

19Jun2002 EU: UPDATE 2-Deutsche Post must return 572 mln euro subsidy-EU.  
By David Lawsky

BRUSSELS, June 19 (Reuters) - The European Commission on Wednesday ordered German postal giant Deutsche Post to repay 572 million euros (\$547.9 million) in state aid that the company used to subsidise its loss-making parcels business.

The Commission, which polices the legality of state aid, said Germany gave Deutsche Post the money to finance its public service role, but the company used it to undercut private rivals in the parcels sector between 1994 and 1998.

"This behaviour breaches the key principle according to which companies that receive state funding for services of general interest cannot use these resources to subsidise activities open to competition," the Commission said in a statement.

The decision was immediately criticised by the former post monopoly, which said it would challenge it in the European Court of Justice, the European Union's highest court.

"We can not understand the ruling and find it highly questionable," a spokesman for Deutsche Post told Reuters.

"We will fight the decision with all legal means possible and are confident of winning the case."

At 1302 GMT Deutsche Post shares were 2.65 percent weaker at 13.25 euros, underperforming the falling DAX index.

#### MORE COMPETITION NEEDED

Private postal operators welcomed the decision, saying it was a step forward in the Commission's effort to speed up liberalisation in the sector.

Under current EU rules, national postal operators have a monopoly over the distribution of items weighing less than 350 grams. The 15-nation bloc has decided to reduce the threshold to 100 grams in 2003 and to 50 grams in 2006, but there is not yet a final date for full liberalisation 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 (FFPI), said in a statement.

"Unless the Commission acts vigorously against the postal monopolies, the EU's decision to gradually open the postal market to competition will be ineffective."

FFPI represents more than 7.1 million users and competitors of public postal operators.

Postal operators are allowed to receive a protected income to help them finance universal services, ensuring delivery to all addresses in a country, including the most remote.

Deutsche Post denied last week it had ever taken state aid from the government. On the contrary, it said, it has paid dividends to the state, which still holds a 69 percent stake in the post carrier.

Deutsche Post said the EU had already looked into cross-subsidies in an investigation that cleared the company of wrongdoing last year.

It added that the European Commission had recently closed an investigation into subsidies for the Italian Post Office without demanding repayments.

The German government has two months to say how it intends to recover the money. The way in which the money will be recovered will need EU approval, the Commission said, without adding details.

"Deutsche Post will have to repair the damage it has dealt to its competitors; that is the bottom line," said Michael Tscherny, spokesman for Competition Commissioner Mario Monti. "In which way that is done, we will have to see."

Last year the Commission fined Deutsche Post 24 million euros for abusing its dominant position to undercut rivals in the German parcels market.

EU sources said the Commission has been in discussions with the German government about the possibility of Deutsche Post repaying the subsidy through lower stamp prices, but the Commission declined to comment.

Deutsche Post said it would make provisions of 850 million euros (\$814.2 million) in its 2002 accounts following the Commission's order to repay the subsidies.

(Additional reporting by Mark Thompson in Frankfurt).

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