken into account in the overall calculation of costs and revenues related to the services concerned with a view to determining the level of compensation. It follows that the earnings from a profitable line would lead ultimately to a commensurate reduction in the financial compensation necessary in order to run the other, unprofitable lines in that system. In the absence of specific rules to the contrary, the Member State remains free to assess the scope of the public service that it wishes to entrust to an undertaking in order to establish an adequate transport system.

The Commission considers that the foregoing assessments are backed up by established case-law, according to which:

'As regards competence to determine the nature and scope of an SGEI mission within the meaning of the Treaty, and also the degree of control that the Community institutions must exercise in that context, it follows ... from the case-law of the Court of First Instance that Member States have a wide discretion to define what they regard as SGEIs and that the definition of such services by a Member State can be questioned by the Commission only in the event of manifest error’ (33).

See, in that regard, Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 on common rules for the operation of air services in the Community, and in particular Article 16 thereof (OJ L 293, 31.10.2008, p. 3); see also the Community guidelines on State aid to maritime transport, and in particular Article 93, paragraph 2 thereof (OJ C 13, 17.1.2004, p. 3); see also the Community guidelines on State aid to maritime transport, and in particular point 9, paragraph 2 thereof (OJ C 13, 17.1.2004, p. 3).


The Commission's role is therefore limited to investigating whether Denmark has not committed a manifest error of assessment in determining the scope of the public services provided for in the contracts in question.

Consequently, the Commission maintains that it results from the contract's legal basis in national law, namely the Danish Rail Transport Act, that DSB is responsible for discharging a public service on the basis of contracts negotiated with the Danish Ministry of Transport. It also recalls that the contracts define in detail which lines DSB has an obligation to operate and the punctuality, quality and frequency of the train services to be provided over a specified period (the contracts being concluded for the periods 2000-04 and 2005-14 respectively).

The Commission points out that Denmark has demonstrated that the objective of the public transport service contracts at issue was to establish a coherent and comprehensive transport system guaranteeing a quality service for passengers and meeting Denmark's transport operation targets.

In relation to the specific case of the Copenhagen-Ystad link, the Commission notes that the Danish authorities have also clarified the circumstances and the various stages which led to its inclusion in the transport system covered by the public transport service contracts. The Danish authorities have explained how this line was operated successively as a 'free traffic' until 2002, then as 'public service traffic' but without additional compensation until 31 December 2004, and was subsequently included in the public transport service contract for the period 2005-14 (see recital 122 in this respect). They point out that the line was loss-making when it was operated as 'free traffic' and that no public resources were paid for the operation of the line before 2005.

The Commission also takes note of the Danish authorities' stated objective of connecting the island of Bornholm not only to Copenhagen but also to the rest of Denmark – as attested to by the special fares offer promoting links between Jutland and Bornholm (DSB Orange). The Danish authorities considered that the existence of a rail service could take account of certain specific concerns which were not addressed by the existing bus service, such as the servicing of the neighbouring Swedish towns along the train route, with three stops in the Swedish towns of Fosieby (Malmö), Svedala and Skurup. This service is also part of an intention to reinforce the options for access to the island of Bornholm. As indicated above in recital 263, the Commission notes that the fact that this link crosses national borders and includes stops in another Member State is no obstacle to its being operated as a public service obligation or an SGEI. In this respect, account should be taken, in particular, of Danish citizens' interest in an improved service to the Swedish towns concerned.

These facts supplement those set out in the decision initiating the procedure and support the Commission's conclusion that the Danish Government did not commit a manifest error of assessment by including the Copenhagen-Ystad line, which is covered by the public transport service contracts system.

In general, the Commission confirms its initial conclusion and considers that the first criterion laid down by the Court in the judgment in Altmark is fulfilled.

Second criterion: parameters on the basis of which the compensation is calculated must be established in advance in an objective and transparent manner

The Commission stated in the decision initiating the procedure that the level of compensation paid to DSB for fulfilling the necessary public service requirements had been determined on the basis of a 10-year forward budget. At that stage the Commission had at its disposal only the 10-year budget for the period 1999-2008. It therefore expressed doubts concerning the period 2009-14, which is also covered by the public transport service contracts.

In their observations, the Danish authorities clarified the parameters applying to the latter period by providing the Commission with the 10-year budget for the period 2005-14, prepared on the basis of DSB's operational development prospects during the period concerned. They have therefore confirmed that the compensation provided for in each of the public transport service contracts was based on a 10-year forward budget.

However, DKT disputed the fact that these forward budgets were sufficient to meet the requirements laid down in the judgment in Altmark, given that they did not give a sufficiently detailed account of the parameters adopted and that the compensation should have been based on a railway line-by-railway line analysis of the costs.

The first budget for 1999-2008 was established on the basis of a detailed economic forecast by DSB. It was designed as a basis for the act converting DSB into an independent public undertaking (see recital 8). It was then updated in the spring of 1999, presented to the Finance Committee of the Danish Parliament and approved as part of the adoption of Act No 249 of 11 June 1999.

It was based on the following conditions in particular:

— an increase in ticket prices in line with inflation (net retail prices index),
— an average increase in productivity of 2 % a year,
— an annual interest rate of 5 %,

— a 6 % return on equity after tax,

— investments in rolling stock amounting to approximately DKK 10 billion,

— levels of production (train km) and sales (passenger km) stated in several tables with 1999 as the starting point: 41 million train km and 4 023 billion passenger km for regional, intercity and international transport, and 15,6 million train km and 1 208 billion passenger km for suburban transport respectively.

The Danish authorities specified that the second 10-year forward budget for 2005-14 was prepared on the basis of the following hypotheses and conditions:

— general annual inflation of 2,5 %,

— an increase in ticket prices of 2,5 %, in line with inflation,

— an average increase in productivity of 2,5 % a year,

— an annual interest rate of 5,15 %,

— a 6 % return on equity after tax,

— investments in rolling stock amounting to approximately DKK 10 billion,

— an increase of approximately 20 % in the number of kilometres travelled,

— an increase of approximately 20 % in the number of passengers,

— a payroll tax exemption for DSB's staff,

On the basis of that information, the Commission considers that the forward budgets are based on data and hypotheses which are reasonable and sufficiently detailed for the purpose of establishing the parameters for calculating the compensation. In addition, the Commission notes that adjustments were made to take account of the revised revenue base in 2003 and that all those parameters were set out by the Danish Ministry of Transport in the relevant legislation (34). The Commission also points out that the contractual payments were established in advance because their amount was specified on an annual basis for the entire term of the contracts.

As stated above, the Commission takes the view that, in the context of public transport service contracts which provide for a transport system composed of several interdependent lines, the Member State need not necessarily determine the amount of compensation for each line taken individually. The second criterion in the judgment in Altmark requires the Member State to establish in advance, in a transparent and objective manner, the parameters making it possible to determine the overall level of payments intended to compensate for all of the obligations resulting from the contract.

The Commission can therefore conclude that the contractual payments were calculated on the basis of parameters established in advance in an objective and transparent manner and that the second criterion in the judgment in Altmark is also fulfilled.

Fourth criterion: tendering procedure or level of compensation needed determined on the basis of an analysis of the costs incurred by a typical, well-run undertaking appropriately equipped with means of transport

The public transport service contract was not the subject of a tendering procedure. It should therefore be clarified whether the size of the necessary compensation was determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with means of transport so as to be able to meet the public service requirements laid down, would have incurred in discharging those obligations, taking into account the relevant receipts and a reasonable profit for discharging the obligations.

Denmark considers that that criterion is fulfilled and has submitted observations to dispel the Commission's doubts as to the methodology used to determine the contractual payments and the overall compensation for the public service missions.

The Danish authorities have pointed out that DSB's establishment as an independent undertaking was accompanied by an in-depth economic analysis (Bernstein report) and steps to enhance the efficiency and productivity of the undertaking. Similarly, objectives in terms of efficiency gains were included in the 10-year budgets on the basis of which the contractual payments were calculated. The Danish authorities claim that the objective of a 6 % return on equity constitutes a reasonable profit. In their view, the approach adopted to determine the amount of compensation was therefore based on a general assessment of the available data and an expectation of efficiency gains in accordance with market economy principles.

(34) Danish Act No 112 of 2004.
Moreover, the Danish authorities had initially provided ratios for making a comparison with other rail undertakings. The observations submitted by Denmark in the context of the procedure highlighted, on the other hand, the difficulties of drawing comparisons between the financial performances of national or European rail operators. Those difficulties can be put down to the inherent characteristics of the undertakings and of the markets in the railway sector and to a lack of comparability of accounting and financial data.

In addition, DKT pointed out that a subsidiary of DSB was able to participate in tendering procedures and offer services at reduced costs compared with the costs to which DSB had committed itself in the context of the public transport service contracts. The Danish authorities emphasised the fact that DSB and its subsidiary DSB First could not be compared, since the two companies had different characteristics and cost structures (staff, equipment, commercial practices).

The Commission acknowledges that the Danish Ministry of Transport took measures (financial studies and restructuring measures) in order to establish DSB as an efficient independent undertaking. It also takes note of the quantified objectives in terms of return on equity and productivity gains.

However, the Commission also points to the insecure basis, acknowledged by both the Danish authorities and DKT, for comparing undertakings in the sector – a state of affairs that does not allow DSB’s performance indicators to be compared with those of other operators.

In addition, the Commission takes the view that the stated example of the performance of the subsidiary DSB First appears to indicate that DSB would have prospects of achieving subsequent productivity gains by applying some or all of the measures implemented by DSB First to reduce its costs.

It follows that the Commission is not able to conclude with certainty that the compensation granted to DSB was indeed determined on the basis of an analysis of the real costs incurred by a typical, well-run undertaking appropriately equipped with means of transport.

In those circumstances, the Commission observes that the fourth criterion in the judgment in Altmark is not fulfilled.

Since the four criteria laid down by the Court in the judgment in Altmark are to be assessed cumulatively, it is consequently not necessary to examine the third criterion or to verify, at this stage of the argument, whether any overcompensation has taken place. The Commission therefore considers that the compensation could have conferred an economic advantage on DSB.

8.2.4. DISTORTION OF COMPETITION AND EFFECT ON TRADE BETWEEN MEMBER STATES

The economic advantage is granted to a transport undertaking which operates in rail transport in both Denmark and neighbouring countries. In Denmark, passenger rail transport markets are open to competition. Consequently, financial support distorts, or threatens to distort, competition.

As the Court observed in its judgment in Altmark, several Member States, including some of Denmark’s neighbours such as Sweden and Germany, have also opened up their national markets. The incumbent monopoly operators in those countries, and also some new entrants, have activities in several Member States of the Community. Aid granted to a Danish rail undertaking is therefore likely to affect trade between those Member States which have already opened up rail passenger transport to competition or whose undertakings have a presence on national markets which are open to competition.

Account should also be taken of competition between the different modes of transport, for example bus passenger transport.

Consequently, the support measures concerned may affect trade between Member States.

In conclusion, the Commission considers that the public transport service compensation constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union.

8.3. COMPATIBILITY WITH THE INTERNAL MARKET
8.3.1. LEGAL BASIS OF COMPATIBILITY

Article 93 of the Treaty on the Functioning of the European Union provides that aids shall be compatible if they ‘meet the needs of coordination of transport or if they represent reimbursement for the discharge of certain obligations inherent in the concept of a public service.’ This Article is a lex specialis in relation to Articles 106(2) (35), and 107(2) and (3) of the TFEU.

First, the Commission points out that Regulation (EC) No 1191/69, and Regulation (EEC) No 1107/70 of 4 June 1970 on the granting of aids for transport by rail, road and inland waterway, implement exhaustively Article 93 of the TFEU, which is why this provision of the Treaty can no longer be applied directly.

In its decision initiating the procedure, the Commission concluded that the compensation in question cannot be regarded as compatible with the internal market on the basis of Regulation (EEC) No 1107/70.

In that decision, the Commission determined that the contracts concluded between the Danish Government and Danske Statsbaner constituted public service contracts within the meaning of Article 14 of Regulation (EEC) No 1191/69 and that the compatibility of the aid in question should be examined on the basis of that Regulation.

However, the Commission notes that Regulation (EC) No 1370/2007 on public passenger transport services by rail and by road entered into force on 3 December 2009 and that it repealed Regulations (EEC) No 1191/69 and (EEC) No 1107/70 concomitantly. The Commission is of the opinion that the examination of compatibility should in future be based on Regulation (EC) No 1370/2007, because that is the legislation which applied at the time when the Commission adopted its decision.

In this regard, the Commission notes that the Danish authorities have not submitted any observations on this change of legal basis. On the other hand, DSB and DKT have submitted arguments to the effect that the Commission should make its assessment on the basis of the rules in force at the time when the contracts were concluded.

After examining the arguments of DSB and DKT, the Commission considers however that the arguments put forward do not alter its conclusion regarding the ratione temporis applicability of the EU rules on State aid, which leads to the view that the Commission should base its reasoning on the legislation that applies at the time when it takes its decision. The Commission considers that the contracts on public transport should be assessed on the basis of Regulation (EC) No 1370/2007, for the following reasons.

First, the Commission points out that Regulation (EC) No 1370/2007 itself provides for the procedures concerning its entry into force and its ratione temporis application. In accordance with Article 12 thereof, Regulation (EC) No 1370/2007 entered into force on 3 December 2009. Pursuant to Article 10(1), Regulation (EEC) No 1191/69 was repealed with effect from that date. It is consequently no longer possible for the Commission to base its approach on Regulation (EEC) No 1191/69 because it is no longer in force at the time of the Commission's decision. Instead, the Commission must base its assessment on Regulation (EC) No 1370/2007.

Second, the Commission notes that there is no indication in Regulation (EC) No 1370/2007 that that Regulation was not intended to apply to public transport service contracts concluded prior to its entry into force. Indeed, Article 8(3) of Regulation (EC) No 1370/2007 contains transitional rules for contracts concluded before its entry into force. That provision is in fact a departure from the application of Article 8(2) of the Regulation, which concerns compliance with the rules on the awarding of contracts, which are defined in Article 5. It should be noted, that these exceptional transitional provisions concerning the awarding of contracts would not have been necessary if the public transport service contracts concluded before the entry into force of the Regulation had been excluded from its scope. A contrario, Article 8 confirms that the other provisions of the Regulation apply to those contracts.

Third, the Commission makes clear that its notice on the determination of the rules for the assessment of unlawful State aid is not applicable in this case. That notice indicates explicitly that it does not affect the interpretation of the Council and Commission Regulations in the area of State aid. Regulation (EC) No 1370/2007 specifically lays down rules relating to its provisional application.

Fourth, the Commission points out that the Court of Justice has also confirmed the principle that a new rule applies immediately to the future effects of a situation which arose under the old rule. The Court has also held that the principle of legitimate expectations cannot be extended to the point of generally preventing a new rule from applying to the future effects of situations which arose under the earlier rule.

Fifth, the Court has held that the substantive rules of EU law must be interpreted as applying to situations existing before their entry into force only in so far as it clearly follows from their terms, their objectives or their general scheme that such effect must be given to them. The latter condition is clearly fulfilled in the case of Regulation (EC) No 1370/2007, as indicated above.

(39) Case C-334/07 P Commission v Freistaat Sachsen [2008], ECR II-9465, paragraph 43.
(38) Judgment in Freistaat Sachsen case, paragraph 44.
(312) Sixth, the Commission also notes that in the aforementioned judgment the Court concluded as a consequence that, where the legal rules under which a Member State notified proposed aid have changed before the Commission takes its decision, the Commission must give its decision on the basis of the new rules (43). The Court also stated that the notification by a Member State of a proposed aid scheme does not give rise to a definitively-established legal situation and does not confer any legitimate expectation which requires the Commission to rule on the aid's or the scheme's compatibility with the internal market by applying the rules in force at the date on which that notification took place. It would be contrary to this reasoning to allow a Member State which, conversely, had not complied with the notification requirement, to establish a definitively-established legal situation by awarding unlawful aid.

(313) Finally, the Commission considers that the judgment in SIDE is not relevant in this case (42). That judgment concerns the question of the application of a provision of primary law, namely Article 87(3)(d) of the EC Treaty. As the Court of First Instance established in that case, the EC Treaty did not lay down transitional provisions for the application of that Article or give any indication of how it should be applied to situations which arose prior to the date when it entered into force (44). That situation is consequently not comparable to the present case. Indeed, Regulation (EC) No 1370/2007 provides for transitional provisions on the basis of which the Commission is able to infer that the Regulation applies to public service contracts concluded before its entry into force, with the exception of the rules on the actual conclusion of contracts.

(314) Consequently, Regulation (EC) No 1370/2007 is applicable in the present case.

8.3.2. COMPATIBILITY WITH THE INTERNAL MARKET ON THE BASIS OF REGULATION (EC) No 1370/2007

(315) Article 3(1) of Regulation (EC) No 1370/2007 provides that where a competent authority decides to grant the operator of its choice an exclusive right and/or compensation, of whatever nature, in return for the discharge of public service obligations, it shall do so within the framework of a public service contract. In the present case, the public transport service missions were entrusted to DSB by means of several public service contracts as indicated in recital 247 above.

Award of public service contracts

(316) Article 4 of Regulation (EC) No 1370/2007 defines the mandatory content of public service contracts. Below, the Commission will examine in turn each of the various aspects of that provision of the Regulation.

(317) According to Article 4(1)(a), public service contracts shall 'clearly define the public service obligations with which the public service operator is to comply, and the geographical areas concerned'. It follows from the assessment of the contracts at issue made by the Commission in the light of the first criterion of the judgment in Altmark, both in its decision initiating the procedure and as described above (see recital 274), that this condition is fulfilled in this case.

(318) In its assessment of the second criterion of the judgment in Altmark (see recital 269), the Commission concluded that the contractual payments were calculated on the basis of parameters established in advance in an objective and transparent manner, which allows it to consider that Article 4(1)(b) of Regulation (EC) No 1370/2007 is also fulfilled in this case. That provision provides that public service contracts shall 'establish in advance, in an objective and transparent manner, i) the parameters on the basis of which the compensation payment, if any, is to be calculated, and ii) the nature and extent of any exclusive rights granted, in a way that prevent overcompensation'. The question of the existence or otherwise of overcompensation in the contracts under examination will be the subject of a detailed analysis below. Similarly, the Commission would point out that these public transport service contracts define the arrangements for the allocation of costs relating to the provision of the services. Regarding the existence of a reasonable profit, the Commission refers to the reasoning below.

(319) The Commission notes that the public transport service contracts at issue lay down how large a proportion of the revenues from the sale of tickets the operator of the public transport service may keep in accordance with Article 4(2). In this case, those revenues are kept by DSB.

(320) Moreover, the public transport service contracts are limited in term to 5 and 10 years respectively, which is in accordance with the requirements in Article 4(3), which sets the maximum duration of contracts for passenger transport services by rail or other track-based modes at 15 years.

(321) Since the other provisions are not relevant in this case, the Commission concludes that the public transport service contracts concluded between the Danish Ministry and DSB comply with Article 4 of Regulation (EC) No 1370/2007.

Award of public service contracts

(322) Article 5 of Regulation (EC) No 1370/2007 lays down rules on the award of public transport service contracts. However, Article 8 of the Regulation lays down certain transitional rules in this respect.
Consequently, the compatibility of the public service contracts under consideration concern passenger transport services by rail and that they were all awarded directly to DSB by the Danish Ministry of Transport. In addition, the contracts were signed either before or after 26 July 2000, but before 3 December 2009. They were concluded for terms of 5 and 10 years respectively. The Commission therefore notes that the award of the public transport service contracts is in accordance with the transitional provisions in Article 8(3) of Regulation (EC) No 1370/2007.

According to Article 8(2), 'without prejudice to paragraph 3, the award of public service contracts by rail and by road shall comply with Article 5 as from 3 December 2019'. On that basis, the public transport service contracts in question could indeed be awarded directly.

That provision also states that 'during this transitional period Member States shall take measures to gradually comply with Article 5 in order to avoid serious structural problems in particular relating to transport capacity'. It should be noted that Article 5(6) maintains the option for the competent authorities to make direct awards of public service contracts concerning transport by rail.

Consequently, the Commission considers that the public transport service contracts in question are in accordance with the rules on the award of contracts laid down in Article 5 of Regulation (EC) No 1370/2007.

Public transport service compensation

Article 6(1) of Regulation (EC) No 1370/2007 provides that 'all compensation connected with a general rule or a public service contract shall comply with the provisions laid down in Article 4, irrespective of how the contract was awarded. All compensation, of whatever nature, connected with a public service contract awarded directly in accordance with Article 5(2), (4), (5) or (6) or connected with a general rule shall also comply with the provisions laid down in the Annex'.

Consequently, the compatibility of the public service compensation should be assessed in the light of the provisions of the Annex to Regulation (EC) No 1370/2007, because the contracts in question were awarded directly in accordance with Article 5(6) of Regulation (EC) No 1370/2007.

The Annex states that 'the compensation may not exceed an amount corresponding to the net financial effect equivalent to the total of the effects, positive or negative, of compliance with the public service obligation on the costs and revenue of the public service operator'. This means essentially that the Commission must check that the contractual payments have not given rise to overcompensation, taking account of a reasonable profit for DSB. In so doing, it relies on the criteria laid down in the Annex.

In this case, the Commission points out that the calculation of costs and revenue was carried out in accordance with the tax and accounting rules in force. It notes that the legal framework applicable to DSB in terms of accounting standards and national rules on competition requires the undertaking to keep separate accounts for its different activities. The contractual payments made to DSB on the basis of the public transport service contracts are therefore entered in the accounts separately from the other activities carried out on a purely commercial basis. Those rules therefore make it possible to avoid any form of cross-subsidisation.

Although the public transport service contracts contain provisions on the monitoring and review of compensation, the Commission points out however that those mechanisms do not enable any overcompensation to be avoided and that the contracts do not contain any mechanism allowing for refunds of overcompensation.

The Commission considers that overcompensation can be avoided only by establishing a refund mechanism. Consequently, the public service contracts concluded between the Danish Ministry of Transport and DSB should be amended so that they comply with the conditions mentioned above, particularly by introducing a refund mechanism.

In its decision initiating the procedure, the Commission expressed doubts about whether the level of compensation was limited to the amount needed to cover the costs entailed by fulfilling a public service obligation. Those doubts were based on the reasons set out in the assessment of compliance or otherwise with the third criterion established in the Altmark case-law, that is to say:

i. DSB's surplus profits

ii. Delays in the delivery of rolling stock

iii. The Copenhagen–Ystad link

The Commission will examine these three aspects in turn in order to assess the existence or otherwise of overcompensation in the discharging of the public transport service contracts and to assess the measures needed in order to avoid any overcompensation in the future. To do so, the Commission takes account of the definition of reasonable profit given in point 6 of the Annex, namely 'a rate of return on capital that is normal for the sector in a given Member State and that takes account of the risk, or absence of risk, incurred by the public service operator by virtue of public authority intervention'.
The Commission considers, however, that all of those factors were such as to modify the level of DSB's costs or charges for the operation of the transport services provided for in the different public transport service contracts. Consequently, the improvement in DSB's financial situation should have resulted in a decrease in the costs to the Danish State for the operation of those services compared with the forecasts in the 10-year budgets. That decrease implied an overall reduction in the public service compensation.

The Commission considers, however, that all of those factors were such as to modify the level of DSB's costs or charges for the operation of the transport services provided for in the different public transport service contracts. Consequently, the improvement in DSB's financial situation should have resulted in a decrease in the costs to the Danish State for the operation of those services compared with the forecasts in the 10-year budgets. That decrease implied an overall reduction in the public service compensation.

In the absence of a corresponding correction to the contractual payments, the Commission considers that these different factors reflect the fact that DSB received compensation in excess of the costs incurred in discharging a public service obligation plus a reasonable profit set at 6%. The Commission notes that the contractual payments were reduced only for the years 2002, 2003 and 2004, by a total of DKK 1,018 billion.

However, the Commission observes that it is not disputed by the Danish authorities that, taking all of these factors into account, DSB had higher levels of profitability than had initially been predicted in the 10-year budgets on which the calculation of the public service compensation was based. That finding also follows from the observations submitted by the interested parties, even though the basis for comparing the performances of rail undertakings in Denmark and the rest of Europe remains insecure, as indicated above (see recitals 290-292).

The Commission notes that DSB actually paid the Danish State DKK 4,826 billion in dividends between 1999 and 2007. That amount corresponds to approximately DKK 3,5 billion more in dividends for the period 1999-2007 than was envisaged in the 10-year forward budgets. In 2008, DSB also paid the Danish State DKK 359 million, or approximately DKK 130 million more than was envisaged in the 10-year forward budgets (44). The Commission notes that the Danish State collected a total of DKK 3,039 billion more than envisaged in the original budget.

The Commission also notes that the results of DSB s-tog a/s, a wholly-owned subsidiary of DSB SV, are consolidated at the level of the parent company and that the level of reasonable profit expected is the same for both companies. Consequently, the Commission conducts an examination of the surplus profits under the different public transport service contracts as a whole at the level of DSB.

The Commission considers that those surpluses show that the contractual payments exceeded the level that was necessary to cover the costs incurred in discharging a public service obligation plus a reasonable profit.

The Commission observes, however, that, according to the Danish authorities, those surplus profits did not lead to an accumulation of capital for DSB beyond what was initially envisaged in the 10-year forward budget. The Danish authorities argue that part of the surplus profits was paid back to the Danish State in the form of dividends.

The Commission notes that DSB's accounts show that its after-tax profits over the period 1999-2006 were DKK 2,715 billion more than projected in the 10-year forward budget. The information submitted by the Danish authorities shows that DSB recorded after-tax profits of DKK 670 million in 2007 and DKK 542 million in 2008, respectively DKK 227 million and DKK 97 million more than the figures envisaged in the forward budget for those 2 years (45). Over the whole period 1999-2008, the Commission therefore estimates DSB's surplus profits to be DKK 3,039 billion more than envisaged in the original budget.

The changes in depreciation, financial management or interest rates are also explained. The Danish authorities accept that DSB could have achieved efficiency gains enabling it to improve its results and its financial situation.

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Contrary to what the Danish authorities claim, the Commission considers that the dividend policy cannot be equated with a refund clause which makes it possible to adjust compensation for the fulfilment of a public service obligation and to prevent overcompensation. The collecting of dividends does not meet in a structural manner the requirements laid down in Regulation (EC) No 1370/2007 and, in particular, its Annex. The collection of dividends depends on the decision taken by the shareholders of the undertaking and does not have the automatic nature required in order to avoid overcompensation. In addition, dividends are generally collected later in the year compared with the compensation corrections which take place at the end of the financial year.

In the circumstances of the present case, the Commission recognises that the Danish State, during the period 1999-2008, collected additional dividends (compared with what had been budgeted initially) of an overall amount which clearly exceeds DSB’s surplus profits. The Commission notes that the additional dividends collected by Denmark are around 20% greater than DSB’s surplus profits.

In general, the Commission notes that, in accounting terms, the collection of dividends takes place after the determination of the results and does not usually allow overcompensation to be avoided. The Commission is thus obliged to note that by collecting dividends from the undertaking, 100% of which it owns, the Danish State in reality corrected DSB’s surplus situation in such a way that the latter was not overcompensated in practice. The economic effects of the surplus profits in excess of the 6% initially envisaged were neutralised by the collection of dividends, and DSB was not able to use these surplus profits to increase its equity capital or to benefit financially.

The Commission stresses that this conclusion concerns DSB SV, in so far as the results of DSB S-tog a/s are included in the parent company’s group accounts and dividend policy is determined at the level of that body.

However, the Commission emphasises that this reasoning does not make it possible to guarantee the absence of overcompensation over the entire term of the public transport service contracts. It is based on an empirical and detailed examination of DSB’s accounts over the period in question, but does not offer a structural solution concerning the necessary annual adjustments of the level of public service compensation.

In this regard, the Commission points out that the Danish authorities are considering amending the current public transport service contracts in order to introduce a refund mechanism. The refund mechanism described above (see recitals 222-240) should make it possible to correct the amount of the contractual payments on the basis of an accounting formula. Under such a mechanism, any surplus would thus be paid back to the State on the basis of the end-of-year accounts, thus ensuring that DSB’s return on equity remains within the limits specified by the State.
The Commission is of the opinion that this refund mechanism complies with the requirements set out in the Annex to Regulation (EC) No 1370/2007, and those in the Community framework for State aid in the form of public service compensation. The Commission notes that such a system is comparable to the checks described in Section 3 of that framework. It also points out that the basic level of reasonable profit would remain fixed at a 6 % return on equity, which it regards as a reasonable level for this type of activity, taking account of the levels achieved by DSB’s current domestic competitors as indicated by DKT.

The Commission also notes that this mechanism includes corrections concerning efficiency and qualitative improvements. The mechanism under consideration provides for a modulation of the gross reduction to enable DSB to retain part of the saved costs per passenger-kilometre and part of the increase in revenue due to increases in the number of passengers measured in passenger-kilometres. These corrections are applied according to the following formula:

\[
\text{Refund mechanism} = \text{gross reduction} - \text{corrections (Cost } \Delta \text{. } + \text{Pas.km } \Delta \text{)} = \text{net reduction}
\]

The Commission also notes that the parameters for determining the net reduction and thus taking these corrections into account are predetermined and quantified. The refund mechanism can be modulated as follows:

- **Cost } \Delta \text{:** if DSB has reduced its costs (per passenger-kilometre) compared with the average cost over the past 4 years, that improvement will be calculated as follows: differential in cost per passenger-kilometre (as a percentage) compared with the average cost over the last 4 years multiplied by a total cost basis, and

- **Pas.km } \Delta \text{:** if the number of passengers increases, the increase in passenger traffic measured in passenger-

kilometres will be multiplied by DKK 0,80, and the gross reduction will also be reduced by that amount.

The Commission points out that those corrections comply with paragraph 7 of the Annex to Regulation (EC) No 1370/2007, which provides that:

‘The method of compensation must promote the maintenance or development of effective management by the public service operator, which can be the subject of an objective assessment, and the provision of passenger transport services of a sufficiently high standard’.

In this case, the correction envisaged, based on the increase in passenger numbers and the decrease in unit costs, suitably expresses the concepts of improvements in effective management and quality of the service provided. However, the Commission considers that each of these corrections can be made only in so far as each of the parameters adopted also shows an improvement compared with the results obtained previously on those parameters. This restriction is necessary in order to avoid, in the event of a substantial improvement in one parameter, a bonus being obtained by virtue of the other parameter even though the second parameter shows only a below-forecast improvement.

Finally, the refund mechanism is supplemented by setting an upper limit intended to ensure that the level of profit does not exceed the level of what is considered a reasonable profit according to the following formula:

\[
\frac{\text{Reasonable profit (6 %)} + \text{corrections (Cost } \Delta \text{. } + \text{Pas.km } \Delta \text{)}}{\text{Equity capital}} < 12 \%
\]

The corrections applied to take account of efficiency gains and/or the improvement in the quality of the service will allow the reasonable profit to be varied between 6 % and 12 %, with an annual cap set at 10 % over 3 years, on the basis of objective criteria.

The Commission considers that, within this range, the profit granted by Denmark to DSB in the context of its public service activities remains reasonable if it is limited to 10 % over 3 years. The Commission’s conclusion is based on a range of indications based on the information available to it in order to assess whether the level of profit is reasonable.
(360) The Commission's assessment is based in particular on a study of the situation of rail undertakings in Europe which presents, among other things, a comparison of the economic profitability of rail undertakings in 2004. According to that analysis, DSB's return on equity (ROE) in 2004 (9 %) corresponds to a return on assets (ROA) of 3 % for the company; it should be noted that this figure of a 9 % ROE is in the middle of the range granted to DSB under the contract. That analysis also shows that some rail undertakings had low or even negative levels of economic profitability during the period (PKP, Eurostar, NSB). According to the study, several undertakings on the other hand had levels of economic profitability close to DSB's level of a 3 % ROA (SNCB: 2 %, SNCF: 2 %, Trenitalia 3 %) or indeed a great deal higher than it (Arriva Tog a/s 21,3 %, Chiltern Railways 16,1 %, Arriva Trains Wales 16 %, Great North Eastern Railway 12,2 %, DB Regio AG 12 %).

(361) The Commission also relies on its decision-making practice in the area of services of general economic interest.

(362) The Commission's assessment also takes account of the fact that DSB assumes part of the risk associated with that activity, since the contractual payments are fixed in advance and cannot be increased in the event of a shortfall compared with the forecasts reflecting a deterioration in DSB's performance caused, for example, by an unintended rise in costs or a drop in the company's receipts. The Commission notes that, since the company is exposed to a risk in terms of its profitability and has no guarantee that the 6 % contractual profitability will be achieved, it appears appropriate to encourage it to make efficiency gains and, in so doing, to allow it to retain part of the resulting profits, including profits beyond that contractual level, within the range referred to above.

(363) Finally, the Commission notes on the basis of the Danish authorities' empirical investigation that the application of this refund mechanism in the past would have led to levels of return on equity for DSB in the period 2004-08 ranging between 8,8 % and 11,9 % and that it would have entailed a refund of DKK 38 million for 2006 taking into account the '10 % over 3 years rule' (see recitals 238-240).

(364) Consequently, the Commission concludes that DSB's surplus profits show that the contractual payments exceeded the level that was necessary to compensate for the costs incurred in discharging a public service obligation under all the public service contracts plus a reasonable profit. In the present case, the Commission considers that the collection of additional dividends of an amount clearly in excess of that surplus made it possible to avoid overcompensation of DSB. Although the Commission concludes that there was no overcompensation in this case, it makes its conclusion dependent on the implementation of the refund mechanism as described in this Decision and specified in recital 356 above.

ii. Delays in the delivery of rolling stock

(365) The Commission points out that it is not in dispute that the delivery of rolling stock provided for under the public transport service contracts by the manufacturer AnsaldoBreda was subject to substantial delay. To fulfil its obligations, DSB used rented rolling stock, which was the subject of additional contracts with the Danish Ministry of Transport.

(366) The Commission points out that, under the public service contracts concluded between the Danish Ministry of Transport and DSB, the latter was to bear the costs corresponding to the depreciation of the trains and interest, and that those costs were covered by the contractual payments.

(367) The Commission observes, however, that the financial consequences of the delays and their effect on the contractual payments were not provided for in the public transport service contract for 2000-04. On the other hand, they were provided for in the public service contract for 2005-14.

(368) The Commission therefore considers that three aspects should be distinguished.

(369) First, the Commission points out that, in the context of the public transport service contract for 2000-04, the consequences of the delays were not taken fully into account in the calculation of the contractual payments. The Danish authorities have acknowledged that this resulted in a positive effect of DKK 154 million. DKK 50 million of that figure was paid back to the State in advance and cannot be increased in the event of a shortfall compared with the forecasts reflecting a deterioration in the performance of the company.

(370) In this respect, the Commission considers that it cannot be argued that this sum constituted (partial) compensation for the economic losses suffered by DSB in connection with the delays. The question of the harm suffered by DSB concerns the performance of the delivery contract between DSB and its supplier, which could be the subject of settlement procedures (out of court, by arbitration or by litigation). The Commission notes that this issue has not been finally resolved, even though provisional compensation has been paid.
(371) Second, the Commission notes that, in the context of the public transport service contract for 2005-14, the consequences of the delays were, on the contrary, taken into account in the calculation of the contractual payments. The Danish authorities have demonstrated how the mechanism for adjusting the contractual payments operated in relation to the delays in delivery and according to the type of rolling stock concerned. The Commission notes that the contractual payments were reduced by DKK 645 million over the first 2 years of the contract. It therefore considers that the late delivery of the rolling stock did not result in any overcompensation under that public transport service contract.

(372) Third, the Commission notes that the replacement rented rolling stock was the subject of additional contracts between the Danish Ministry of Transport and DSB. It points out that DSB was not obliged, under the public transport service contracts, to use replacement rolling stock. The Commission notes that these additional contracts were concluded to deal with a new situation which had not been taken into account in the contracts, namely the consequences of the late delivery of the new trains. It therefore considers that the compensation paid to DSB covered new obligations of the rail operator and, consequently, was not liable to result in overcompensation under the public transport service contracts.

(373) The Commission points out in this respect that if the settlement procedures (out of court, by arbitration or by litigation) between DSB and Ansaldobreda concerning the delays in delivery lead to the recognition of certain losses for DSB, if those losses concern the use of hired replacement rolling stock and if compensation is paid by Ansaldobreda to cover these, such compensation will have to be paid back to the Danish State because it bore the cost via the additional contracts. The Commission considers it necessary to impose a condition in this respect on the Danish State.

(374) In the light of the above, the Commission concludes that DSB received overcompensation of DKK 104 million on account of the late delivery of the rolling stock provided for in the public transport service contracts. The Commission considers, however, that the effects of that overcompensation were avoided by the collection of dividends as described previously. The additional dividends collected by the Danish State remain generally greater than all of the surplus profits plus the amount relating to the late delivery of rolling stock. The Commission therefore concludes that DSB did not receive any overcompensation in practice.

iii. Specific case of the Copenhagen – Ystad link

(375) In its decision initiating the procedure, the Commission expressed specific doubts regarding whether DSB could have received an advantage for operating this particular line. The Commission examined two aspects here.

(376) First, the Commission checked that, for the period 2000-04, DSB had not received any financial support in the form of aid under the public transport service contract even where the link was operated without a public service obligation.

(377) The Commission notes in this respect that the Danish authorities have clarified the conditions under which the Copenhagen-Ystad line has been operated since 2000. In particular, they have specified that it was not included in the ‘public traffic’ scheme by means of a specific contract until 2002, when it emerged that the line was not capable of making a profit. They have also indicated that that specific contract did not provide for any additional compensation for DSB from the Danish State for the operation of the line between 2002 and 2004. The Danish authorities have therefore established that the rail line between Copenhagen and Ystad did not receive any public financing before 2005.

(378) The Commission notes that the inclusion of that line in the ‘public traffic’ scheme between 2002 and 2004 without additional compensation compared with the compensation paid under the public transport service contract with DSB for the period 2002-04 is not liable to result in overcompensation. Its inclusion in the public transport traffic scheme had the result of expanding DSB’s obligations without increasing the contractual payments. It also meant the inclusion of the revenues from that line in DSB’s overall revenues in respect of its public service activities. The Commission notes, however, that the line was loss-making in 2002 and that it was precisely for that reason that it was included in the ‘public traffic’ scheme. That inclusion is consequently not liable to result in overcompensation.

(379) In any event, the Commission considers that, if the line had been making a profit, the revenues specific to that line would have increased DSB’s total revenues in respect of its public service activities. The assessment of whether overcompensation took place is therefore covered by the overall examination of whether DSB was overcompensated through its surplus profits from the discharging of the public transport service contract for the period 2000-04. The Commission thus refers to its reasoning in recitals 324-353 of this Decision.

(380) Second, the Commission has examined DSB’s costs for the entire Copenhagen-Bornholm route and, in particular, how account was taken of the ferry crossing between Ystad and Rønne (51) in the combined tickets for its passengers.

(381) The Commission points out that the sea link between these two ports is operated by Bornholmtrafikken A/S, a public undertaking, on the basis of a contract concluded with the Danish State following a tendering procedure. The Danish authorities have clarified the obligations of Bornholmtrafikken A/S under that contract, particularly in terms of coordination of departure and arrival times with bus or train operators. They have also specified that no obligation was laid down in the area of pricing policy apart from the fixing of minimum fares.

(51) The Bornholm ferry’s port of arrival.
In the light of the information provided by the Danish authorities, the Commission notes that the prices charged by Bornholmtrafikken A/S are identical in relation to DSB and Gråhundbus. The only fare which applies to DSB alone is the special price for DSB Orange including the crossing of the Great Belt. However, that fare is in line with specific commercial objectives of Bornholmtrafikken A/S in so far as the DSB Orange programme attracts travellers from Jutland to Bornholm. That particular fare is made available on specific conditions (i.e. only applies on certain trains, Internet-based reservation system, limited number of tickets, etc.) and relates to different services from those offered by bus operators on that line. The Commission notes that only a very small number of passengers took advantage of this offer and that it was withdrawn in 2009.

The Commission therefore considers that the prices charged for this ferry trip by Bornholmtrafikken A/S did not confer an advantage on DSB compared with its competitors which offer a bus connection and also apply combined billing. The Commission is therefore of the opinion that the billing of the ferry connections did not result in overcompensation for DSB.

On the whole, the Commission therefore considers that the public service compensation in question was calculated in accordance with the rules laid down in the Annex to Regulation (EC) No 1370/2007.

Consequently, the Commission concludes that the State aid contained in the contractual payments paid under the public transport service contracts between the Danish Ministry of Transport and DSB is compatible with the internal market on the basis of Article 14 of Regulation (EC) No 1370/2007 implementing Article 93 of the TFEU.

8.3.3. EFFECT OF CERTAIN FISCAL MEASURES ON THE COMPATIBILITY OF THE PUBLIC SERVICE COMPENSATION

In its decision initiating the procedure, the Commission noted that Danish private undertakings operating in VAT-exempt sectors such as the public transport sector are subject to a special payroll tax (lønskat). It was noted, however, that public undertakings such as DSB were not subject to the tax.

Although DKT, the second complainant, claimed that DSB’s exemption from the payroll tax could give it a competitive advantage, the Commission did not examine the issue of payroll tax because it was the subject of a general examination by the Commission in the context of a separate procedure (382). The complainant itself had cited a Parliamentary question and the answer given by Mrs Kroes on behalf of the Commission (383).

By letter of 9 June 2009, the Commission informed DKT that, after examining the measures in question, it had decided to close the procedure referred to above. The Commission stated that discussions and exchanges of information had taken place between the Commission and the Danish authorities in order to obtain clarification regarding the potential problems and ambiguities arising from the tax exemption from the perspective of the rules on State aid. In this context, the Danish authorities agreed to amend their legislation.

The Commission therefore notes that Denmark has adopted Act No 526 of 25 June 2008, which eliminates any potential distortion between public and private undertakings with regard to the implementation of the payroll tax. It also points out that that Act entered into force on 1 January 2009 and that DSB has been subject to payroll tax since that date.

For the purposes of this examination, the Commission points out that DSB’s exemption from that tax was included in the parameters used in determining the level of DSB’s contractual payments under the public transport service contracts, as indicated in recital 88 of this Decision. The Commission notes that the tax exemption reduced DSB’s operating costs connected with the transport services provided for in the public transport service contracts. It therefore observes that, in the absence of an exemption, the Danish State would have to increase the amount of its contractual payments accordingly.

Consequently, the Commission considers that, even if DSB’s payroll tax exemption were to constitute State aid, that aid would have to be treated in the same way as ‘additional contractual payments’ of an amount equivalent to the tax burden from which the company was exempt. In that event, the Commission observes that these ‘additional contractual payments’ would not result in overcompensation for DSB.

The Commission notes, moreover, that DSB has been subject to payroll tax as from 1 January 2009. DSB’s tax burden has increased as a result, which has an impact on its operating costs incurred in connection with the transport services provided for in the public transport service contracts. The Danish authorities have indicated that the additional expenditure incurred by DSB will be compensated to take account of this change in the parameters used to calculate the contractual payments.

In this respect, the Commission considers that the compensation of the additional tax costs resulting from the end of DSB’s tax exemption must be seen in conjunction with the overall economic aspects of the compensation system for public transport service contracts. The Commission has examined whether that compensation corresponded solely to the additional tax burden borne by DSB in respect of its public service activities.

The Commission has received a complaint. The file reference is CP78/2006.

Consequently, the Commission concludes that the compensation from the Danish State for the payroll tax that DSB has subsequently been required to pay does not result in overcompensation and should therefore be regarded as compatible with the internal market under Regulation (EC) No 1370/2007.

9. CONCLUSION

The Commission takes the view that the public transport service contracts concluded between the Danish Ministry of Transport and DSB constitute State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union.

The Commission concludes, however, that that aid is compatible with the internal market under Regulation (EC) No 1370/2007, subject to Denmark’s introduction into the current public transport service contracts of the refund mechanism described in recitals 222 to 240 and 356 of this Decision. In those circumstances, the aid in question is compatible until the expiry of the current public transport service contracts.

The assessment of the compatibility of the aid concerned in this Decision was carried out on the basis of Regulation (EC) No 1370/2007, which is applicable at the time when the Commission takes its decision.

The Commission notes that the assessment rules in Regulation (EC) No 1370/2007 correspond in terms of content to those in Regulation (EEC) No 1191/69, as set out and interpreted by the Commission in its decision initiating the procedure. It observes that, in the present case, the application of Regulation (EEC) No 1191/69 would not have led to a different conclusion.

Finally, the aid concerned is compatible until the expiry of the current public transport service contracts. The contracts were concluded in 2004, that is to say as from 26 July 2000 and before 3 December 2009, on the basis of a procedure other than a fair competitive tendering procedure and for a term of 10 years. The aid therefore comes pursuant to Article 8(3)(d) of Regulation (EC) No 1370/2007, first paragraph, and the last point of the last paragraph. The Commission points out however that, in accordance with Article 8(2) of Regulation (EC) No 1370/2007. Member States are to take measures to gradually comply with the rules on the award of those contracts in accordance with the rules in Article 3 before 3 December 2019,

HAS ADOPTED THIS DECISION:

Article 1

The public transport service contracts concluded between the Danish Ministry of Transport and Danske Statsbaner constitute State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union.

The State aid is compatible with the internal market pursuant to Article 93 of the Treaty on the Functioning of the European Union in so far as the conditions of Articles 2 and 3 of this Decision are complied with.

Article 2

Denmark shall introduce into all current public transport service contracts with Danske Statsbaner the refund mechanism described in recitals 222 to 240 and 356 of this Decision, the principal characteristics of which are as follows:

— Adjustment of the contractual payments at the end of the financial year by determining a gross reduction calculated on the basis of the following formula:

\[
\text{Total revenue} - \text{reasonable profit} - \text{Total expenditure} = \text{gross reduction}
\]

— Modulation of the gross reduction to take account of efficiency gains and improvements in quality of service according to the following formula and parameters:

\[
\text{Refund mechanism} = \text{gross reduction} - \text{corrections (Cost } \Delta \text{. + Pas.km } \Delta \text{)} = \text{net reduction}
\]

— Cost \( \Delta \): reduction in costs (per passenger-kilometre) compared with the average cost over the past 4 years in accordance with the calculation: differential in cost per passenger-kilometre (as a percentage) compared with the average cost over the last 4 years multiplied by a total cost basis, and

— Pas.km \( \Delta \): increase in passenger traffic measured in terms of passenger-kilometres (DKK 0,80 per passenger-kilometre),

— the total reductions on account of improvements in performance may not exceed the gross reduction in a given year. The net reduction is therefore between zero and the gross reduction.
— Introduction of an upper limit on the refund mechanism making it possible to guarantee that the profit is maintained at a reasonable level according to the following formula and characteristics:

\[
\text{Reasonable profit } (6\%) + \text{ corrections } (\text{Cost } \Delta + \text{Pas.km } \Delta) \over \text{Equity capital} < 12\%
\]

— the calculation takes account only of the share of equity capital corresponding to DSB’s public service activity,

— the upper limit on the reasonable profit is fixed at a 12 % return on equity, but with a maximum of 10 % over 3 years.

Article 3

Any compensation due to DSB from Ansaldo Breda on account of the late delivery of rolling stock should be repaid to the Danish State.

Article 4

Denmark shall inform the Commission of the measures taken to comply with Articles 2 and 3 of this Decision within 2 months being notified of the Decision.

Article 5

This Decision is addressed to the Kingdom of Denmark.

Done at Brussels, 24 February 2010.

For the Commission

Joaquín ALMUNIA
Vice-President