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### Europe orders Deutsche Post to repay public money

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**BRUSSELS, June 19, 2002** – The European Commission today ordered Deutsche Post, the postal group partly privatized in 2000, to repay 572 million euros (\$545 million) in public subsidies it said were wrongly used to undercut the prices of rivals in the parcel delivery market.

The commission said Deutsche Post ran up that amount in losses by selling its door-to-door parcel delivery service at below cost from 1994 to 1998. The losses were then covered by state money that should instead have been used to pay for Deutsche Post's public service mission, which includes delivering letters throughout Germany.

"Beneficiaries of state support for public interest services must not use this support to finance sectors open to competition," said Mario Monti, Europe's competition commissioner.

The commission's examination of Deutsche Post was spurred by a complaint from United Parcel Service in 1994. BIEK, a German association of private parcel operations joined in the complaint three years later, stating that without the state support, Deutsche Post would not have been able to survive in the commercial parcels sector.

Last year, the commission fined Deutsche Post 24 million euros (\$22.8 million) for abusing its dominant position in the German parcels market by offering discounts to loyal customers. But the repayments way overshadow that fine.

Deutsche Post said it would appeal the ruling, but would make provisions of 850 million euros (\$809 million) in its 2002 accounts.

"We cannot understand the ruling, and find it highly questionable," a spokesman for Deutsche Post said. "We will fight the decision with all legal means possible and are confident of winning the case."

Investors initially bid Deutsche Post shares down, but they recovered, rising 0.24 euro, to 13.85 euros (\$13.19), in Frankfurt, as competitors lauded the ruling.

"This decision is a victory for fair competition and customer choice," said Anton van der Lande, vice president for public affairs at U.P.S. "Receiving state aid gives an unfair competitive advantage to Deutsche Post and distorts the market. We expect the necessary controls to be implemented to prevent further illegal state aid for Deutsche Post or any other postal operator."

The commission said Deutsche Post stopped its unfair competition in the parcel sector in Germany in 1999. Last year, after it was fined for abusing its dominance, the company reorganized to make a clear division between the units that offer universal postal services and deserve public money, and the commercial units that compete, like parcel delivery.

Under current European Union rules, national postal operators have a monopoly over the distribution of items weighing less than 350 grams, about 12 ounces. The 15-nation bloc has decided to reduce the threshold to 100 grams, or about 4 ounces, in 2003 and to 50 grams in 2006, but there is not yet a final date for full liberalization of the sector.

"We are glad that the commission has put the interest of the internal market and consumers first by applying state aid rules straightforwardly," Philippe Bodson, president of the Free and Fair Postal Initiative, a lobbying group based in Brussels, said in a statement.

"Unless the commission acts vigorously against the postal monopolies, the E.U.'s decision to gradually open the postal market to competition will be ineffective," he said.

The German government, which still owns 50 percent of Deutsche Post, has two months to say how it intends to recover the 572 million euros. The recovery plan is subject to approval by the European Union, the commission said.

The German government said today that it planned to sell around 5 billion euros (\$4.8 billion) of its shares in Deutsche Post and Deutsche Telekom to Kreditanstalt fuer Wiederaufbau, a state development bank, to help fill the gap in next year's budget. The bank already holds about 19 percent of Deutsche Post and around 12 percent of Deutsche Telekom.