



EUROPEAN COMMISSION

Brussels, 25.01.2012

C (2012)

<p>In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...].</p>		<p>PUBLIC VERSION</p> <p>WORKING LANGUAGE</p> <p>This document is made available for information purposes only.</p>
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**COMMISSION DECISION
of 25.01.2012**

Measures

No. °C 36/2007 (ex NN 25/2007)

implemented by Germany

for Deutsche Post AG

(Only the German version is authentic)

(Text with EEA relevance)

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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)¹ thereof,

Having called on interested parties to submit their comments pursuant to the provision(s) cited above² and having regard to their comments,

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

Whereas:

I. PROCEDURE

I.1. State Aid Procedures

I.1.1. 1999 Opening Decision and 2002 Decision

1. In 1994 United Parcel Service (hereafter UPS) filed a complaint concerning the granting of unlawful State aid to Deutsche Bundespost POSTDIENST (hereafter POSTDIENST).

¹ With effect from 1 December 2009, Articles 87 and 88 of the EC Treaty have become Articles 107 and 108, respectively, of the TFEU. The two sets of provisions are, in substance, identical. 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, respectively, of the EC Treaty where appropriate.

² Invitation of 17 August 1999 to submit comments pursuant to Article 88 (2) of the EC Treaty on aid C 61/99 (ex NN 153/96) – State aid to Deutsche Post AG, OJ C 306, 23.10.1999, p.25; invitation of 19 October 2007 to submit comments pursuant to Article 88 (2) of the EC Treaty on aid C 36/07 (ex NN 25/07) – State aid to Deutsche Post AG, OJ C 245, 19.10.2007, p.21; and invitation of 11 May 2011 to submit comments pursuant to Article 108 (2) TFEU on aid C 36/07 – State aid to Deutsche Post AG, OJ C 263, 7.09.2011, p. 4.

2. Following the opening of proceedings on 23 October 1999 (hereafter 1999 Opening Decision), Germany submitted comments on 16 September 1999. Following publication, the Commission received comments from 14 interested parties, which were duly transmitted to the German Government by letter dated 15 December 1999 providing it with an opportunity to make its own observations concerning these comments. The German authorities responded by letter dated 1 February 2000, which was registered as received on 2 February 2000.
3. The Commission adopted a final negative decision on 19 June 2002³ (hereafter 2002 Decision) finding that POSTDIENST and its successor Deutsche Post AG (hereafter DPAG, while POSTDIENST and DPAG will be hereafter jointly referred to as Deutsche Post) priced door-to-door parcels below incremental costs and that its aggressive pricing policy did not fall within Deutsche Post's universal service obligation. The resulting losses of € 572 million were ultimately financed, in contravention of Articles 106 and 107 TFEU, by the State resources which were granted to Deutsche Post in various forms (e.g. public transfers from sister company Deutsche Bundespost TELEKOM (hereafter TELEKOM), public guarantees for loans, and public subsidies to finance the civil servants' pensions).
4. Following the Commission's order, Germany recovered the incompatible State aid of € 572 million from DPAG. Deutsche Post challenged the decision in the Union Courts.
5. In its 2008 judgment⁴, the General Court annulled the 2002 Commission Decision because the Commission failed to carry out a comprehensive analysis of all universal service revenues and costs to determine whether Deutsche Post had been under- or overcompensated.
6. Germany subsequently paid back the recovered State aid of € 572 million plus accrued interest to Deutsche Post.
7. On 2 September 2010, the Court of Justice dismissed the Commission's appeal against the General Court's judgment.⁵

1.1.2. Further complaints after 2002 Decision

8. On 13 May 2004, UPS lodged a further complaint concerning unlawful State aid granted to Deutsche Post following the 2002 Decision. UPS argued that the 2002 Decision failed to examine all measures listed in the original 1994 complaint, and that Deutsche Post enjoyed significantly higher financial benefits than the incompatible aid of €572 million. In addition, UPS is of the opinion that Deutsche Post used State resources to expand its parcel operations (e.g. for the purchase of other companies) and to sell services at excessively low transfer prices to its

³ Commission Decision 2002/753/EC of 19 June 2002 on measures implemented by the Federal Republic of Germany for Deutsche Post AG, OJ L 247, 14.9.2002, p. 27.

⁴ Case T-266/02 *Deutsche Post AG v Commission* [2008] ECR II-1233.

⁵ Case C-399/08 P *European Commission v Deutsche Post AG* [2010] ECR I-0000.

subsidiaries Postbank AG and Deutsche Post Euro Express GmbH & Co OHG (hereafter DPEED), which have been active respectively in banking services and marketing of business parcels under the brand name DHL.

9. The Commission services sent information requests to Germany on 9 November 2004 and 1 April 2005. Germany submitted its answers on 2 December 2004 and 3 June 2005 respectively.
10. On 16 July 2004, TNT Post AG & Co KG (hereafter TNT) filed a complaint also alleging that Deutsche Post sold services at excessively low transfer prices to Postbank AG. It claimed that, whereas Postbank AG only paid variable costs for the provided services, Deutsche Post financed the common fixed costs of the distribution network entirely out of the revenues of its letter monopoly.
11. The Commission services sent information requests to Germany on 11 November 2004 and 25 April 2005. Germany submitted its answers on 17 December 2004 and 23 June 2005 respectively.

1.1.3. 2007 Extension decision

12. Following the further complaints, the Commission informed Germany by letter of 12 September 2007⁶ (hereafter 2007 Extension decision) of its decision to extend the proceedings that had originally been initiated in 1999. The objective of the 2007 Extension decision was to include the newly submitted information and to comprehensively address all potential distortions of competition which resulted from the public measures that were granted to Deutsche Post (see section I.1.14 for more details on the public transfers, the public guarantees, the pension subsidies, and the exclusive right for the provision of letter services).
13. The Commission considered it necessary to reconstruct in detail Deutsche Post's accounts for the period from 1990 to 2007 to gain clarity on the impact of the public measures on the revenues and costs of the different services provided by Deutsche Post.

1.1.4. Comments by Germany on 2007 Extension decision

14. Germany submitted its comments on 14 December 2007 and Deutsche Post challenged the validity of the 2007 Extension decision (see also section I.3.1).

1.1.5. Comments by third parties to the 2007 Extension decision and comments by Germany on third party comments

15. On 16 November 2007 UPS and TNT submitted their comments.
16. After an initial request for a delay extension on 20 December 2007, Germany eventually submitted on 12 March 2008 its comments on TNT's and UPS' observations.

⁶ Invitation of 12 September 2007 to submit comments pursuant to Article 88 (2) of the EC Treaty on aid C 36/07 (ex NN 25/07) – State aid to Deutsche Post AG, OJ C 245, 19.10.2007, p. 21.

1.1.6. Procurement of external expert

17. On 23 January 2008, the Commission published an invitation to tender for an expert study to assist the Commission in determining whether Deutsche Post was overcompensated for its universal service obligations for the period from 1990 to 2007.⁷
18. On 18 June 2008, the Commission concluded a contract with WIK Consult GmbH, an accounting expert for the postal sector.

1.1.7. Comments by Germany on appropriate length of investigation period

19. By letters of 10 June 2008 and 18 June 2008, Germany signalled its disagreement with the envisaged length of the investigation period (from 1990 until 2007) and maintained that it would be sufficient to limit the investigation to the period of 1990 until 1994 when the public transfers were granted because the losses in that period were higher than the public transfers so that Deutsche Post did not benefit from any overcompensation. Furthermore, the provision of accounting information for the period after 1994 would be disproportionate as the Community framework for State aid in the form of public service compensation (hereafter 2005 Framework)⁸ would limit the period for the calculation of overcompensation to a maximum of four years.
20. On 27 June 2008, Germany submitted an expert opinion on the obligation of the Commission to investigate separately the public transfers, the public guarantees, and the pension subsidy⁹. Furthermore, it claimed that an investigation of accounting data would be unnecessary for the assessment of the public guarantee and of the pension subsidy.
21. The German authorities affirmed the same position in the meeting with the Commission services on 29 May 2008 and 15 July 2008.

1.1.8. Information request of 17 July 2008

22. The Commission sent an information request to Germany on 17 July 2008 on all public measures under investigation including a questionnaire on revenues and costs of Deutsche Post between 1989 and 2007. The information request was prepared in cooperation with WIK Consult. On 5 August 2008, Germany asked for an undefined deadline extension because the availability of certain data would have to be checked in advance.

⁷ Contract notice 2008/S 15-018228 published on 23 January 2008, OJ S S15, 23.01.2008.

⁸ Community framework for State aid in the form of public service compensation, OJ C 297, 29.11.2005, p. 4.

⁹ Opinion of Prof. Ehlermann, WilmerHale (16 June 2008), "Die Verpflichtung der europäischen Kommission zur Einzelprüfung angeblicher Beihilfen an die Deutsche Post AG" (on the obligation of the European Commission to investigate separately the alleged State aid measures in favour of Deutsche Post AG).

I.1.9. Reminder for information of 12 August 2008 and 22 August 2008

23. On 12 August 2008, the Commission explained why the investigation on the costs and revenues of Deutsche Post should be effected within the period of 1990 until 2007 and insisted on the submission of the requested information.
24. In its submission of 14 August 2008, Germany maintained that there was no reason for examining the revenues and losses of Deutsche Post for the period after 1994. On 22 August 2008, the Commission reserved the right to adopt an information injunction pursuant to Article 10(3) of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty¹⁰ if Germany did not provide the requested information.
25. With the submission of 29 September 2008, Germany presented the results of a further expert opinion – which was eventually submitted on 2 October 2008 – to support the position that an accounting analysis after 1994 was not necessary and therefore the appropriate investigation period should be from 1990 until 1994¹¹.
26. On 28 October 2008, Germany submitted information on the public guarantee and the pension subsidy.

I.1.10. Information injunction of 30 October 2008

27. The Commission did not accept Germany's arguments and insisted that an analysis until 2007 was necessary to fully appreciate the competitive effects of the granted public measures. Following the two reminders for information of 12 August 2008 and 22 August 2008, the Commission issued an information injunction on 30 October 2008 to enjoin Germany to deliver all necessary accounting information for the whole period from 1990 to 2007.
28. Germany and Deutsche Post challenged the validity of the information injunction (see section I.3.2).
29. On 27 November 2008, Germany submitted the requested accounting information for the period from 1989 until 1994. On 5 and 16 December 2008, Germany updated the accounting information which had been submitted on 27 November 2008.

I.1.11. Submission of accounting information for the period from 1990 to 2007

30. After a meeting between Mr Pfaffenbach, German Secretary of State, Mr Appel, CEO of DPAG, and the Commissioner with responsibility for Competition Policy on 6 February 2009, Germany and Deutsche Post agreed to provide accounting information for the period after 1994.

¹⁰ OJ L 83, 27.3.1999, p.1

¹¹ Opinion of Prof. Ehlermann, WilmerHale (10 October 2008), "Die Periodizität der Überkompensationsrechnung gemäß Artikel 86 (2) EG" (on the periodicity of the calculation of overcompensation according to Article 86(2) EC).

31. On 3 March 2009, Germany submitted a first set of accounting information for the whole investigation period from 1990 until 2007.
32. Meetings between Deutsche Post and the Commission services took place on 3 March 2009 in Brussels as well as on 12 March 2009, 2 April 2009, 28 May 2009, 23 June 2009, and 18 September 2009 in Bonn. Germany submitted the respective presentations by Deutsche Post on 26 March 2009, 7 May 2009, and 22 June 2009.
33. Following those meetings and two lists of questions which the Commission services submitted to Deutsche Post on 4 June 2009 and 30 July 2009, Germany provided updated accounting information and further clarifications on 9 July 2009, 31 July 2009, 17 August 2009, 8 September 2009, 10 September 2009 and 15 October 2009.
34. On 16 and 24 September 2009, the Commission services submitted further questions to which Germany provided the answers by 14 October 2009.

1.1.12. Submission of WIK Study

35. Due to the delay in the provision of the accounting data, the contract with WIK Consult had to be prolonged several times. WIK Consult finally submitted the expert study (hereafter WIK study) on 9 November 2009.
36. On 14 and 21 January 2010, Germany submitted comments on the WIK study. On 11 February 2010, Germany submitted an expert study by KPMG (hereafter KPMG study) on the legal nature of the Ablieferungen (hand-over payments)¹² that Deutsche Post had to pay to the public budget until 1995 and an expert study by Deloitte¹³ (hereafter Deloitte-I study) on the profit benchmark used in the WIK study.
37. On 23 April 2010, Germany submitted a further study by Deloitte (hereafter Deloitte-II study) that provided its views on the level of reasonable profit to be used for Deutsche Post's universal services.
38. On 9 August 2010, Germany submitted further comments on the calculation of overcompensation and the application of the market investor principle to the assessment of the public transfers.

¹² See section VI.2.1 for a detailed explanation of the Ablieferungen.

¹³ Expert Study by KPMG (11 February 2010), "Deutsche Post AG – Rechtliche Qualifikation der Ablieferungen nach § 63 PVerfG"; Expert Study by Deloitte (09 February 2010), "Assessment of the WIK consult report for the European Commission – A report for Deutsche Post AG".

1.1.13. Comments following annulment of 2002 Decision

39. On 5 November 2010, Germany submitted a further expert opinion that analysed the significance of the judgment in Case C-399/08 *Commission v Deutsche Post* (see section I.3.5) for the current investigation¹⁴.

1.1.14. 2011 Extension decision

40. By letter dated 10 May 2011, the Commission notified Germany of its decision to extend the procedure laid down in Article 108(2) TFEU that had originally been initiated in 1999 and extended in 2007, in order to conduct an in-depth investigation with regard to the pension subsidies that Deutsche Post has received since 1995 (hereafter 2011 Extension decision).
41. After an initial request for a deadline extension on 23 May 2011, Germany submitted its comments on 29 July 2011, together with further expert studies on the necessity of a calculation of overcompensation to prove the alleged cross-subsidization¹⁵, on the comparison between social costs paid by Deutsche Post and market-average social costs¹⁶, as well as on the amount of excess social costs borne by Deutsche Post¹⁷.
42. On 4 October 2011, UPS submitted its comments. They were followed by comments submitted by Free and Fair Postal Postal Initiative (hereafter referred to as FFIP) on 5 October 2011 and comments submitted by Bundesverband Internationaler Express und Kurierdienste (hereafter referred to as BIEK) on 7 October 2011. On 13 October 2011, the Commission communicated the comments by interested parties to Germany.
43. On 14 November 2011, Germany submitted its comments on the third parties' observations.

¹⁴ Opinion of Prof. Ehlermann, WilmerHale (5 November 2010), "Bedeutung des Urteils des Gerichtshofes in der Rechtssache C-399/08 *Kommission v Deutsche Post AG* für das laufende Beihilfeprüfverfahren im Fall C 36/2007 *Deutsche Post AG*" (on an analysis of the significance of the Court judgment in Case C-399/08 *Commission v Deutsche Post* for the current investigation).

¹⁵ Opinion of Prof. Ehlermann, WilmerHale (19 July 2011), "Die Verpflichtung der Europäischen Kommission zum Nachweis einer Überkompensation bei der beihilferechtlichen Beanstandung angeblicher Quersubventionierungen" (on the necessity of the calculation of overcompensation to prove an alleged cross-Subsidisation)

¹⁶ Opinion of Prof. Ehlermann, WilmerHale (19 July 2011), "Der Vergleich der effektiv getragenen Sozialkosten mit den marktüblichen Sozialkosten im laufenden Beihilfeprüfverfahren im Fall C 36/07 (*Deutsche Post AG*)" (on a comparison between social costs paid by Deutsche Post and market-average social costs).

¹⁷ Opinion of Prof. Weber, WHU – Otto Beisheim School of Management Vallendar (July 2011), "Gutachten zur Ermittlung der Höhe der über das Marktniveau hinausgehenden Sozialkosten der DPAG" (on the calculation of DPAG's excess social costs); an update to the study was submitted on 2 January 2012.

44. On 18 November 2011, the Commission sent a further information request concerning details of the pension financing for the period after 2007. On 2 January 2012 and 19 January 2012, Germany submitted replies. On 16 December 2011, the Commission submitted to Germany an expert study by Charles River Associates concerning profit benchmarking¹⁸ (hereinafter CRA study) for comments to which Germany replied on 16 January 2012.

I.2. Antitrust Procedures

45. Based on UPS' 1994 complaint, the Commission found that Deutsche Post infringed Article 102 TFEU by predatory pricing for Business-to-Consumer parcels from 1990 to 1995. A fine of €24 million was imposed on Deutsche Post.¹⁹
46. On 22 April 2004, UPS lodged a further complaint regarding Deutsche Post's abuse of dominant position under Article 102 TFEU. UPS claimed that Deutsche Post had charged excessive stamp prices for its regulated letter services.
47. During its investigations, the Commission received on 5 November 2004 documents relating to the decision by the German postal regulatory agency (hereafter Postal regulator) on the price cap for Deutsche Post's regulated letter services for the period starting 1 January 2003 (hereafter 2002 Price cap decision). By letter of 13 June 2007, Germany agreed that those documents could also be used in the State aid procedure.
48. On 25 March 2008, the Commission decided to close the antitrust investigation because of the limited likelihood of establishing such an infringement under Article 102 TFEU.²⁰

I.3. Court Procedures

I.3.1. Case T-421/07 Deutsche Post AG v Commission

49. Deutsche Post challenged the validity of the 2007 Extension decision, claiming that the 2002 Decision created legitimate expectations that the Commission would not resume its investigations.
50. On 8 December 2011, the General Court rejected that challenge as inadmissible.²¹

¹⁸ Charles River Associates (March 2011), "Estimating a reasonable profit margin for provision of letter services", submitted by Belgium in State aid case SA.14588 State aid to bpost.

¹⁹ Commission Decision 2001/354/EC of 20 March 2001 relating to a proceeding under Article 82 EC Treaty (Deutsche Post AG), OJ L 125, 05.05.2001, p. 27.

²⁰ Commission Decision of 25 March 2008 – Case COMP/37.821 – UPS and DVPT/DPAG, recitals 6, 63, 66, 70-72.

²¹ Case T-421/07 *Deutsche Post AG v European Commission* [2011] ECR II-0000.

I.3.2. Case T-570/08 Deutsche Post AG v Commission and Case T-571/08 Germany v Commission

51. Germany as well as Deutsche Post challenged the validity of the Commission's information injunction of 30 October 2008 because they considered that the information injunction requested irrelevant information and put a disproportionate burden on Deutsche Post.
52. On 16 July 2010, the General Court declared both actions as inadmissible because neither Deutsche Post's nor Germany's procedural rights could have been infringed by the issuance of the information injunction.

I.3.3. Case C-463/10 P Deutsche Post AG v Commission and Case C-475/10 P Germany v Commission

53. On 27 September 2010, Deutsche Post and Germany appealed the GC's judgment and maintained that the information injunction infringed their rights. On 13 October 2011, the Court of Justice overruled the General Court's judgment of 16 July 2010.²² Consequently, the case was sent back to the GC and is currently pending.

I.3.4. Case T-344/10 UPS v Commission

54. On 20 August 2010, UPS lodged an application with the General Court claiming an unlawful failure to act by the Commission in respect of the 2007 State aid investigation. Given that a period of almost three years had lapsed since the 2007 Extension decision, UPS believed that the Commission had had ample opportunity to investigate the above mentioned measures and to assess the circumstances of facts and law in order to adopt a final decision and close the investigation procedure. That case is still pending.

I.3.5. Case T-388/11 Deutsche Post AG v Commission

55. On 22 July 2011, Deutsche Post challenged the validity of the 2011 Extension decision because it considers that the Commission has manifestly erred in its preliminary assessment of the pension subsidy as aid within the meaning of Article 107(1) TFEU and as a new aid measure in the meaning of Article 108(1) TFEU. That case is still pending.

II. DETAILED DESCRIPTION OF PUBLIC MEASURES

56. Deutsche Post has been granted public support in form of several different measures since 1989:
 - Pension subsidy based on:

²² Joined Cases C-463/10 P and C-475/10 P *Deutsche Post AG v European Commission* [2010] ECR I-0000.

Ø Postpersonalrechtsgesetz 1994²³ (hereafter PostPersRG 1994)

- Public transfers and guarantees based on:

Ø Postverfassungsgesetz 1989²⁴ (hereafter PostVerfG 1989)

Ø Postumwandlungsgesetz 1994²⁵ (hereafter PostUmwG 1994)

- Exclusive right and price regulation based on:

Ø Gesetz über das Postwesen 1989²⁶ (hereafter PostG 1989)

Ø Postgesetz 1997 (hereafter PostG 1997)

II.1. Pension subsidy in the context of social benefits and contribution schemes for civil servants and private employees

57. The pension subsidy has financed since 1995 a major share of the pensions for Deutsche Post's retired civil servants. To fully apprehend the effects of the pension subsidy in the later assessment, the following sections will describe in more detail the civil servants' social benefits and contributions in comparison to the compulsory social insurances for employees under private law contracts (hereafter: private employees).

II.1.1. Social benefits for civil servants

58. Civil servants are entitled to old age pensions, health care and nursing care. The benefits for Deutsche Post's civil servants are equal to the benefits which are granted to all other civil servants:

- The level of the pension is pre-defined, pursuant to Article 14 BeamtVG²⁷, at a certain percentage of the last salary that the civil servant earns. Thus, for example, a civil servant who retired in 2010 and had worked the required number of years will receive a pension that is equal to 71.75% of his last salary.
- Civil servants are entitled to reimbursement of 50% to 70% of health and nursing care expenses, while they have to assume the remaining expenses

²³ Gesetz zum Personalrecht der Beschäftigten der früheren Deutschen Bundespost of 14. September 1994 (BGBl. I S. 2325).

²⁴ Gesetz über die Unternehmensverfassung der Deutschen Bundespost of 8 June 1989 (BGBl. I S. 1026).

²⁵ Gesetz zur Umwandlung von Unternehmen der Deutschen Bundespost in die Rechtsform der Aktiengesellschaft of 14 September 1994 (BGBl. I S. 2325).

²⁶ Gesetz über das Postwesen of 3 July 1989 (BGBl. I S 1450).

²⁷ Gesetz über die Versorgung der Beamten und Richter des Bundes of 24. August 1976 (BGBl. I S. 322).

themselves. The exact breakdown of health care costs depends on several criteria such as the number of children. The civil servant can choose either to insure himself with a voluntary complementary insurance or to pay his share of the health care expenses out of his own pocket.

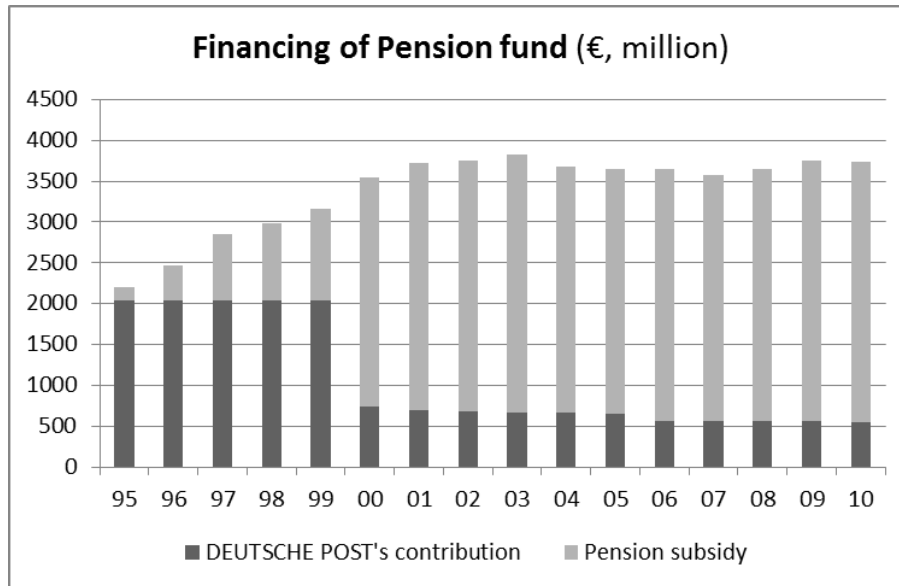
II.1.2. Financing of civil servants' social benefits from 1989 to 1994 at POSTDIENST

59. After the first postal reform of 1989, pursuant to Article 54(2) PostVerfG 1989, POSTDIENST, TELEKOM and POSTBANK had to fully finance the pension payments and health expenses of the retired civil servants who were allocated to the respective sections on basis of their former activities. That provision lays down that whereas the claim of the civil servant continues to be directed against the State, the State has the right to claim the entire amount from POSTDIENST, TELEKOM and POSTBANK respectively.

II.1.3. Financing of social benefits for DPAG's civil servants since 1995

60. With the second postal reform of 1994, civil servants who had worked for POSTDIENST were, pursuant to Article 2(1) PostPersRG 1994, transferred to DPAG. Thereby, the civil servants kept, pursuant to Article 2(3) PostPersRG 1994, their existing legal status. DPAG took over, pursuant to Article 1(1) PostPersRG 1994, all employer's rights and obligations from the federal State and assumed, pursuant to Article 2(3) PostPersRG 1994, all the civil servants' proprietary claims.
61. Pursuant to Article 15 PostPersRG 1994, the payment of pension and health expenses to retired civil servants was taken over by a newly created pension fund for Deutsche Post's civil servants. On 1 July 2001, the pension funds for Deutsche Post, Deutsche Telekom AG, and Postbank AG were merged into the "*Postbeamtenversorgungskasse*" (hereafter jointly referred to as Pension fund for the whole period since 1 January 1995).
62. Pursuant to Article 16(1) PostPersRG 1994, Deutsche Post had to pay a yearly contribution of €2,045 million to the Pension fund for the period from 1995 to 1999 which totals € 10,225 million. From 2000 onwards and based on Article 16(2) PostPersRG 1994, Deutsche Post has had to pay a yearly contribution of 33% of the sum of the incurred civil servant wages to the Pension fund (e.g. from €735 million in 2000 to €540 million in 2010).
63. The pension subsidy has covered, pursuant to Article 16(2) PostPersRG 1994, the remaining deficit (e.g. the difference between the pensions for the retired civil servants' pensions and the contribution by Deutsche Post to the Pension fund). The pension subsidy increased from € 151 million in 1995 to €3,203 million in 2010 and totalled €37,121 million for the period from 1995 to 2010.

Figure 1 Financing of Pension fund (€million)



II.1.4. Statutory social insurances for private employees and supplementary pension insurance for Deutsche Post's private employees

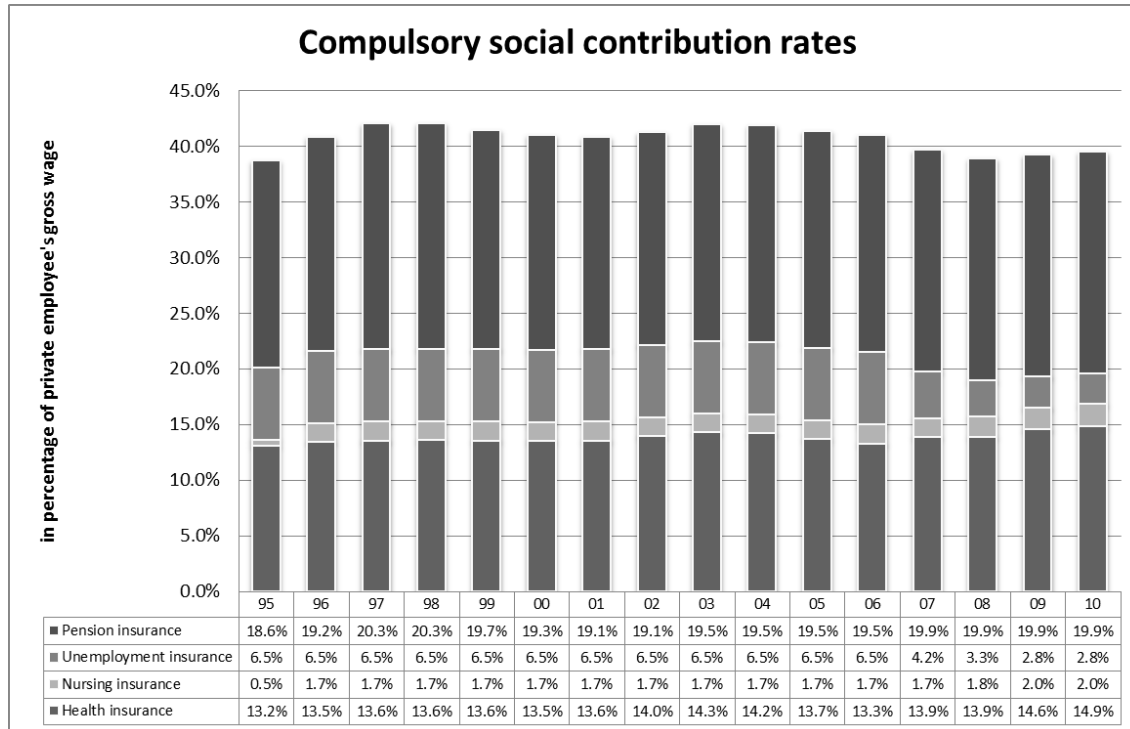
64. Private employees are compulsory members of four social insurances: pension, unemployment, health and nursing care insurance.²⁸ Compared to the civil servant's regime, the statutory social insurance schemes offer a different coverage for the pension and health insurances:

- The level of the pension is not defined in percentage of the last monthly salary but of an average life-time salary.
- The expenses for health and nursing care are fully covered.

65. There also exist important differences in the financing of the social benefits compared to those of civil servants: The statutory social insurances are financed by joint contributions from the employee and the employer during the employee's working life (hereafter referred to as compulsory social contributions). The total social contribution rate is formally divided into an employee's and employer's share which both covers about half of the total contribution rate. However, the employer has the formal obligation to pay the total contribution rate to the social insurances.

²⁸ The Sixth Social Code (SGB VI) regulates the pension insurance; The Third Social Code (SGB III) regulates the unemployment insurance; The Fifth Social Code (SGB V) regulates health insurance; Long Term Care Act (PflegeVG) and Eleventh Social Code (SGB XI) regulate the long-term care insurance.

Figure 2 Compulsory social contribution rates in percentage of private employee's gross wage (see also the Annex)



66. Figure 2 shows that the compulsory social contribution rates have since 1995 ranged from 38% to 42% of the gross wage (=net wage + employee's share). The employer's and employee's shares of the social contribution rate have been in the range of 19% to 21% of the gross wage (see the Annex for a more detailed time series).

67. Deutsche Post's private employees have not only benefited from the statutory social insurances but also from supplementary pension insurance. Private employees who started before 1997 were offered a supplementary pension insurance cover that would allow them to receive a similar level of pension as civil servants. Thus the supplementary pension insurance covered the difference between the private employees' statutory social insurance pension – which is equal to a certain percentage of the average life-time salary – and the civil servant's pension that equals to a certain percentage of the last salary. The detailed rules are laid down in the Charter of the Versorgungsanstalt der Deutschen Bundespost (hereinafter VAP).²⁹

68. Deutsche Post financed the supplementary pension benefits for the retired private employees up to 1997 by a contribution that amounted to approximately [5 to 10%]* of the active private employees' gross wage. Since 1997, Deutsche Post has built up

²⁹ Satzung der Versorgungsanstalt der Deutschen Bundespost (1969 i.d.F.).

* Parts of this text have been edited to ensure that confidential information is not disclosed; those parts are enclosed in square brackets and marked with an asterisk.

a provision for the outstanding obligations to the VAP (see also description of burden #4 in section II.3.1.3).

69. Since 1997, newly hired private employees were offered a significantly reduced supplementary pension insurance for which Deutsche Post paid a contribution between [0 and 5%] of the gross wage as of 1997.

II.2. Public transfers and guarantee in the context of Deutsche Post's exclusive right and universal postal service obligations

II.2.1. Exclusive right until 2007

70. Before 1998, Article 2 PostG 1989 granted Deutsche Post the exclusive right to establish and maintain facilities for the carriage of letter items. Other postal services – like parcels, newspapers or periodicals – were not reserved to Deutsche Post but open to competition. Pursuant to Article 37 PostVerfG 1989, the profits accruing from those reserved letter services were to be used to finance the losses of those universal services that were offered in markets open to competition. Pursuant to Article 4 PRegG 1994,³⁰ the Minister for Post and Telecommunication was the competent authority to approve the prices for the reserved letter services.
71. Beginning with the entry into force of the PostG 1997 in 1998, the scope of the reserved services started to be progressively reduced for Deutsche Post. Pursuant to Article 51 PostG 1997, the exclusive right extended to the transport of letters and addressed catalogues below 200 grams in 1997 but afterwards the limit was successively reduced, reaching 50 grams in 2006. The exclusive right finally expired on 31 December 2007.

II.2.2. Universal postal service obligation until 2007

72. The universal service obligations for Deutsche Post were set out in two formal entrustment acts:
- The 1994 Postdienst Mandatory Service Regulation³¹ (hereafter 1994 Mandatory service regulation) appointed Deutsche Post as the universal postal service provider for letters and parcels not exceeding 20 kg, charging it with the provision of those services throughout Germany at uniform tariffs.
 - The 1997 PostG and the accompanying 1999 Implementing Regulation³² (hereafter 1999 Universal service regulation) continued the entrustment for DPAG.

³⁰ Gesetz über die Regulierung der Telekommunikation und des Postwesens of 14 September 1994 (BGBl. I S. 1509).

³¹ Verordnung zur Regelung der Pflichtleistungen der Deutschen Bundespost POSTDIENST of 12 January 1994 (BGBl. I S. 86).

³² Post-Universaldienstleistungsverordnung of 15 December 1999 (BGBl. I S. 2418).

73. Article 11 PostG 1997 defined the universal service as a basic set of postal services that are rendered nationwide at affordable tariffs. Those services include the transport of letters, addressed parcels weighing no more than 20 kg, or books, catalogues, newspapers and magazines (hereafter universal services).
74. The 1999 Universal service regulation set out the minimum quality requirements of the universal service:
- There must be at least 12.000 post offices located throughout Germany.
 - An annual average of 80 percent of letters and parcel must be delivered within certain time targets (one working day for letters and two working days for parcels) and deliveries must be made at least once daily on weekdays.
 - While the general requirement for prices of universal services is affordability, DPAG had to charge uniform prices in respect of letter services performed under the exclusive license that eventually expired in 2007. However, DPAG has some degree of pricing flexibility for the reserved services because it could conclude individual price agreements with customers mailing at least 50 items per transaction.
75. Article 52 PostG 1997 maintained the entrustment of DPAG with the provision of universal services until 31 December 2007, which is the date of the abolishment of DPAG's exclusive right for the provision of letter services. Since the expiry of the exclusive right, no postal operator in Germany has been legally entrusted with the universal service obligation, which means that all postal service providers are assumed to ensure the provision of universal postal services ("*market forces*"). Where a universal service is not being appropriately or adequately provided or where there is reason to believe that such will be the case, PostG 1997 provides for legislative instruments to safeguard the provision of those services.
76. As shown by the WIK study (see Figure 3), the universal services accounted for about 88% of total revenue over the period from 1990 to 2007: The majority of the universal letter services were subject to price regulation because of Deutsche Post's dominant position on those markets (see section II.2.1). Apart from those price-regulated services that made up about 62% of total revenue, Deutsche Post has provided in competition with other operators the universal parcel services (about 15% of total revenue) and further non-price regulated universal letter services (about 11% of total revenue).
77. Moreover, Deutsche Post has also offered commercial services (e.g. retail banking services for Postbank, sales services for Telekom, delivery of unaddressed mail items, etc.). In total, the commercial services amounted to 12% of Deutsche Post's revenue for the period from 1990 to 2007.

II.2.3. Public transfers

78. Since its creation in 1950, Deutsche Bundespost had been a *Sondervermögen* of the Federal Government. Under German administrative law, a *Sondervermögen* does not have a legal personality that is independent from the State, but does have its own budget and is not liable for the general debts of the State.

79. The first postal reform in 1989 foresaw that the *Sondervermögen* would have three different sub-sections, - POSTDIENST, POSTBANK, and TELEKOM – which were qualified as "public undertakings" but still did not enjoy independent legal personality from the State.
80. Pursuant to Article 37(2)(3) PostVerfG 1989, although each service of the three entities should be able to finance its costs out of its own revenues, a cross-financing between the three entities was permissible to the extent that losses resulted from universal service obligations. On that basis, between 1990 and 1993 POSTDIENST received transfers of €2,844 million from TELEKOM to cover its losses.
81. In the course of the second postal reform, the three sub-sections of the *Sondervermögen* were transformed as of 1 January 1995 into public limited companies: POSTDIENST became DPAG, POSTBANK became Postbank AG, and TELEKOM became Telekom AG. Pursuant to Article 2(2) PostUmwG 1994, Telekom AG assumed all liabilities arising from loans which were attributable to the *Sondervermögen* as a whole but retained the right to reclaim funds from DPAG and Postbank AG to the extent that those loan commitments could be attributed to their legal predecessors.
82. However, Article 7 PostUmwG 1994 waived the right of Telekom AG (arising from Paragraph 2(2) PostUmwG 1994) to bring claims against DPAG up to the amount of losses accrued by POSTDIENST until 31 December 1994. It resulted in a transfer of assets in the value of €2,822 million from Telekom AG to DPAG. According to Germany, that transfer from Telekom AG was – as with the previous transfers based on Article 37(3) PostVerfG 1989 – indispensable for DPAG to discharge its universal service obligations.
83. In total, POSTDIENST received € 5,666 million between 1990 and 1994 as compensation for its universal service obligation.

II.2.4. Public guarantee for debt obligations issued before 1995

84. Since 1953, § 22 (4) PostVwG 1953³³ provided that debt obligations issued by Deutsche Bundespost had the same legal value as debt obligations issued by the Federal Republic of Germany. When the PostVwG 1953 was repealed by the PostVerfG 1989, the same provision was taken over in § 40 PostVerfG 1989.
85. After the creation of the three sub-sections in 1989, POSTDIENST itself did not issue the debt obligations autonomously but POSTBANK administered those transactions for all entities of Deutsche Bundespost. The debt obligations were then allocated to POSTDIENST, TELEKOM and POSTBANK according to their financial requirements.
86. After 1995, pursuant to Article 2(4) PostUmwG 1994, Germany remained liable for all debt obligations entered into prior to 1995 by Deutsche Bundespost and

³³ Gesetz über die Verwaltung der Deutschen Bundespost (Postverwaltungsgesetz), BGBl. I S. 676.

subsequently allocated to POSTDIENST, TELEKOM and POSTBANK. However, Germany did not bear any liability for debt obligations issued by DPAG thereafter.

II.3. Revenues from regulated prices as additional compensation for pension costs and universal services' net costs

87. The PostG 1997 also established the *Bundesnetzagentur* (hereafter referred to as Postal regulator) for the supervision of the reserved and liberalized letter markets. Pursuant to Article 19 PostG 1997, the Postal regulator is competent to regulate Deutsche Post's pricing in the letter markets in which Deutsche Post enjoys a dominant position. Deutsche Post has had a dominant position not only with the reserved services – pursuant to Article 51 PostG 1997 – but also with almost all other letter services which have had been opened up to competition. Price regulation can take the form either of an ex ante price cap or of an ex post price control.
88. According to the market studies by the Postal regulator, Deutsche Post has held average market share of 90% to 97% on the price-regulated letter markets. In his latest report, the Postal regulator deplors that the gradual market opening since 1997 has not achieved a functioning competition on the German letter market.³⁴
89. The price-regulated letter services account for the majority of Deutsche Post's total revenues (e.g. about 62% of Deutsche Post's total revenue for the period from 1990 to 2007 (see Figure 3); in the period from 2008 to 2010, the price-regulated services accounted for about 56% of Deutsche Post's total revenue).
90. All other universal and commercial services, which do not fall under price regulation pursuant to Articles 19 to 27 PostG 1997³⁵ will be hereafter termed as non-price regulated services.
91. For the price regulated letter services, Article 20(1) and (2) PostG 1997 provide that the prices shall reflect the costs of the efficient service provision. However, if factually justified, the Postal regulator should *inter alia* appropriately account for:
 - Costs arising from the universal provision of postal services, and
 - Costs arising from the financing of pension and health care benefits for employees who were taken over from POSTDIENST.
92. Article 57 PostG 1997 and a ministerial decree of 27 March 2000 maintained the regulated prices at the level of 1997 until 31 December 2002.

³⁴ Bundesnetzagentur, Zwölfte Marktuntersuchung (12th Market Report), September 2009.

³⁵ About 38% of Deutsche Post's total revenue for the period from 1990 to 2007; about 44% of Deutsche Post's total revenue for the period from 2008 to 2010.

II.3.1. 2002 Price cap decision

93. It was only in 2002 that the Postal regulator took its first decision concerning the price cap for the period starting on 1 January 2003 until 31 December 2007 (hereafter 2002 price cap decision). Price cap regulation means a system of regulating the prices of a bundle of services under which the individual price for each service is not controlled but there is a ceiling on the weighted average of all the prices in the bundle. Pursuant to Article 19 PostG 1997 ex ante price cap regulation covered all postal services for which Deutsche Post held a dominant position.
94. For the 2002 price cap decision, Deutsche Post submitted accounts to the Postal regulator (hereafter 2002 regulatory accounts) for the first time that covered the period from 1998 to 2006. The regulatory accounts were based on realized results up to 2001 and on projections for the later years.
95. Deutsche Post claimed in 2002 so-called "burdens" for the provision of universal service as well as for the employment of civil servants and private employees who had been taken over from POSTDIENST. Those burdens show the alleged costs that Deutsche Post would not have assumed without the universal service obligation and without the take-over of the POSTDIENST personnel and infrastructure (see Table 1 for a detailed list).

Table 1 Burdens as approved by 2002 Price cap decision (€million, nominal values)

#	Burdens from 2002 Price cap decision	Average burden (1998-2006) € million	%
1	Excess wage costs	[...]	[...]
2	Excess social costs	[...]	[...]
3	Infrastructural burden post shops	[...]	[...]
4	Supplementary pension insurance for employees (VAP)	[...]	[...]
5	Infrastructural burden freight	[...]	[...]
6	Social and health cost (BAnstPT)	[...]	[...]
7	Personnel restructuring	[...]	[...]
8	Deficit coverage for civil servants' health insurance	[...]	[...]
	Total average burden	[...]	100%

96. The Postal regulator eventually accepted Deutsche Post's reasoning that it would not have incurred those burdens, had it not been subject to the universal service obligation (for burdens #3 and 5 on universal service costs) respectively to the obligation to take over the civil servants and private employees from POSTDIENST (burdens #1, 2, 4, 6, 7, and 8). The Postal regulator approved increased regulated letter prices to finance the claimed average annual burdens of €[...] million for the period from 2002 to 2006 out of the revenues of the regulated letter services. Under the 2002 price cap decision, 100% of the burdens are imputed to the prices which are subject to the ex ante price cap.

II.3.1.1. Excess wages (burden #1)

97. Burden #1 shows the claimed excess of the wage costs for postal workers over the industry average. Deutsche Post used as a "competitive" wage benchmark the wages that had been stipulated in a collective labour agreement ("Entgelttarifvertrag") with the trade unions for newly hired personnel after 2002 (hereafter ETV wages). For the calculation of burden #1, that benchmark is, however, applied for all personnel. It is also retroactively applied in the submitted accounts back to 1998.

II.3.1.2. Excess social contributions (burden #2)

98. The Postal regulator also approved Deutsche Post's claim that it had to bear higher social contributions for its private employees and civil servants than private competitors would normally have to assume for their private employees.

99. Deutsche Post starts its calculations from a social contribution rate that it deems as "competitive" (hereafter "regulatory contribution rate") for both civil servants and private employees. That regulatory rate is defined as the sum of

- Employer's share of social contributions for a private employee (about 19% to 21% which equals roughly half of the total social contribution rate as shown in Figure 2),
- Contribution to the accident insurance (in the range of [0 to 5%]; Deutsche Post has added that contribution to the regulatory contribution rate since 2001),
- Contribution to supplementary pension (in the range of [0 to 5%]; Deutsche Post has added that contribution to the regulatory contribution rate since 1997 because a contribution to the supplementary pension insurance of that magnitude is considered as "competitive". The rate is based on the supplementary pension insurance that Deutsche Post has offered since 1997 to newly hired private employees).

100. The regulated revenues finance all social contributions that are in excess of the regulatory contribution rate (hereafter "excess social contributions"). Taking e.g. the calculations of the excess social contributions in 2001 for civil servants, Table 2 shows that the incurred social contributions for civil servants are almost double those of the allegedly "competitive" social contributions based on the regulatory contribution rate.

Table 2 Calculation of excess social costs for civil servants in 2001 according to 2002 regulatory accounts (€million)

			<i>% of incurred wages</i>
(1)	Contribution rate for pension fund	33%	
(2)	Civil servants' wage sum	[...]	
(3) = (1)*(2)	Contribution to pension fund	[...]	
(4)	Health care expenses	[...]	
(5) = (3)+(4)	Incurred social contributions	[...]	[40 to 45%]
(6)	Employer's share of social contributions	20.43%	
(7)	Accident insurance	[...]	
(8)	Supplementary pension insurance	[...]	
(9) = (6)+(7)+(8)	Regulatory contribution rate	[...]	
(10) = (2)*(9)	Regulatory benchmark social cost	[...]	[20 to 25%]
(11) = (5)-(10)	Excess social contributions	[...]	[15 to 20%]

101. The incurred social contributions include Deutsche Post's payment of 33% of the incurred civil servant wages to the pension fund (respectively an annual lump-sum payment of € 2,045 million in the years from 1995 to 1999) as well as the contributions to the civil servants' health care expenses. In total, the incurred social contributions amount to [40 to 45%] of the incurred civil servants' wages in 2001.

102. Although the social contribution rate is defined in percentage of the private employee's gross wage (net wage + employee's share of social contribution), Deutsche Post multiplies the regulatory contribution rate of [20 to 25%] by the incurred civil servant wage to calculate the regulatory benchmark.

II.3.1.3. Supplementary pension insurance for private employees (burden #4)

103. Burden #4 is to compensate for the build-up of the provision for the pre-1997 liabilities from the supplementary pension insurance scheme VAP for Deutsche Post's private employee.

104. As explained in section II.1.4, Deutsche Post's private employees – who had been hired before 1997 – were offered supplementary pension insurance to guarantee them a pension similar to civil servants. However, POSTDIENST did not build up a corresponding provision for the future pension payments. It was only after the incorporation of DPAG that provisions of €8,153 million were made in the balance sheet.

II.3.1.4. Miscellaneous excess social costs (burdens #6, 7, 8)

105. Burden #6 contains the contribution of Deutsche Post to the *Bundesanstalt für Post und Telekommunikation (BAnstPT)* that provides certain social benefits (e.g. social housing) to civil servants and private employees who were taken over from

POSTDIENST. Burden #7 includes the contributions by Deutsche Post to the deficit of the civil servant's health insurance. Burden #8 on personnel restructuring concerns both civil servants and private employees.

II.3.1.5. Universal service burdens (#3 and 5)

106. Those burdens shall show the cost savings that Deutsche Post could have achieved if it had been able to design its shop and parcel network only based on commercial considerations. The cost savings are calculated based on e.g. the counterfactual number of post shops that Deutsche Post would run without the universal service obligation.

II.3.2. 2007 and 2011 Price cap decisions

107. On 7 November 2007, the Postal regulator approved the price cap for the period from 1 January 2008 until 31 December 2011 (hereinafter referred to as 2007 Price cap decision). On 14 November 2011, the Postal regulator approved the price cap for the period from 1 January 2012 until 31 December 2013 (hereinafter referred to as 2011 Price cap decision).

108. Since the 2007 Price cap decision, the prices for the posting of more than 50 letters are no longer controlled ex ante but are subject to an ex post price control pursuant to Article 25 PostG 1997.³⁶ The prices for all other postal services for which Deutsche Post holds a dominant position continue to be approved ex ante in line with Article 19 PostG 1997.

109. The Commission will refer throughout this Decision to "price-regulated services" when dealing with those services for which Deutsche Post holds a dominant position and which are subject to either ex-ante price control pursuant to Article 19 PostG 1997 or ex-post price control pursuant to Article 25 PostG 1997. All other services for which Deutsche Post does not hold a dominant position and which are not subject to price control will be referred to as "non-price regulated services".

110. Deutsche Post continued to claim the burdens for excess wages and social costs from the takeover of personnel from POSTDIENST (e.g. average burden #2 on excess social costs of €[...] million from 2008 onwards) as well burdens from the universal service obligation. As with the 2002 Price cap decision, the Postal regulator approved the financing of those burdens out of the price-regulated revenues and set the price cap at an accordingly higher level. The Postal regulator's recognition of those burdens in the 2002, 2007, and 2009 Price cap decisions has therefore remained unchanged with regard to the non-price regulated services.

³⁶ Article 53 PostG 1997 provided that after the expiration of the exclusive licence, the posting of letters with a minimum number of 50 is no longer subject to ex-ante price control but rather to ex-post price control.

II.4. Financial results of DPAG

111. The financial results of DPAG for the years 1995 to 2006 are shown in Figure 2 of the 2007 Extension Decision. Whereas they were mixed, some years with losses and some with profits, in the years 1995 to 1999, DPAG constantly made profits of between 1 and 2 billion EUR before taxes for the years 2000 until 2006.
112. For the years 2007 until 2010, DPAG has realized the following net profits: 1,8 billion EUR (2007); - 2,0 billion EUR (2008); 0,7 billion EUR (2009); 2,6 billion EUR (2010).
113. The published accounts of DPAG do not allow for an allocation of the profits to the different services. Therefore, it is not possible on the basis of the published accounts to see whether the price-regulated universal services were loss- or profit-making overall.

III. GROUNDS FOR INITIATION OF PROCEDURE

114. As the General Court confirmed in its ruling in Case T-421/07³⁷, all measures under investigation have been part of the proceedings since the 1999 Opening decision, which has been continued by the 2007 Extension decision.

III.1. Pension subsidy

115. The 2011 Extension decision considered that the pension subsidy constituted a new aid measure because Deutsche Post had, before the 1995 pension reform, been fully liable to finance the pensions costs out of own resources. Furthermore, the 2011 Extension decision rejected Germany's claim based on the *Combus* judgment³⁸ that the pension subsidy did not constitute aid.
116. For the compatibility assessment of the pension subsidy as compensation for "legacy" pension costs (e.g. following the Commission decision on French La Poste (hereafter La Poste decision)³⁹, the 2011 Extension decision took into account that the claimed excess social costs have not only been compensated by the pension subsidy but also from the price-regulated revenues (e.g. burden #2 on excess social contributions).
117. When taking into account both sources of compensation, the 2011 Extension decision's calculations showed that Deutsche Post has effectively benefitted from social contribution rates that have been 10 to 14 percentage points below the total

³⁷ Case T-421/07 *Deutsche Post AG v Commission*, paragraphs 74 and 75.

³⁸ Case T-157/01 *Danske Busvognmænd v Commission* [2004] ECR II-917, paragraph 57.

³⁹ Commission Decision of 10 October 2007 on the State aid implemented by France in connection with the reform of the arrangements for financing the retirement pensions of civil servants working for La Poste, OJ L 63, 7.3.2008, p. 16.

compulsory social contribution rates (including employer's and employee's share) that private competitors have had to carry.

118. The 2011 Extension decision therefore expressed doubts about the compatibility of the pension subsidy as compensation for "legacy" pension costs pursuant to Article 107(3)(c) TFEU.

III.2. Universal service compensation

119. Germany has evoked Article 106(2) TFEU as a justification for the compatibility of the public transfers and the public guarantee as compensation for the universal service obligation.

120. Based on the *Altmark* judgment⁴⁰, the Commission considered in the 2007 Extension decision that the public transfers and guarantee constitute aid within the meaning of Article 107(1) TFEU.

121. The Commission expressed doubts in the 2007 Extension decision whether the public transfers and guarantee were necessary for the fulfilment of the universal service obligations, and proportional to that end. In particular, the Commission considered it necessary to review, in line with the principles codified in the 2005 Framework, the cost allocation between the universal and commercial services. It also raised doubts with regards to the determination of a reasonable profit, taking into account the average profitability of the sector and Deutsche Post's risk position.

IV. WIK STUDY

122. The WIK study was commissioned to assist the Commission in the review of Deutsche Post's accounts for the period from 1990 to 2007 with a view to establish whether Deutsche Post had been overcompensated for its universal service obligations. More specifically, WIK was assigned the following tasks:

- Benchmarking of reasonable profit;
- Review of internal cost allocation and transfer pricing arrangements; and
- Calculation of overcompensation for the net costs of the universal service obligation.

IV.1. Description of the 2009 regulatory accounts

123. As sought by the Commission in the information injunction of 30 October 2008, Germany eventually submitted in 2009 a complete set of regulatory accounts for the period from 1990 to 2007 (hereafter 2009 regulatory accounts).

⁴⁰ Case C-280/00 *Altmark Trans GmbH* [2003] ECR I-7747.

IV.1.1. The revenues

124. Deutsche Post's revenues can be classified in three broad categories:

- Price-regulated universal letter services (62% of total revenue from 1990 to 2007)

The price-regulated letter services include all universal services that are provided on markets on which Deutsche Post has enjoyed a dominant market position, including those services that benefited from the grant of the exclusive right. Those services earned 62% of Deutsche Post's total revenues during the period from 1990 to 2007.⁴¹

- Non-price regulated universal services (26% of total revenue from 1990 to 2007)

The universal parcel services have always been provided on markets open to competition, in which Deutsche Post has only held an average market share of 30%. During the period from 1990 to 2007, the universal parcel services raised 15% of Deutsche Post's total revenue.

The non-price regulated universal letter services (e.g. catalogues, cross-border mail) achieved about 11% of Deutsche Post's total revenue.

- Non-price regulated commercial services (12% of total revenue from 1990 to 2007)

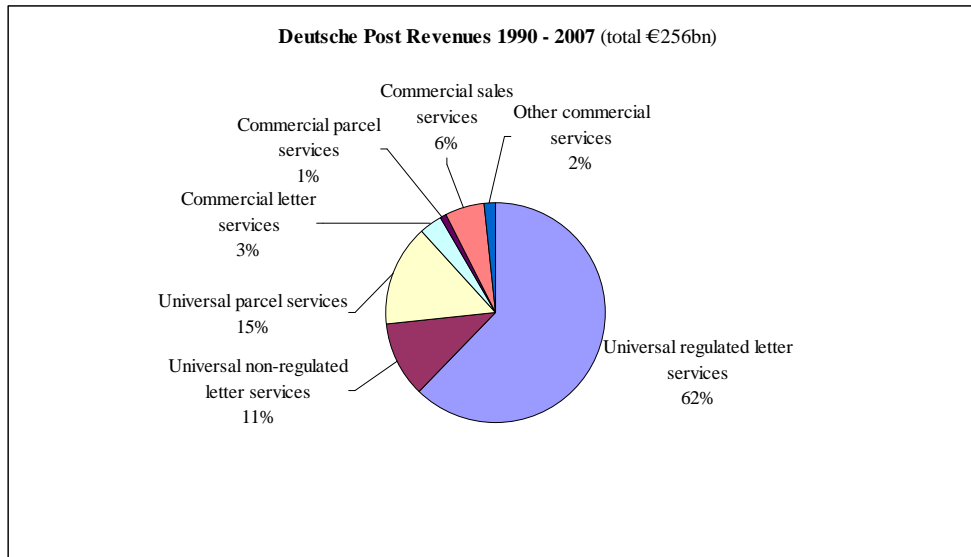
Deutsche Post has used its post shop network not only for the distribution of postal services but also to sell products and services for Postbank AG and – to a lesser degree – for Deutsche Telekom. Those commercial sales services achieved about 6% of Deutsche Post's total revenues.

The commercial parcel and letter services (e.g. addressed publications) account for about 4% of Deutsche Post's total revenues.

Finally, Deutsche Post provided a number of miscellaneous services, e.g. in its function as holding for international subsidiaries active in other businesses (e.g. DANZAS, DHL). Those other commercial services achieved about 2% of Deutsche Post's total revenues.

⁴¹ The 2009 regulatory accounts show the regulated letter revenues within different business divisions over time. That definition includes for each year the sum of all regulated revenues independently of the business division in which they are listed.

Figure 3 Average revenue shares for the period from 1990 to 2007 (based on nominal values)



125. The WIK study only covers commercial services that were provided together with universal services by the legal entity DPAG and its predecessor POSTDIENST. Commercial services (e.g. the worldwide express operations of DHL) – which were provided by different legal entities within Deutsche Post World Net (hereafter referred to as DPWN) – were not investigated.

IV.1.2. The calculation of burdens in the 2009 regulatory accounts

126. Unlike the regulatory accounts that Deutsche Post submitted to the regulator for the 2002, 2007 and 2011 Price cap decisions, the 2009 regulatory accounts – which have never been submitted to the Postal regulator – contain a significantly higher amount of burdens that Deutsche Post allocates to the price-regulated services.

127. Deutsche Post claims, based on the 2009 regulatory accounts, an average burden of €[...] million for the period from 1998 to 2006 compared to €[...] million based on the 2002 regulatory accounts.

Figure 4 Claimed universal service burdens with 2009 regulatory accounts compared to approved burdens with 2002 Price cap decision (annual average, €million nominal value)

[...]

128. While burden #2 on excess social costs and burden #4 on supplementary pension insurance do not differ significantly between the 2002 and 2009 regulatory accounts, burden #1 on excess wages has almost [...]. Unlike the 2002 regulatory accounts, Deutsche Post no longer uses the ETV wages as "competitive" wage benchmark. Instead it used the minimum wage for the postal sector based on a regulation issued by the Federal Ministry for Labour in 2007 (hereafter referred to as 2007 minimum wage). However, it has to be noted that that regulation was finally declared illegal by the Federal Administrative Court and never became legally effective.

129. Furthermore, Deutsche Post claims with the 2009 regulatory accounts a new "infrastructure mail" burden that shows the incremental costs of the sixth delivery day (e.g. on average € [...] million per year). The calculation is based on the counterfactual scenario that, without the universal service obligation, Deutsche Post would since 1990 have delivered mail on only five instead of six days.
130. The infrastructure burden #3 on the post shop network is calculated differently compared with the calculation in the 2002 regulatory accounts. The burden now shows the alleged cost savings that could have been achieved if all post offices had been run as agencies since 1990. It is calculated based on the remuneration that Deutsche Post paid to third-party agents for sales services in 2007.

IV.1.3. The profit margins in the 2009 regulatory accounts

131. The allocation of the burdens to the price-regulated universal letter services provides a significant relief for the non-price regulated services from costs that were incurred for them (e.g. wage and social costs). That re-allocation leads to significantly positive profit margins of [15 to 25%] on sales for the commercial services and losses of almost [0 to 10%] on sales for the price-regulated letter services.
132. While Deutsche Post shows in its annual accounts very high profits for its letter division (see also section V.3), those profits are more than eaten up by the burdens that have been shifted from the non-price regulated to the price regulated services.

Figure 5 Average returns on sales based on 2009 regulatory accounts

[...]

IV.2. Profit benchmarking

IV.2.1. Deutsche Post's value chain: low-tech operations and low level of business risk

133. An analysis of the value chain and the assumed business risks is indispensable to prepare the profit benchmarking and the evaluation of the cost allocation. Only if the function and risk characteristics are known is it possible to search for a set of "comparable" companies and to calculate a benchmark for the reasonable profit which Deutsche Post shall earn.

IV.2.1.1. The value chain of a low-tech business

134. Deutsche Post's value chain can be divided into two main functions:

- Nationwide delivery network for the distribution of letters and parcels,
- Nationwide network of post shops.

135. The logistics of a parcel and letter network is a low-tech business that does not involve large research or development efforts. Thus all other operators in the industry work in a similar and standardized way. Such activities are therefore often labelled as "routine" functions. The high degree of outsourcing that Deutsche Post

undertakes to third parties also proves their routine nature. The same goes for the sales services that are performed through the nationwide shop network and have also increasingly been outsourced.

136. Apart from those routine functions, the main intangibles of Deutsche Post are the customer base, the brand name and the strong market position, especially in the letter markets. However, the WIK study considers that those intangibles are essentially not due to own efforts or investments by Deutsche Post but much more due to the historic exclusive rights. Deutsche Post did not have to invest heavily into marketing functions. Instead, it could rely on its legally guaranteed market position until 2007. Therefore, Deutsche Post should not be allowed any remuneration for those intangibles.

IV.2.1.2. Low risk due to public measures

137. Deutsche Post was exposed to fewer risks both for regulated as well as non-regulated services than competitors for several reasons.

138. Firstly, Deutsche Post was protected by a legal monopoly until 2007 for its letter services. Furthermore, within the scope of regulated letter services, Deutsche Post benefited from a market share of 90% and a non-existing or low level of competition. The regulated services accounted for almost two-thirds of Deutsche Post's revenues.

139. Secondly, the Postal regulator approved a price cap for regulated letter services. That cap was set above the cost of an efficient undertaking, to allow *inter alia* for the compensation of allegedly excessive costs linked of non-price regulated services. None of the competitors of DPAG enjoyed an exclusive right or a dominant position, which would have allowed him to cross-finance social costs. Therefore, the exclusive right respectively the dominant position not only led to a significant reduction of the business risks for the regulated services, but also for the non-price regulated universal and commercial services.

140. Thirdly, other public measures also significantly reduced the risk for both universal and commercial services: e.g. the public transfers hedged the losses of the early 1990s and the public guarantee allowed Deutsche Post to borrow at the rate of the Sovereign until 1995 despite its difficult financial situation in the early 1990s.

141. Taken together, Deutsche Post faced significantly lower market and cost risks than competitors because it did not have to build up its own customer base and could pass on cost increases through higher regulated prices. Based on that reasoning, the WIK study concludes that the preferred comparable competitors would be postal companies who only exercise routine functions (e.g. do not invest heavily in marketing and brand name) and are not exposed to a high degree of risk (e.g. can rely on long-term contracts).

IV.2.2. Quantification of profit benchmarks

142. Based on the results of the function and risk analysis, the WIK study performs a financial-database analysis (e.g. using ORBIS database covering about 10 million companies worldwide) to search for comparable postal companies. A mixture of

controlled quantitative and qualitative selection steps identifies the set of comparable companies that provide postal services on competitive markets.

143. The WIK study chooses a comparator group of 26 postal companies that mainly provide parcel services and perform the typical routine activities of postal operators. All comparable competitors come from the industry sector of “Post and courier activities” based on the NACE⁴² code 641.
144. It is important to note that the number of comparable competitors is limited because private companies have rarely provided letter services in larger scale due to the postal incumbents’ exclusive right that covered a significant share of the letter services. Furthermore, the WIK study excludes postal incumbents from other countries as comparators because they have – as Deutsche Post – been protected by exclusive rights and are not primarily active on competitive markets.
145. To measure the reasonable profit, the WIK study uses the return-on-sales margin (ROS) that is the accounting profit (e.g. Earnings before interest and tax (EBIT)) divided by revenues. Furthermore, the WIK study calculates the return-on-asset margin (ROA), e.g. EBIT as percentage of assets, as a capital-based profit benchmark.

Table 3 Benchmark ROS and ROA from WIK study

	Return on Sales (ROS)	Return on Assets (ROA)
Median	3.48 %	7.33 %
Upper bound (75 th percentile)	6.77 %	13.41 %

146. From the chosen sample, it results that the median ROS in the competitive part of the postal sector amounts to 3.48% for the period from 1998 to 2007. However, the WIK study not only presents the median return but also an upper bound for the reasonable profit, e.g. the third quartile of the comparable competitors' profit which amounts to a ROS of 6.77 %. Put another way, 75% of the comparable competitors show a profit that is lower than a ROS of 6.77%.⁴³
147. Concerning the return on assets, the WIK study shows a median ROA of 7.33% and an upper bound of 13.41%.

⁴² The NACE codes (Nomenclature statistique des activités économiques dans la Communauté européenne) represent the statistical classification of economic activities in the European Union.

⁴³ To back up the results of the postal sample that contains only a small number of comparable competitors, the WIK study has chosen an additional larger set that includes about 1160 companies from the road freight sector (NACE code 60) because road freight transport is a highly competitive sector and often provided by companies which perform similar transport activities to postal operators. The results from the second comparable set give a median ROS of 2.59% respectively third-quartile ROS of 5.57% and confirm the results of the smaller set.

148. As Deutsche Post is exposed to considerably less risk than the comparables who operate on highly competitive markets (e.g. express parcels), the WIK study considers that the median ROS of 3.48% is a prudent and conservative profit benchmark for Deutsche Post. It does not recommend using a higher rate in the range up to the third-quartile ROS of 6.77%. On the contrary, a lower benchmark could be also defensible because the median ROS of 3.48% translates into a ROA of 7.33% that would still be significantly above the risk-free interest rate.

IV.3. Review of cost allocation

149. The WIK study rejects the allocation of burdens in the 2009 regulatory accounts because the commercial services' ROS margins between [15 to 25%] are significantly above the industry average.⁴⁴ As private competitors are viable despite significantly lower profit margins, the WIK study concludes that a higher share of costs should be allocated to Deutsche Post's commercial services and accordingly reduces the burdens for the price-regulated services.

150. As final outcome of the WIK study, all commercial services carry costs to such an extent they still show a profit in line with the median ROS of 3.48% of competitors. The price-regulated services' average annual burden is accordingly reduced by €[...] million for the whole period from 1990 to 2007.

151. As a large share of the commercial sales services has been provided to the related parties Postbank and Telekom, the WIK study also investigates whether the final prices charged to them can be considered as at arm's length and therefore as appropriate benchmark for the costs that the commercial sales services should carry. Based on the available evidence, the WIK study considers that the contracts between Deutsche Post and those related parties reflect the conditions that independent third parties would also have agreed on. As neither POSTBANK nor TELEKOM had in the years immediately after 1990 real outside-options to use other distribution networks, they accepted to share the incurred costs. However, subsequently, as Postbank and Telekom could more easily find other distribution networks and the costs of the universal service network went down, the contract was changed to a revenue-based commission fee that was more in line with a typical sales-service contract.⁴⁵

IV.4. Adjustment of 2009 regulatory accounts

152. The WIK study undertakes several adjustments to the 2009 regulatory accounts based on the following scheme:

⁴⁴ The median ROS of 3.48% or the upper-bound ROS of 6.77%.

⁴⁵ Deutsche Post submitted a study by CTcon (2005), "Rentabilität der Schalterleistungen der Postfilialen für die Postbank 2002 bis 2004" (Profitability of Deutsche Post's sales services for Postbank) that allocates the direct and common costs of the shop network between the commercial and universal services using an activity-based costing approach. It seems that, in general, the remuneration that Postbank paid covered an appropriate share of the shop network's full costs (e.g. including a proportionate share of the infrastructure burden #3 for the postal network).

Table 4 Calculation scheme for annual excess result with 2009 regulatory accounts and WIK study

Revenues of universal services
- Costs of universal services
- Reasonable profit
+ Public transfer
<hr/>
Excess result

IV.4.1. Adjustment of universal service revenues

153. Deutsche Post sold a considerable amount of real estate (e.g. real estate which has become redundant during the restructuring of the postal operations). Those revenues should be shown with the universal services that were the primary user of those assets and have rented them to the commercial services.
154. The corresponding adjustment results in an average annual increase of €[...] million of the universal service revenues over the whole period from 1990 to 2007.

IV.4.2. Adjustment of universal service costs

IV.4.2.1. Dissolution of accounts

155. The 2009 regulatory accounts do not correctly dissolve the internal transactions: The universal services do not show the total profit which they earn because profits which originate from certain functions (e.g. post shops) are not divided between universal and commercial services (e.g. according to costs incurred for each services) but lumped together and reported as commercial profits. Deutsche Post has therefore not been able to provide correctly separated accounts in line with the requirements of Commission Directive 2006/11/EC of 16 November 2006 on transparency of financial relations between Member States and public undertakings as well as on financial transparency within certain undertakings⁴⁶.
156. While Deutsche Post provided an approximate dissolution of internal accounting for the years up to 1997, the WIK study has to adjust the accounts for the years after 1997 and shift wrongly "parked" costs from the universal to the commercial service accounts.
157. The corresponding adjustment results in a decrease of the universal service costs by €[...] million over the period from 1998 to 2007.

⁴⁶ Commission Directive 2006/111/EC of 16 November 2006 on transparency of financial relations between Member States and public undertakings as well as on financial transparency within certain undertakings, OJ L 318, 17.11.2006, p. 17.

IV.4.2.2. Adjustment of burdens between price-regulated and non-price regulated services

158. As previously explained, the WIK study does not adjust separately each burden. Instead, it bases its recalculation on the commercial services' final prices that were judged as robust benchmarks for the industry average costs. Consequently, all excess profits from the commercial services⁴⁷ are used to finance the initially claimed burdens. The average annual decrease in the burdens amounts to €[...] million over the whole period from 1990 to 2007.

IV.4.2.3. Off-balance costs with supplementary pension insurance (burden #4)

159. With burden #4 on supplementary pension insurance, Deutsche Post added costs that are not shown in its annual accounts. As the ROS-benchmark is calculated on the basis of the comparable competitors' statutory accounts, only costs that are also admitted according to national accounting standards or the international accounting standard (IAS) can be included. Therefore, any additional costs – which are normally not included in IAS accounts – cannot be accepted as cost items but must be financed out of the benchmarked profit margin.

160. The corresponding adjustment results in an average annual reduction by € [...] million for burden #4 on supplementary pension insurance over the whole period from 1990 to 2007.

IV.4.3. Adjustment of capital costs to reasonable profit

161. Deutsche Post imputed capital costs to the 2009 regulatory accounts that had not initially been included in the statutory accounts: e.g. [...] costs and [...] costs. The WIK study eliminates both the [...] costs as well as the [...], and substitutes them with the benchmark for the reasonable profit.

IV.4.3.1. Period from 1996 to 2007

162. The reasonable profit is calculated on the basis of the adjusted revenues of the universal services and the ROS benchmark of 3.48% that result in annual average reasonable profit of € [...] million. The average annual capital costs of € [...] million (interest costs of € [...] million and increased regulatory depreciation of € [...] million) are eliminated from the 2009 regulatory accounts.

163. It is important to note that, compared to the 2009 regulatory accounts, the benchmark ROS of 3.48% yields in absolute terms a reasonable profit that is higher than Deutsche Post's claimed capital costs (e.g. interest costs based on an internal rate-of-return of about [...] on capital employed and increased depreciation on market value).

⁴⁷ Excess of the profit margins in Figure 5 over the reasonable profit rate of 3.48% on sales.

IV.4.3.2. Period from 1990 to 1995

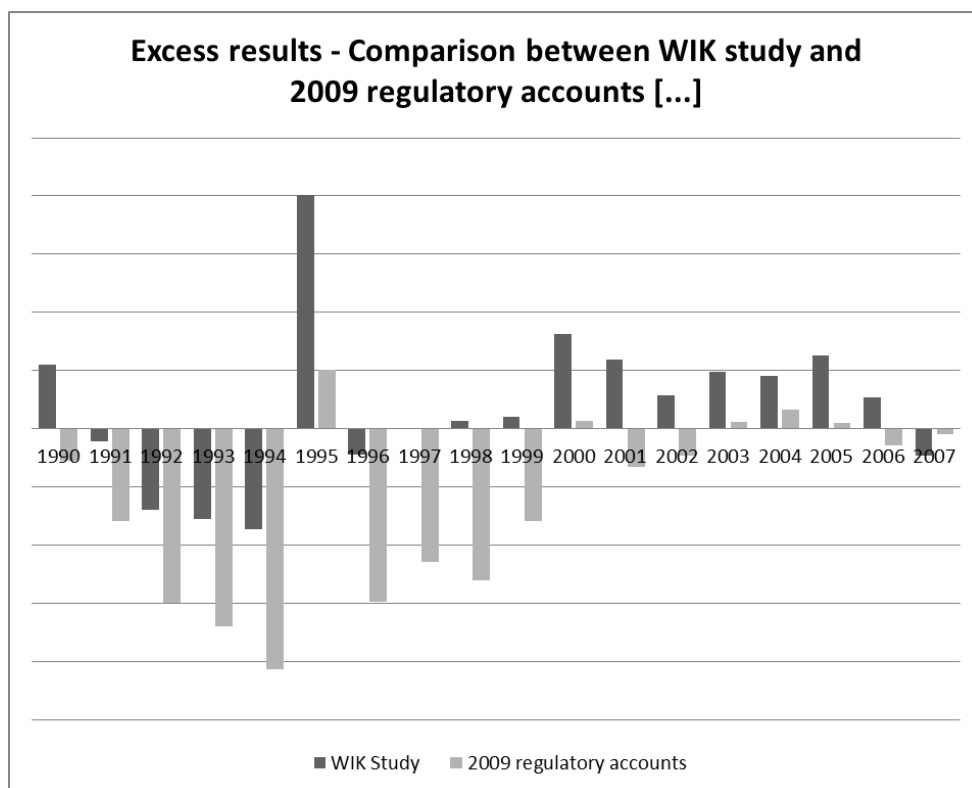
164. Pursuant to Article 63(1) PostVerfG, Deutsche Post had until 1995 to pay the so-called *Ablieferungen*⁴⁸ of €5,838 million to the federal government that amounted to about 8% of sales. As counterpart to that obligation, Article 63(4) PostVerfG relieved Deutsche Post, however, from the obligation to pay any further dividends beyond the *Ablieferungen*.
165. The WIK study refuses therefore to add a "reasonable profit" for the period up to 1995 because the *Ablieferungen* has already fully covered Deutsche Post's equity costs. Consequently, the Deutsche Post's average annual capital costs of €[...] million (interest costs of €[...] million and increased regulatory depreciation of €[...] million) are eliminated from the 2009 regulatory accounts and the universal service costs are decreased in consequence.

IV.4.4. Conclusions

166. The 2009 regulatory accounts as well as the WIK study agree that the revenues universal services were insufficient to cover their costs up to 1996. However, while Deutsche Post is left with a cumulated deficit even after taking account of the public transfers in the 2009 regulatory accounts, the WIK study comes to the conclusion that the public transfers were sufficient to allow Deutsche Post break even in 1997.
167. The 2009 regulatory accounts show hardly an improvement in the profitability of the universal services up to 1999. It has only been since 2000 that universal service revenues on average cover the costs. On the contrary, the WIK study shows since 2000 significant excess profits for the universal services above the median ROS of 3.48% despite the fact that the universal parcel services have only shown a below-average return of [...] on sales (see Figure 6)

⁴⁸ See section VI.2.1 for a detailed explanation of the *Ablieferungen*.

Figure 6 Comparison of annual excess results of universal services for the period from 1990 to 2007 (€ million, nominal annual values)



V. COMMENTS BY INTERESTED PARTIES

168. Interested parties submitted comments on the 1999 Opening Decision, the 2007 Extension Decision and the 2011 Extension Decision. The most important comments on all three decisions are summarized in this section.

V.1. Right to use official German stamps

169. TNT questions whether Deutsche Post paid a fee for the exclusive right to use official German stamps. According to § 43 PostG 1997, the authorization to distribute stamps with the inscription "Germany" has been reserved to the Federal Ministry of Finance. A postal operator who files an application to use those stamps is required to pay a fee and to cover incidental costs. Pursuant to § 54 PostG, Deutsche Post had the exclusive right to use German stamps until 31 December 2007.

170. TNT considers that, if Deutsche Post effectively used the stamps issued by the Federal Ministry of Finance free of charge, the non-payment of the application fee would constitute illegal State aid.

171. The Commission observes that this measure has not been addressed in the 1999 Opening Decision, the 2007 Extension Decision or the 2011 Extension Decision. It falls therefore outside the scope of the present Decision.

V.2. Pension subsidy

172. According to UPS, Deutsche Post has benefited from an advantage as it has been partially released from the payment obligation it had to bear before 1995. Since normal operators have to bear their own pension costs, Deutsche Post was put into an advantageous position compared to its competitors. Furthermore, UPS agrees with the Commission's reasoning that the aid cannot be regarded as existing aid given the fundamental changes in the position of Deutsche Post and the introduction of new legislation to remove part of Deutsche Post's obligations to incur the costs of the civil servants pensions. According to UPS, those major amendments of the system do not qualify as simple modifications of a purely formal or administrative nature.
173. UPS supports the Commission's preliminary conclusion that the pension subsidy cannot be considered compatible aid under Article 107(3)(c) TFEU. Given the level of sustained profitability as well as Deutsche Post's exclusive rights, the necessity of any relief for alleged legacy costs can surely be doubted. Furthermore, the subsidy granted is not proportional to the objective of common interest as brought forward by Germany, especially as the legacy costs are compensated by both increased letter prices and the pension subsidy. UPS points out that the burden of proof of the proportionality of the measure lies with Germany. However, Germany has not given precise indications of the proportionality of the benefits derived by Deutsche Post from the measure.
174. According to UPS, the aid received by Deutsche Post has enabled it to acquire an advantageous position not only in Germany but also in other European markets in which it competes with other postal industry players such as UPS. As the pension subsidies have allowed Deutsche Post to strengthen its position in the commercial sector at the disadvantage of other players, competitors of Deutsche Post have suffered from a distortion of competition.
175. UPS requests the Commission to additionally apply the assessment of the necessity and proportionality of any pension subsidies as set out in the 2011 Extension decision for the period of 2007-2011 and to scrutinize whether Deutsche Post still benefits from unlawful State aid within the meaning of Article 107(1) TFEU.
176. Finally, UPS requests the Commission to provide more information as to how it has come to the conclusion that Deutsche Post benefited from an incompatible aid. In particular, UPS requests a copy of the WIK study to receive clarification as to the extent to which the results of the WIK study have been used for the assessment of the pension subsidy with the 2011 Extension Decision.

V.3. Universal service compensation

177. UPS fully supports the Commission's investigation and fully subscribes to the contents of the 2007 Extension decision concerning the assessment of the universal

service compensation. Additionally, UPS provided an update⁴⁹ of the NERA study of October 2006⁵⁰ that the Commission referred to at recital 58 of the 2007 Extension decision.

178. While the 2006 NERA study estimated an average return on capital employed above 20% for the letter division of DPWN for the period after 1999,⁵¹ the updated study emphasizes that the return on capital employed would have remained even above 50% in the period 2000 until 2005. Over the period from 2003 to 2005 the return on capital employed would have even been estimated at more than 100%. UPS concludes that the profits of the extremely profitable regulated letter services would have been more than sufficient to cover the losses of the universal services.
179. Furthermore, UPS considers that Deutsche Post's own cost accounting data would not provide a good basis for an analysis and understanding of the profitability and burdens in the reserved sector. Therefore, a thorough analysis of the cost allocation between regulated, universal and commercial services should be undertaken. All benefits that Deutsche Post received to cover its burdens of the past, such as capital endowments granted to Deutsche Post by Germany in 1995 as well as assets in the form of real estate and infrastructure, should be included in the determination of the aid amount and the amount of overcompensation.
180. Regarding the internal transfer pricing arrangements with related parties, UPS claimed that the arm's length principle should be maintained in line with the Chronopost judgment⁵². Therefore, the Commission should review the terms of the contract governing the relationship between Deutsche Post and DPEED, in particular the pricing arrangements agreed between the parties.

V.4. Excessive letter prices

181. FFPI fully supports the 2011 Extension decision: FFPI states that legislative and administrative changes resulting in higher pension costs constitute normal business risk that may impact the business' profitability. As undertakings operating under normal market conditions have to bear such additional costs out of their own resources, Deutsche Post should also not receive pension subsidies granted by Germany.
182. Furthermore, FFPI points out that Deutsche Post stressed the importance of the pension reform in its 2000 Annual Report, thereby claiming that lower contributions to the Pension fund for civil servants constitute the main reason for an increase in

⁴⁹ National Economic Research Associates (NERA) (November 2007), "The Profitability of the Mail Segment of Deutsche Post – An Update".

⁵⁰ National Economic Research Associates (NERA) (October 2006), "The Profitability of the Mail Division of Deutsche Post – A Final Report".

⁵¹ DPWN's letter division goes beyond DPAG's German activities and includes all worldwide mail activities. However, domestic business constitutes the major share of DPWN's letter division.

⁵² Joined Cases C-83/01 P, C-93/01 P et C-94/01 P *Chronopost* [2003] ECR I-6993.

EBITA by 98.6% in the mail corporate division. Consequently, the pension reform should not be considered to be of minor importance or primarily administrative in nature.

183. According to a study conducted by FFPI from 2001 to 2008, stamp prices applied in Germany in 2009 for 20g standard letters, sent via first class stamped mail, were among the highest. With reference to 500g parcel sent first class, the prices in Germany were instead in the cheap area, indicating the existence of cross-subsidization.
184. FFPI is convinced that the aid to Deutsche Post was not aimed at stimulating growth of the German postal market or of certain postal services. During the years under investigation, Deutsche Post was a profitable company. It managed to strengthen its leadership in the German market, increased its performance and expanded its business. Therefore, the pension subsidies should not be considered compatible with the internal market under Article 107(3)(c) TFEU.

V.5. Profit margins

185. BIEK is of the opinion that other postal operators have suffered from Deutsche Post's practice of using its dominant position on certain letter markets to cross-finance costs of letter and parcel services that have been offered on more competitive markets. In particular, as Deutsche Post can increase its prices on the markets where it used to have an exclusive license and still holds a market share of more than 90%, Deutsche Post is able to cross-finance the cost of services in more competitive markets.
186. Furthermore, BIEK claims that, despite the alleged legacy costs, Deutsche Post is significantly more profitable than its peers in other European countries, as shown by a ROS margin of 10% to 20% for its domestic mail division. That profit margin may even be distorted downwards because it must be taken into account that the domestic mail division also includes domestic parcel services that earn on average lower margins than letter services.
187. Concerning Deutsche Post's claimed burden from increased wage costs, BIEK points out that Deutsche Post uses average wages in the transport sector as a benchmark to calculate the differences in wage costs borne by Deutsche Post as compared to its competitors. While the Commission seems to adopt those numbers in the 2011 Extension decision as benchmarks for its calculations, BIEK claims that wages paid by the competitors of Deutsche Post are at least 15% above those average wages. Consequently, the allegedly excessive wages borne by Deutsche Post are significantly smaller than claimed by Deutsche Post. BIEK argues that the remaining difference in wage costs does not result from legacy costs but is caused by Deutsche Post's size and dominant position in the market.
188. Finally, BIEK considers that Deutsche Post's legacy costs, including pension costs, have been more than compensated by the increased regulated letter prices. The aid measures, which the Commission is assessing, have led to the situation that competition has effectively not emerged for letter services and has been severely distorted for parcel services.

VI. COMMENTS BY GERMANY

VI.1. Comments on pension subsidy

VI.1.1. No financial advantage from compensation of excess social costs

189. Based on the *Combus* judgment⁵³, Germany is of the opinion that, in the course of the privatization of formerly State-owned universal service providers, the public compensation of pension costs – which go beyond the level normally assumed by private competitors – do not constitute aid.
190. Germany agrees therefore with the Commission that a comparison should be undertaken between the social costs paid by Deutsche Post and competitors' social costs. However, that comparison should already be made under Article 107(1) TFEU and not subsequently at the stage of the compatibility assessment under Article 107(3)(c) TFEU.

VI.1.2. No financial advantage compared to pre-1995 situation

191. Germany is of the opinion that the pension subsidy has not relieved Deutsche Post from a cost that it would normally have had to bear out of its own resources. Thus, Deutsche Post has not benefited from an advantage within the meaning of Article 107(1) TFEU. According to Germany, Deutsche Post was not legally liable or economically capable to pay the pensions to the civil servants before and after 1995.
192. First of all, Germany claims that, pursuant to Article 46 PostVerfG 1989, the civil servants, who were taken over by Deutsche Post in 1989, remained in the service of the federal government. Also after the second postal reform in 1995, pursuant to Article 2(3) PostPersRG 1994 and the newly inserted Article 143b of the Constitution, Deutsche Post's civil servants continued to stay in the federal government's service.
193. Therefore, as the federal government has always remained the sole debtor for the civil servants' pension liabilities, Deutsche Post has never been under a legal obligation to use its own resources.
194. Even though Deutsche Post was obliged pursuant to Article 54(2) PostVerfG 1989 to finance civil servants' pension costs, Germany maintains that the provision was only an internal arrangement to raise funds for the public budget (e.g. as the obligation to pay *Ablieferungen* pursuant to Article 63 PostVerfG 1989). It did not establish any liability by Deutsche Post towards the civil servants.
195. After the second postal reform in 1995, pursuant to Article 2(3) PostPersRG 1994 and Articles 14 to 16 PostPersRG 1994, the federal government further remained the sole debtor towards the civil servants. The obligations, which Articles 16(1) PostPersRG imposed on Deutsche Post to contribute to the Pension fund, constitute therefore, as with the obligations under Article 54(2) PostVerfG 1989, only a relief

⁵³ Case T-157/01 *Danske Busvognmænd v Commission* [2004] ECR II-917, paragraph 57.

for the public budget. They do not change the federal government's sole liability with respect to the civil servants' pensions.

196. Furthermore, under private law, it would also not have been possible for the federal government to discharge its liability for the civil servants' pension rights to the newly set-up DPAG in 1995. According to general principles of private law, if existing liabilities were transferred to a legally independent subsidiary the parent company would nevertheless remain liable for those liabilities towards third parties.
197. Secondly, Germany claims that Deutsche Post has never had enough own resources to effectively finance the pension costs. On the one hand, before 1995, POSTDIENST had incurred only losses that in turn had to be financed from the public transfers of € 5.6 billion. On the other hand, when POSTDIENST was transformed into DPAG in 1995, the accrued civil servants' pension liabilities amounted to approximately €[...] billion. It would not have been possible to set up DPAG as a private-law company with those liabilities on its balance sheet because the federal government had not provided sufficient assets to make DPAG viable.

VI.1.3. Pension subsidy as existing aid pursuant to Article 108(1)

198. Germany is of the opinion that if the pension subsidy were to be considered as State aid it would have to be qualified as existing aid pursuant to Article 1(b)(i) of Regulation (EC) No. 659/1999 because the State has been the sole debtor and the party liable to finance the civil servants' pensions since the entry into force of the relevant provision in the German Basic Law in 1953. Germany maintains that neither the first postal reform in 1989 nor the second postal reform in 1995 has changed the State's liability towards the civil servants. According to Germany, Deutsche Post has neither before nor after 1995 been legally liable or economic capable to pay the civil servants' pensions.
199. Furthermore, Germany refers to a statement by the Commission before the General Court in Case T-266/02. According to Germany, it becomes clear from paragraph 54 of the judgment that the Commission "had taken the view, for the purpose of the contested decision, that only the transfer payments made by DB-Telekom had conferred an advantage on it."⁵⁴
200. Germany concludes from that statement that the Commission had already declared the pension subsidy as not providing any financial advantage to Deutsche Post. It therefore had effectively taken a 'decision not to raise objections' within the meaning of Article 4 of Regulation (EC) No. 659/1999. Furthermore, pursuant to Article 1(b)(ii) Regulation (EC) No. 659/1999, such a positive decision would mean that the pension subsidy must subsequently be qualified as existing aid.

⁵⁴ Case T-266/02 *Deutsche Post AG v European Commission* [2008] ECR II-1233, paragraph 54.

VI.1.4. Pension subsidy as compatible compensation for legacy costs pursuant to Article 107(3) TFEU

201. In light of the Commission's reasoning in the La-Poste decision, Germany is of the opinion that the pension subsidy is compatible aid under Article 107(3)(c) TFEU:

- Germany points out that Deutsche Post has consistently paid a higher level of social costs than the employer's contribution to pension, health and nursing care.
- Germany objects to the Commission's calculations of the comparative advantage insofar as it is considered that the price-regulated services cover the claimed burden #2 on excess social contributions. Germany points out that La Poste – as any other postal incumbent – has also refinanced social costs through increased regulated letter prices but that the Commission did not take that fact into account in its La Poste decision.
- Although Germany agrees in principle that the price-regulated revenues should cover the claimed burdens, the Commission has neither proven that the regulator effectively approved Deutsche Post's claim to finance the excess social costs out of the regulated revenues nor that the regulated revenues were effectively sufficiently high to finance those excess social costs.

202. Furthermore, Germany points out that the Commission in its 2007 Opening decision on Royal Mail⁵⁵ emphasized the need to assess pension costs of former public undertakings according to consistent criteria, which should lead to consistent decisions. Consequently, the Commission should take into account its La Poste decision and its preliminary assessment in Royal Mail. In the latter, the Commission did not object to the compensation of pension deficits even though the Hopper-Report 2008 shows that Royal Mail's pension costs had partly been covered by increased regulated letter prices.

VI.1.4.1. Benchmark to be based on "competitive" social costs

203. Germany argues, based on the expert study by Professor Ehlermann of 19 July 2011⁵⁶, that the Commission made two mistakes in the calculation of the benchmark for Deutsche Post's social costs.

204. The employee's share should not be included in the benchmark because a private employer would not be legally liable for the payment of the employee's share. It would only be for administrative reasons that the employer executes the payment of the total social contribution but it does not make him legally liable to carry the total burden of the social contributions. Furthermore, the inclusion of the employee's share in the benchmark would also contradict previous decisional practice, as in the La Poste decision.

⁵⁵ Commission Decision 2011/C 265/02 of 29 July 2011 on State aid measures to Royal Mail, OJ C 265, 09.09.2011, p. 2.

⁵⁶ See recital 41.

205. The calculation of the benchmark social costs should be based on the "competitive" wage benchmark⁵⁷ because the civil servants' wages have significantly been higher than the market average.

VI.1.4.2. Insufficient level of price-regulated revenues to cover excess social costs

206. First of all, Germany emphasizes that the consideration of a full coverage of burden #2 by the price regulated revenues would only be hypothetical because it would not be possible to establish whether the regulated prices were effectively increased to compensate the excess social costs. On the one hand, it is not retrievable from the 2002 Price cap decision whether and to which extent the Postal regulator had taken the claimed burdens for excess social costs into account. On the other hand, until 2002, the prices were kept at the approved 1997 level and it is not possible to establish whether those prices included a compensation for the non-regulated services' excess social costs.

207. According to Germany, it would not be sufficient to show that the non-price regulated services have benefited from lower social contributions than competitors. It must also be established whether the price-regulated services have effectively been able to finance the claimed burdens of excess social costs out of their revenues.

208. A financial advantage for Deutsche Post from the compensation of its excess social costs would only exist if the granted compensation was higher than the total excess social costs that Deutsche Post has had incurred for the civil servants.

209. Consequently, Germany deplores the lack of a comprehensive calculation to establish whether Deutsche Post was in total over- or under-compensated for the civil servants' excess social costs. It emphasises the necessity of such a calculation in order to establish a financial advantage with the meaning of Article 107(1) TFEU.

(a) Under-compensation of excess social costs based on expert study

210. To remove that defect, Germany submitted the expert study by Professor Weber⁵⁸ to establish Deutsche Post's financial advantage in social cost from the employment of civil servants. First, the expert study establishes by how much Deutsche Post's incurred social costs for civil servants exceed those that a private competitor has to carry for a private employee (hereinafter referred to as excess social costs). Second, the expert study compares those excess social costs to the compensation under burden #2.

211. As shown in Table 5, the expert study includes in the incurred social costs due to the employment of civil servants: Deutsche Post's contribution to the Pension fund and other social costs as Deutsche Post's contribution to the health expenses, accident insurance, further miscellaneous insurance payments.

⁵⁷ The 2007 minimum wages as used by the 2009 regulatory accounts for the calculation of the excess wage burden #1.

⁵⁸ See recital 41.

212. The expert study defines as social costs from the employment of a private employee: the employer's share of the contribution rate for the statutory pension, unemployment, health and nursing insurance multiplied by allegedly "competitive" wages (e.g. the 2007 minimum for the majority of the civil servants).the
213. The excess social costs are the result of the excess of Deutsche Post's incurred social costs for civil servants over the defined benchmark of social costs based on the employer's share of social contributions for a private employee.

Table 5 Calculation of net result following Germany's expert study

-	Contribution to Pension fund
-	other social costs
+	"Competitive" social cost benchmark (<i>based on employer's share of social contribution rate and "competitive" wage (e.g. 2007 minimum wage)</i>)
	<hr/>
	Excess social costs
+	<u>Compensation from regulated revenues (<i>burden #2 on excess social contributions</i>)</u>
	Net result (under- or over-compensation)

214. For the period from 1995 to 2007, the calculations arrive at the conclusion that burden #2 was insufficient to cover the excess social costs. In fact, the expert claims that Deutsche Post has been undercompensated by € [...] million. The expert concludes that, even if it was considered that the price-regulated revenues include burden #2, Deutsche Post would remain undercompensated for its excess social costs.

(b) 2009 regulatory accounts confirm insufficiency of price-regulated revenues to cover excess social costs

215. Germany argues that in any case, as long as the price-regulated services incur losses that are higher than the excess social costs, it cannot be established that the regulated revenues effectively compensated the excess social costs. In that context, Germany submitted an expert study by CTcon based on the 2009 regulatory accounts⁵⁹ to show that the losses of the price-regulated services have consistently been higher than the excess social costs.

216. The calculations are based on the 2009 regulatory accounts and assume that the price-regulated services should earn a reasonable profit of ROS of 7% (based on the Deloitte-II study that is discussed in more detail in section VI.3.2). After deduction of the reasonable profit, the price-regulated services show a loss of €[...] million that is higher than the claimed excess social cost for the period from 1995 to 2007. The price-regulated revenues have therefore been insufficient to cover the claimed excess social costs.

⁵⁹ See recital 41.

VI.2. Comments on universal service compensation

VI.2.1. Public transfers

217. Germany argues that the public transfers have not provided any economic advantage to Deutsche Post because the public transfers of €5,666 million only compensated for the Ablieferungen of €5,838 million that Deutsche Post had to pay until 1995.
218. As explained in the 2007 Extension decision, the Ablieferungen had their origins with the former postal administration that was obliged to transfer about 10% of the annual operating revenue to the public budget. From 1989 until 1995, the Ablieferungen were phased out pursuant to Article 63(1) PostVerfG 1989. Up to 1993, Deutsche Post had to pay 10% of its operational revenue. As of 1993, the Ablieferungen were successively reduced to 10% of the operational revenue minus € 153 million in 1993. For 1994, the Ablieferungen amounted to 70% of the 1993 Ablieferungen. In 1995, Deutsche Post paid 50% of the 1993 amount. In total, Deutsche Post paid €5,838 million from 1990 to 1995.
219. Article 63(4) PostVerfG 1989 provided that any dividends paid were to be subtracted from the Ablieferungen. Based on that provision and the exemption from any direct or indirect taxes, the Commission contended in the 2007 Extension decision that the Ablieferungen were to be considered as a substitute for indirect and direct taxes as well as to provide a remuneration to the State as shareholder for the provided capital.
220. In response to that contention, Germany submitted the KPMG study that comes to the conclusion that the Ablieferungen could neither be considered as a substitute for taxes nor for dividends for a number of reasons.
221. First, the Ablieferungen would not qualify as a corporate tax because the Ablieferungen had been calculated as a percentage of the realised revenues since 1931. As a result, they had to be paid even in years where Deutsche Post incurred a loss. In contrast, corporate tax is based on the realised annual profit. A qualification of the Ablieferungen as a corporate tax would also contradict the legal practice of the Bundesverfassungsgericht, according to which a corporate tax must be based on the economic performance ("Leistungsfähigkeit") of a company.
222. Furthermore, the Ablieferungen would also not qualify as a value-added tax. Since there was no possibility to deduct the value-added tax paid on the inputs from the Ablieferungen, the calculation of the Ablieferungen differed substantially from the usual calculation of the value-added tax liabilities.
223. Second, Germany argues that the Ablieferungen could not be qualified as a dividend. The distribution of dividends usually requires that profits were earned in the corresponding financial year or the years before. However, Deutsche Post did not earn any profits between 1990 and 1995 but nevertheless paid the Ablieferungen. As a result, the Ablieferungen could not be qualified as dividends.
224. The KPMG study concludes that the Ablieferungen could not be qualified as tax or dividend payment but should be viewed as a levy *sui generis* that only Deutsche Bundespost and its successors was liable to pay.

225. Based on the KPMG study, Germany rejects the Commission's contention that the Ablieferungen should be considered as a substitute for tax and dividend payments. It maintains that the Ablieferungen constituted a burden for Deutsche Post that could not be justified on factual or economic terms. As the public transfers only relieved Deutsche Post of the Ablieferungen, they did not provide any economic advantage and therefore did not constitute aid.
226. In the alternative, Germany puts forward two further justifications why the public transfers would not constitute aid. First, the public transfers would fulfil the market-economy-investor principle in light of the substantial return on investment in later years and the high proceeds realised in the stock-market flotation of Deutsche Post. Second, the public transfers would also not constitute aid because both the 2009 regulatory accounts as well as the WIK study show that the cumulated universal service losses from 1990 to 1994 were higher than the public transfers. Deutsche Post was therefore undercompensated for its universal service obligation.

VI.2.2. Public guarantee

227. Germany argues that the continued public guarantee pursuant to Article 2(4) PostUmwG 1994 for debt obligations that were issued prior to 1995 did not provide any selective advantage to Deutsche Post after 1995 because of several reasons.
228. Firstly, any private company, hiving off a subsidiary, would continue to be liable for debt obligations entered into by that subsidiary. A private company would remain liable for its outstanding debts even after selling those debts to a third party. Furthermore, it must be noted that the initial public guarantee for the debt obligations was only a consequence of the non-existence of a separate legal personality of POSTDIENST. Article 40 PostVerfG 1989, which provided that debt obligations issued by Deutsche Bundespost had the same legal value as debt obligations issued by Germany, had therefore only declaratory character.
229. Secondly, DPAG would not have benefited from the take-over of the POSTDIENST debt obligations because DPAG could have refinanced itself in 1995 at lower interest rates. The stock of POSTDIENST debt obligations as of 1 January 1995 amounted to €931 million at an average interest rate of 7.17% with a remaining duration of 8.8 years. As the short-term interest rate amounted to about 5% to 5.5% at 1 January 1995, DPAG suffered a cost disadvantage of 1.7% which amounted to higher annual interest costs of about €15.3 million.
230. Thirdly, by comparing the average market interest rates for debt obligations issued by private companies and the interest rates for POSTDIENST debt obligations with reference to date when the obligations were initially issued, Germany estimates that POSTDIENST borrowed on average at interest rates above the market average. Germany did not carry out a comprehensive investigation but only compared the interest rates of certain POSTDIENST debt obligation with an aggregated market average.
231. Alternatively, Germany argues that the public guarantees constitute existing aid according to Article 1(b)(i) of Regulation (EC) No. 659/1999. As Deutsche Bundespost was part of the public administration until the end of 1994, the debt

obligations were equal to debts of the State since its creation in 1950. If the public guarantee had provided any advantages to Deutsche Post regarding interest rates they would have to be considered as existing aid. Germany also refers to the Commission decision on EDF⁶⁰ where a similar guarantee was considered as existing aid.

VI.2.3. Exclusive right

232. Germany argues that the regulated letter revenues are not State resources in light of the Preussen-Elektra judgment⁶¹.
233. Consequently, as the regulated letter revenues would not constitute State resources, any allegations of excessive pricing could only be the subject of proceedings pursuant to Article 102 TFEU.

VI.3. Comments on WIK study

VI.3.1. WIK study confirms the necessity of public transfers as compensation for net costs of universal service obligations up to 1995

234. Regardless of all methodological objections, Germany considers that the WIK study confirms Germany's point of view that the public transfers were necessary as compensation for Deutsche Post's losses with its universal services in the period from 1990 to 1995.
235. Any excess profits after 1995 must not be taken into account because the public transfers were depleted by the net costs of the universal service obligations that Deutsche Post had incurred up to 1995. The Court's annulment of the 2002 Decision also confirms that what had been "consumed" once could not be "consumed" again. Given that the public transfers had been eaten up by the universal service losses up to 1995, it would not be possible for the public transfers to finance later excess profit.

VI.3.2. Defective profit benchmarking

236. Based on the Deloitte studies, Germany's main objection is that the WIK study includes too many small companies. The set of comparable companies should focus much more on large parcel and logistics companies that are comparable in size and complexity of their network to Deutsche Post.⁶²
237. The Deloitte-II study considers that companies in the parcel and postal sector that operate a complex, large collection and delivery networks are reasonable

⁶⁰ Commission Decision 2005/145/EC of 16 December 2003 on the State aid granted by France to EDF and the electricity and gas industries, OJ L 49, 22.02.2005, p. 9.

⁶¹ Case C-379/98 *PreussenElektra* [2001] ECR I-2099.

⁶² Germany considers that the results of the Deloitte studies are confirmed by the CRA study that Belgium submitted in the State aid case SA.14588 (see recital 44).

comparators to Deutsche Post. The importance of economies of scale, scope and density prevalent in postal networks implies that large businesses would be more relevant comparators than small mail businesses. Freight transport and logistics companies are also – to a limited degree – suitable comparable undertakings because they employ similar assets.

238. Consequently, the Deloitte-II study admits only companies with annual revenue higher than €100 million. It leaves a comparator set with 6 postal companies, e.g. the big multinational express parcel operators (UPS, FedEx, and TNT Express) and some other postal operators mostly from the United States and the United Kingdom.
239. That comparator set shows a median ROS of 7.4% for the period from 1998 to 2007 and a third-quartile ROS of 12% as upper bound for reasonable profit. A larger comparable set, which includes 18 logistic and 19 freight companies yield a median ROS between 4.6% and 5.7%, but the Deloitte-II-study expresses some doubts on their comparability to Deutsche Post.
240. Based on the data of both comparable sets, the Deloitte-II study recommends a range from a lower bound ROS of 6.1% up to an upper bound ROS of 11.7% as benchmark for a reasonable profit.
241. Concerning the determination of the appropriate profit range from the comparator set, the Deloitte-II study notes that a simple multi-year ROS as reasonable profit benchmark underestimates reasonable profit because (i) there would be significant and systematic dispersion from one year to the other and (ii) there would be also a significant dispersion between the companies' profitability within the sector. Using an inappropriately low reasonable profit benchmark would incur the risk of deterring efficient investment.
242. Moreover, as emphasized by the Deloitte-I study, the use of the comparable firms' median profit as a benchmark by the WIK study entirely ignores the efficiency gains that Deutsche Post achieved to an extraordinarily large extent from 1990 onwards. In line with margin numbers 14 and 18 of the 2005 Framework, the reasonable profit should, however, take into account appropriate incentives for productivity and quality.
243. Accordingly, the appropriate profit benchmark should be based on an annual range. Profits at the top-end or even in excess of that reasonable-profit range may reflect out-performance of the average company due to superior operating or commercial performance. As such, such profits should be permitted by regulatory authorities in order to preserve incentives for efficiency.
244. Finally, Germany points out that the level of the reasonable profit should be in line with previous Commission decisions that have approved ROS in the range between 7% and 8% for railways and bus companies.⁶³

⁶³ Commission Decision 2008/C 35/10 on public service contract between Deutsche Bahn Regio and the Länder of Berlin and Brandenburg, OJ C 35, 08.02.2008, p. 13; Commission Decision 2009/325/EC

VI.3.3. Inappropriate cost allocation and valuation

245. Firstly, Germany maintains that any re-allocation of universal service burdens to the commercial services would be factually and legally ill-founded. Pursuant to Article 7 of the Postal Directive⁶⁴, any net costs caused by the universal service obligations are to be funded by the revenues of the letter monopoly and not by the commercial services.
246. Secondly, Germany considers that the WIK study underestimates certain of Deutsche Post's costs:
- The Ablieferungen – which Deutsche Post had to pay until 1995 – should have been deducted as costs and not been used as a proxy for the capital costs or reasonable profit. Based on the KPMG study, Germany rejects the WIK study's contention that the Ablieferungen should be considered as a substitute for tax and dividend payments. It maintains that the Ablieferungen constituted a burden for Deutsche Post that could not be justified on factual or economic terms. The Ablieferungen should therefore have been deducted as universal service costs in addition to a reasonable profit as remuneration for the employed capital.
 - The depreciation charges should have been based on the realistic market values of the fixed assets as reported in the tax accounts and not on the lower book values in the annual accounts.
 - The costs for private employees' supplementary pension commitments should have fully been taken into account.

VI.4. Comments on interested parties' comments

VI.4.1. Pension subsidy

247. Germany recalls that Deutsche Post was not legally liable or economically capable to take over civil servants' pension liabilities in 1995. Consequently, pension costs constitute a debt incurred by the State in line with the Commission's decision in *Poste Italiane*⁶⁵. Thus, the pension subsidies have not granted a financial advantage to Deutsche Post.
248. While UPS emphasizes that a normal operator has to bear its own pension costs, Germany argues that civil servants' pension costs are abnormal costs which cannot be compared to social contributions paid by the competitors of Deutsche Post for their private employees. The latter only pay the employer's share to the social contribution scheme without facing legacy costs relating to pension claims.

of 26 November 2008 on Czech Republic concerning public service compensations for Southern Moravia Bus Companies, OJ L 97, 16.04.2009, p. 21.

⁶⁴ OJ L 1, 21.1.1998, p.14.

⁶⁵ Commission Decision 2002/782/EC of 12 March 2002 on the aid granted by Italy to Poste Italiane SpA (formerly Ente Poste Italiane), OJ L 282, 19.10.2002, p. 29.

249. Germany emphasizes the necessity of an overcompensation calculation, as the comments submitted by UPS and FFIP are based on the assumption that the Commission conducted such a calculation to prove that Deutsche Post was overcompensated.

VI.4.2. Universal service compensation

250. Referring to the 2006 NERA study, Germany highlights that the Commission itself considered in the context of case COMP/37.821 that the returns on capital employed – which the 2006 NERA Study estimated for DPWN's mail division – were insufficient to prove the existence of excessive pricing for the purposes of Article 102 TFEU.

251. On a more general level, Germany considers that the return on capital employed is not the appropriate measure for determining excessive profits. It explains that with low capital intensity, a high return on capital employed could be linked to a low return on sales. As most risks are related to revenue and costs, the return on sales is the appropriate measure to determine the excessiveness of profits, especially for companies with low capital intensity. To the extent that the NERA studies use in the alternative the return on sales as profit measure, it shows that Deutsche Post had a higher return on sales as Royal Mail but a significantly lower return on sales than TNT. The returns on sales for DPWN's mail division – which the NERA studies had estimated – therefore remain significantly below the benchmark for excessive profits.

252. Germany considers therefore that the 2006 NERA Study and its update are neither of relevance for the State aid investigation nor could they provide sufficient evidence for excessive profits.

253. Regarding UPS' allegation that Deutsche Post's own accounting data would not be a good basis for analysing the revenues and burdens of the universal services, Germany retorts that the accounts would have been checked and approved by a certified accountant as well as by the Postal regulator. It adds that they are in line with the requirements of the Postal Directive.

254. Regarding the transfer pricing arrangements between Deutsche Post and DPEED, Germany emphasises that those arrangements follow the requirements of the 2001 Antitrust Decision. Deutsche Post sent reports on their fulfilment to the Commission on a regular basis. There have been no objections by the Commission so far.

255. Finally, Germany objects to the inclusion of the capital endowments granted to Deutsche Post by Germany in 1995 (e.g. assets in the form of real estate and infrastructure) into the calculation of overcompensation. Germany argues that it already submitted pertaining information with its comments to the 1999 Opening Decision. As the Commission neither objected to those measures in the 2002 State aid decision nor mentioned them in the 2007 Opening, the capital endowments could not be subject of the current investigation.

VI.4.3. Wage level

256. Germany agrees that market-average wages should be used as benchmark to calculate social contribution rates paid by competitors of Deutsche Post. However, according to Germany, such a benchmarking is in contradiction to the 2011 Extension decision, as the Commission uses adjusted gross wages of civil servants instead of market-average wages in order to calculate the amount of social contributions paid by competitors of Deutsche Post. Following the expert study by Prof. Weber, market-average wages only amount to approximately [...] % of civil servants' gross wage. As such, it is not reasonable to use adjusted civil servants' gross wage as a benchmark to calculate social contribution rates.
257. According to Germany, BIEK's assumption that Deutsche Post uses agreed wages in the transport sector as a benchmark to calculate the differences in wage costs borne by Deutsche Post as compared to its competitors is ill-founded. The expert study by Prof. Weber shows that Deutsche Post calculates market-average wages on basis of actual wages paid by its competitors.

VII. AID ASSESSMENT OF PENSION SUBSIDY

VII.1. Assessment of existence of aid pursuant to Article 107(1) TFEU

258. Article 107(1) TFEU provides that ‘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, insofar as it affects trade between Member States, be incompatible with the internal market’. In determining whether a measure constitutes State aid within the meaning of Article 107(1) TFEU, the Commission has to apply the following criteria: the measure must be imputed to the State and use State resources, it must confer an advantage on certain undertakings or certain sectors which distorts competition and it must affect trade between Member States.

259. As the pension subsidy is based on the Article 16 PostPersG 1994 and financed out of the public budget, it is imputable to the State and it is granted through State resources within the meaning of Article 107(1) TFEU. Moreover, as the pension subsidy has only been granted to the Pension fund to relieve Deutsche Post from the civil servants' pension costs and therefore ultimately benefits Deutsche Post, it is selective.

VII.1.1. *Financial advantage from 1995 pension reform*

260. On the basis of the *Combus* judgment, Germany claims that the pension subsidy would not provide any financial advantage because it relieved Deutsche Post from excess social costs.

261. In order to ascertain whether the pension subsidy has provided a selective financial advantage, it needs to be determined whether it allowed Deutsche Post to avoid costs that would normally have had to be borne by the company and have thus prevented market forces from producing their normal effect.⁶⁶

262. The Commission cannot accept Germany's claim based on the *Combus* case law: It must be borne in mind that the *Combus* ruling has not been confirmed by the Court of Justice. Several of the Court of Justice's rulings contradict the theory that compensation for a structural disadvantage exempts a measure from being qualified as aid. In that regard, the Court of Justice has constantly held that the existence of aid is to be assessed in relation to the effects and not in relation to the causes or objectives of state intervention⁶⁷. The Court has also held that the concept of aid includes advantages granted by public authorities which, in various forms, reduce the charges which are normally included in the budget of an undertaking⁶⁸. The

⁶⁶ Case C-301/87 *France v Commission* [1990] ECR I-307, paragraph 41.

⁶⁷ Case 173/73 *Italy v Commission* [1974] ECR 709, paragraph 13; Case 310/85 *Deufil v Commission* [1987] ECR 901, paragraph 8; Case C-241/94 *France v Commission* ECR I-4551, paragraph 20.

⁶⁸ C-387/92 *Banco Exterior* [1994] ECR I-877, paragraph 13; aforementioned judgment in Case C-241/94, paragraph 34

Court of Justice has also clearly stated that the costs linked to remuneration of employees naturally place a burden on the budgets of undertakings, irrespective of whether or not those costs stem from legal obligations or collective agreements⁶⁹. In that context, the Court of Justice has considered that the fact that State measures aim to compensate for additional costs cannot constitute grounds for disqualifying them from the definition of aid⁷⁰.

263. The Commission takes the view that the liabilities a company bears under employment legislation or collective agreements with trade unions, such as pension costs, are part of the normal costs of a business which a firm has to meet from its own resources.⁷¹ Those costs are inherent to the economic activity of the undertaking.⁷² It does not matter in that regard whether the undertaking bears the pension costs by directly financing the pensions of its former staff (as is the case for the civil servants employed by Deutsche Post) or by paying a contribution to the private employees' pension insurance, which in turn uses the collected contributions to finance the pensions of all private employees. The decisive element is that, in one way or another, undertakings bear the full costs for pensions.
264. In addition, the Commission notes that since its establishment in 1950, Deutsche Bundespost had the legal form of a *Sondervermoegen*. A *Sondervermoegen*, while not enjoying independent legal personality, has to establish its own budget and its own accounting system (§ 3 PostVwG 1953 and § 48 HGrG⁷³). According to the legal rules applicable to the budgets of public entities, the budget has to contain the costs for personnel, which include the costs for pensions of retired civil servants formerly employed by the public entity (§ 10 HGrG). In consequence, since 1950, Deutsche Post has financed those costs from its revenues. § 15 PostVwG 1953 explicitly prohibits any subsidy from the federal budget to Deutsche Bundespost. That rule has been taken over in § 37(1) PostVerfG 1989.
265. The PostVerfG 1989 restates that obligation in its chapter on personnel. Deutsche Post was required, pursuant to Article 54(2) PostVerfG 1989, to finance out of its own resources all costs, including the pensions of its civil servants.

⁶⁹ Case C-5/01 Belgium v Commission [2002] ECR I-1191, paragraph 39

⁷⁰ Case 30/59 Gezamenlijke Steenkolenmijnen in Limburg v High Authority [1961] ECR 3, paragraphs 29 and 30; aforementioned judgment in Case C-173/73, paragraphs 12 and 13; aforementioned judgment in Case C-241/94, paragraphs 29 and 35; Case C-251/97 France v Commission [1999] ECR I-6639, paragraphs 40, 46 and 47; and Joined Cases C-71/09 P, C-73/09 P and C-76/09 P Comitato Venezia vuole vivere v Commission [2011] ECR I-0000, paragraphs 90 to 96.

⁷¹ La-Poste decision, recital 141, and Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p.2), recital 63.

⁷² Case T-20/03 Kahla v Commission [2008] ECR II-2305, paragraphs 194 to 197.

⁷³ "Haushaltsgrundsatzgesetz vom 19. August 1969 (BGBl. I S. 1273), das zuletzt durch Artikel 1 des Gesetzes vom 27. Mai 2010 (BGBl. I S. 671) geändert worden ist"

266. After the second postal reform in 1995, Deutsche Post continued to assume the responsibility to finance all pecuniary claims of civil servants under the terms of Article 2(3) PostPersRG 1994 but was partly relieved from the payment of the civil servants' pension costs. Pursuant to Article 16(1) PostPersRG 1994, Deutsche Post paid for the years 1995 to 1999 a yearly lump sum of €2,045 million to the Pension fund. Pursuant to Article 16(2) PostPersRG 1994, the annual lump-sum payments were replaced as of 2000 by a contribution which is calculated as 33% of the salary mass of the civil servants. Article 16(2) PostPersRG 1994 furthermore sets out that the remainder of the pension costs was to be borne by the Federal Budget from 1995 onwards. Figure 1 shows the annual payments from the Federal Budget for each year since 1995, starting with €151 million in 1995.
267. It follows that the arguments raised by Germany aiming at demonstrating that DPAG supported pension costs higher than those of its private competitors are irrelevant for the purpose of finding whether the pension subsidy constitutes a State aid, but will be assessed in the context of the analysis of the compatibility of that measure.
268. In particular, Germany has argued that in order to identify an advantage in favour of Deutsche Post deriving from the pension subsidy, the contribution made by Deutsche Post to the pension fund should be compared to private employers' share of the pension contributions excluding the employees' share. That argument relates to the compatibility of the measure, but for the sake of completeness the Commission will note, on the one hand, that the employer has the obligation to pay the total contribution rate to the social insurances on behalf of the employee and out of the employee's gross salary. On the other hand, and more fundamentally, when a Member State relieves the employees of a certain undertaking from a burden otherwise due, it translates into an advantage for the employer, because such a measure will reduce the difference between the gross salary and the net salary. It will make it possible for the employer to hire or retain employees by paying a lower gross salary. Therefore, the advantages concerning the employee's share of the social contribution also constitute an advantage for the employer.
269. Germany has also argued that a financial advantage for Deutsche Post from the compensation of its excess social costs would only exist if the granted compensation was higher than the total excess social costs that Deutsche Post has had to incur for the civil servants working in the price regulated and in the non-price regulated sector. The Commission recalls that the compensatory nature of a measure does not rule out its qualification as State aid and further makes reference to recitals 262.
270. Moreover, Germany maintains that the civil servants' pension rights have always been a genuine liability of the federal government. Consequently, as the 1995 pension reform did not change the federal government's liability towards the civil servants, the pension subsidy does not provide any financial advantage to Deutsche Post.
271. It is not disputed that the federal government was the ultimate guarantor of civil servants' pensions before and after 1995, even if the Commission observes in that regard that § 3 PostVwG 1953 and § 2 PostVerfG 1989 clearly state that the only the Sondervermögen, and not the Federal State, are liable for the debts of the

Sondervermoegen. However, until 1995, pursuant to the applicable postal and general legislation, the pension payments were included in the budget of the Sondervermoegen Deutsche Bundespost. Those payments had to be covered in their entirety by the revenues realized by the Sondervermoegen. For the State aid assessment, who is the ultimate guarantor of the civil servants' pensions is not decisive. The key question is who had, pursuant to the applicable legislation, the obligation to finance them in the ordinary course of events. In that regard, the PostVwG 1953, the HGrG and the PostVerfG 1989 establish clearly that the obligation lies in its entirety with Deutsche Post.

272. Furthermore, the financing of pension costs is a normal operating cost for any undertaking, public or private, be it incorporated or not. Both between Member States and within Member States, a broad variety of financing mechanisms for pensions has developed. Often, different systems apply depending on when a person has been hired. Therefore, Deutsche Post has to carry pension costs for the people it employs, including its civil servants, in the same way as any other undertaking. The fact that the way of financing the pensions of civil servants is different from the way of financing the pensions of private employees has no impact on the obligation of Deutsche Post to include the financing of their pension costs in its normal operating expenditures. Accepting the argument of Germany would be tantamount to saying that the State could relieve public undertakings from a major cost item linked to their ordinary operations.
273. Finally, when Germany puts forward that Deutsche Post never has had enough own resources to finance the civil servants' pension liabilities, that argument overlooks the fact that the assessment of a financial advantage is independent of the economic capabilities of an undertaking.
274. As the 1995 pension reform relieved Deutsche Post partially from the obligation to finance the pension costs of its civil servants, the pension subsidy has provided a financial advantage to Deutsche Post.

VII.1.2. Distortion of competition and affectation of trade

275. When aid granted by a Member State strengthens the position of an undertaking compared with other undertakings competing in intra-Union trade, the latter must be regarded as affected by that aid. In accordance with settled case law⁷⁴, for a measure to distort competition and affect trade between Member States it is sufficient that the recipient of the aid competes with other undertakings on markets open to competition.
276. In Germany, the markets for parcels, newspapers and periodicals have never been closed to competition. On those markets, POSTDIENST has always been in competition with other companies, including undertakings from other Member States (such as UPS, FedEx, TNT Express, GLS, or DPD). From 1998 to 2007, DPAG gradually lost its exclusive right for letters. As the market opened up for

⁷⁴ Case T-214/95 *Het Vlaamse Gewest v Commission* [1998] ECR II-717.

competition, competitors also entered that market. Therefore, the aid affects trade between Member States and is liable to distort competition. .

277. Furthermore, the Commission observes in that regard that Deutsche Post and its holding company DPWN started in 1997 acquiring parcel operators in European and international markets: In 1999, DPWN was already market leader in the European express and parcel markets with annual revenues of about €4,600 million. With the acquisition of DHL in 1998, DPWN entered into the Asian and North-American markets. Further acquisition of logistic companies (e.g. Danzas, Nedlloyd, ASG, Air Express International) turned DPWN into one of the world's major providers of air cargo, sea freight, and global logistic services. Furthermore, DPWN became also active in mail markets outside Germany (e.g. acquisition of Unipost in Spain and Williams Lee in the United Kingdom). Between 1998 and 2007, DPWN acquired, in total, companies worth about €21,000 million.⁷⁵
278. The Commission finds therefore that the pension subsidy constitutes aid within the meaning of Article 107(1) TFEU.

VII.2. Assessment of existing aid pursuant to Article 108(1) TFEU

279. Germany is of the opinion that if the pension subsidy was to be considered as State aid it should be qualified as existing aid pursuant to Article 1(b)(i) of Regulation (EC) No. 659/1999. It argues that the State has been the ultimate debtor and the party liable to finance the civil servants' pensions since the entry into force of the relevant provisions of German Basic Law in 1953. It maintains that the creation of the Pension fund did not change that obligation.
280. According to Article 1(d)(i) of Regulation (EC) No. 659/1999, the concept of new aid includes all aid which existed prior to the entry into force of the Treaty in the respective Member States, that is to say, aid schemes and individual aid which were put into effect before, and are still applicable after, the entry into force of the Treaty.
281. Until 1995, pursuant to the applicable postal and general legislation, pension payments were included in the budget of the Sondervermoegeen Deutsche Bundespost and had to be covered in their entirety by the revenues realized by the Sondervermoegeen (see detailed assessment of that legislation above in recitals 262 and 263).. Before the second postal reform in 1995, Deutsche Post was therefore required to finance out of its own resources the pensions of its civil servants and did not receive any aid that had the objective to relieve Deutsche Post from pension costs.
282. The creation of DPAG and the Postal pension fund in 1995 led to a complete overhaul of pension funding for civil servants. After that second postal reform in 1995, Deutsche Post took over the principal obligation to finance all pecuniary claims of civil servants under the terms of Article 2(3) PostPersRG 1994 but was partly relieved from the payment of the civil servants' pension costs. Pursuant to

⁷⁵ See also WIK study, section 2.

Article 16(1) and (2) PostPersRG 1994, Deutsche Post was no longer liable to finance the pension costs beyond the lump sum payments (in the period from 1995 to 1999) or the defined contributions (as of 2000). The remaining deficit has been further on covered by the pension subsidy.

283. Therefore, the pension subsidy constitutes new aid because it was set up in 1995.

284. With regard to Germany's reference to the Commission statement in Case T-266/02, the Commission first of all points out that in paragraph 54 of the judgment the General Court reports the position of Germany (and not, as alleged by Germany, of the Commission). Paragraph 54 of the judgment illustrates, that even in the view of Germany, the 2002 Decision did not assess the pension subsidies. Further on, paragraph 61 of the judgment reports the position of the Commission:

An erster Stelle entgegnet die Kommission, dass sie nur den Transferzahlungen der DB-Telekom Bedeutung für die angefochtene Entscheidung beigemessen habe.

285. The judgment does therefore not support the view of Germany that the declaration of the Commission's agent would have implicitly authorized the pension subsidy. In any event, it is obvious that such a declaration could not have that effect.

286. Moreover, in Case T-421/07⁷⁶ the General Court found that the 1999 Opening decision concerned the pension subsidy as well and that the procedure concerning that measure was not closed with the 2002 Decision.

287. In conclusion, since the Commission has never taken a decision declaring that the pension subsidy was not an aid or was a compatible aid, the Commission concludes that the pension subsidy constitutes a new aid measure.

VII.3. Assessment of compatibility pursuant to Article 107(3)(c) TFEU

288. The derogations provided for in Articles 107(2) TFEU and 107(3)(a)(b) TFEU do clearly not apply.

289. In the 2007 Extension decision, the Commission envisaged the possibility that the pension subsidy might be at least partly compatible with the internal market as public service compensation on the basis of Article 106(2) TFEU. Germany, in its reply to the 2007 extension decision, insisted that the pension subsidy, if it was aid, had to be assessed on the basis of Article 107(3)(c) TFEU, and not on the basis of Article 106(2) TFEU. In the 2011 extension decision, the Commission further described a method for assessing the compatibility of the pension subsidy on the basis of Article 107(3)(c) TFEU and Germany provided comments in that respect.

290. According to the case-law of the Court,⁷⁷ it is up to the Member State to invoke possible grounds of compatibility and to demonstrate that the conditions for such

⁷⁶ Case T-421/07 *Deutsche Post v Commission* [2011] ECR II-0000, paragraphs 52 and 75.

⁷⁷ Case C-364/90 *Italy v Commission*, paragraph 20.

compatibility are met. It follows *a fortiori* from that case law that the Commission is under no obligation to assess the compatibility of the pension subsidy under Article 106(2) TFEU in the present case, where the Member State and the beneficiary explicitly reject a possible compatibility assessment under that provision.

291. The Commission therefore will assess whether the pension subsidy is a compatible aid pursuant to Article 107(3)(c) TFEU. Pursuant to that provision, aid to facilitate the development of certain economic activities or of certain economic areas may be declared compatible with the internal market where such aid does not adversely affect trading conditions to an extent contrary to the common interest.
292. According to the case-law, the Commission may declare State aid compatible with the internal market if the aid contributes to the attainment of an objective of common interest⁷⁸, is necessary for the attainment of that objective⁷⁹, and does not adversely affect trading conditions to an extent contrary to the common interest (proportionality).

VII.3.1. Market opening of the postal sector as an objective of common interest

293. Postal services contribute to social, economic and territorial cohesion in the Union. The opening of postal services to competition, which has started at EU level in 1998, has brought about increased quality, more efficiency and better responsiveness to users.⁸⁰ Market opening has allowed the establishment of an internal market for postal services. It therefore contributes to the objective of the establishment of the internal market set out in Article 3(3) TEU.
294. Deutsche Post has not recruited any civil servants since its incorporation as a joint stock company in 1995. The liabilities for social benefits for civil servants therefore have their origin in the period prior to the opening of the postal market to competition. They are comparable to so-called stranded costs. Such costs come from commitments entered into prior to the beginning of market opening which can no longer be honoured under the same conditions in a competitive market environment because the historic operator is no longer able to pass on the corresponding costs to consumers. If Deutsche Post had not at least partially been relieved from those "legacy" costs, it would have had to exit the market.
295. The Commission has recognized that the gradual transition from a situation of largely restricted competition to one of genuine competition at Union level must

⁷⁸ Case T-162/06 *Kronoply v Commission* [2009] ECR II-1, especially paragraphs 65, 66, 74 and 75.

⁷⁹ Case T-187/99 *Agrana Zucker und Stärke v Commission* [2001] ECR II-1587, paragraph 74; Case T-126/99 *Graphischer Maschinenbau v Commission* [2002] ECR II-2427, paragraphs 41 to 43; Case C-390/06 *Nuova Agricast* [2008] ECR I-2577, paragraphs 68 and 69.

⁸⁰ See Directive 2008/06/EC of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services, OJ L 52, 27.02.2008, p. 3, recitals 9 ff.

take place under acceptable economic conditions.⁸¹ Therefore, it has accepted in a number of decisions that Member States grant State aid to relief the historic operator of a part of its "legacy" pension liabilities.⁸²

VII.3.2. Necessity and proportionality of the pension subsidy

296. The Commission has considered in its decisional practice that pension relief has to be limited to what is necessary to equalize the rate of social contributions that the historic operator bears as a cost with the rate of social contributions born by its competitors.⁸³

297. In the present case, the Commission recognizes that in the absence of any State intervention to relieve Deutsche Post of part of the pension liability for its civil servants, Deutsche Post would not be able to compete on its merits with its competitors. The social charges inherited from the past which are not supported by its competitors would have forced it out of the competitive parts of the market for postal service.

298. In the La Poste Decision, the Commission for the first time assessed the necessity and proportionality of an aid measure that provided relief from pension costs for civil servants which were hired before market opening. In that decision, the Commission assessed whether the pension subsidy equalizes the level of compulsory social contributions between the historic operator and other undertakings in the mail/parcel sector.⁸⁴

299. The Commission will apply that same approach in this Decision. The Commission will carry out its analysis in three steps:

- 1) In a first step, the Commission establishes the level of wage-based social security contributions of other undertakings in the mail/parcel sector.

⁸¹ See Commission Communication relating to the methodology for analysing State aid linked to stranded costs, Commission letter SG (2001) D/290869 of 6.8.2001.

⁸² Commission Decision 2005/145/EC on the State aid granted by France to EDF and the electricity and gas industries; Commission Decision 2008/208/EC on the State aid implemented by France in connection with the reform of the arrangements for financing the retirement pensions of civil servants working for La Poste; Commission Decision 2009/944/EC concerning the reform of the method by which the RATP pension scheme is financed (State aid C 42/07 (ex N 428/06)) which France is planning to implement in respect of RATP; Commission Decision of 20 December 2011 in case C 25/2008 concerning the Réforme du mode de financement des retraites des fonctionnaires de l'Etat rattachés à France Télécom, not yet published.

⁸³ Commission Decision 2008/208/EC on the State aid implemented by France in connection with the reform of the arrangements for financing the retirement pensions of civil servants working for La Poste; Commission Decision 2009/944/EC concerning the reform of the method by which the RATP pension scheme is financed (State aid C 42/07 (ex N 428/06)) which France is planning to implement in respect of RATP; Commission Decision of 20 December 2011 in Case C 25/2008 concerning the Réforme du mode de financement des retraites des fonctionnaires de l'Etat rattachés à France Télécom, not yet published.

⁸⁴ La Poste Decision, recital 166.

- 2) Then it has to establish the level of wage-based social security contributions which Deutsche Post bears for its civil servants.
- 3) Finally, it has to verify whether or not the two levels are equal.

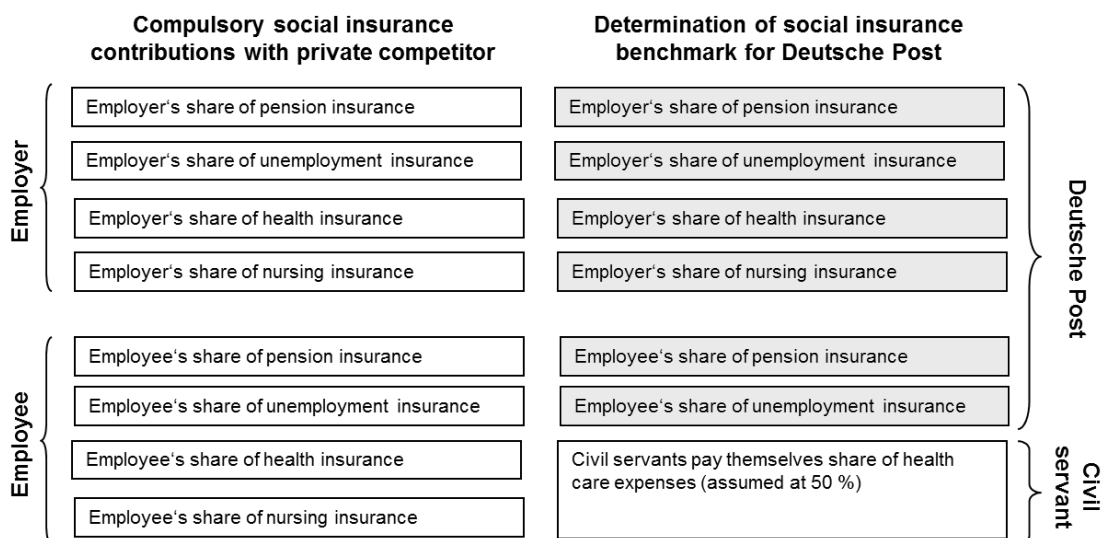
VII.3.2.1. Level of wage-based social security contributions of other undertakings in the mail/parcel sector

300. The level of wage-based social security contributions is determined by two factors: the rate and the wage base to which it is applied.

(a) Calculation of the benchmark rate

301. Private competitors have to compulsorily finance both the employer's share as well as the employee's share out of their revenues. As shown in Figure 2, that the total contribution rate has since 1995 been in the range of 38% to 42% of the private employee's gross wage (= net wage + employee's share). The employer's and employee's shares of the social contribution rate have been each in the range of 19% to 21% of the gross wage (see the Annex for a more detailed time series).
302. Unlike private employees' share of the social contributions, the civil servants' share only includes 30% to 50% of their health care expenses but not any further contributions to their pension, health and nursing care expenses. Deutsche Post's contribution goes therefore beyond the private employer's share and includes the entire pension cost as well as the remaining health and nursing care expenses.
303. To determine an equivalent benchmark rate for Deutsche Post, account therefore has to be taken of the fact the civil servants' contribution is below the private employees' contribution.
304. The civil servants' contribution of 30% to 50% to their health and nursing care expenses can be assumed to largely corresponds in its economic effect to the private employees' contribution to the statutory health and nursing care insurances (which is e.g. in 2006 equal to 8.50% of the private employees' gross wage).
305. As civil servants do not pay any contributions to statutory pension and unemployment insurances, Deutsche Post has to assume their equivalent, in order to effectively bear a level of social contributions equivalent to the compulsory social contributions that a private undertaking has to finance out of its revenues.
306. The benchmark rate for Deutsche Post's wage-based social contributions (hereinafter benchmark rate) has therefore to include the total contribution rates (= employer's + employee's share) for the pension and unemployment insurances and the employer's share of the health and nursing insurances, as illustrated in Table:

Figure 7 Determination of benchmark rate for DP's social contribution



307. As shown in Figure 8, the benchmark rate has been between 30% and 34.1% of the private employees' gross wage in the period from 2003 until 2010⁸⁵.

308. Germany objects that any benchmark above the employer's share of the social contribution rate would put Deutsche Post at a disadvantage compared to competitors who are only liable to pay the employer's share. However, as the following simplified example shows (based on 2006 contribution rates), Deutsche Post would clearly be advantaged compared to private competitors if the benchmark rate were only equal to the employer's share of social contributions:

- 1) Deutsche Post and a private competitor pay the same net wage of €79.5 to a civil servant and a private employee respectively.
- 2) The employer's and employee's share of the social contribution rate both amount to 20.5% of the private employee's gross wage. Adding the net wage of €79.5 to the employee's share of €20.5 gives the gross wage of €100. The total social contributions are therefore equal to €41 (= 41% of private employee's gross wage).
- 3) By contrast, Germany considers that Deutsche Post should only assume the employer's share of the social contributions in addition to the civil servant's contribution to the health care expenses (assumed to be equal to the private employee's contribution of €7.5 to the health and nursing insurances).
- 4) Germany calculates the employer's share based on the incurred civil servant wage of €87 (e.g. the sum of the net wage of €79.5 and the civil servant's contribution to health care expenses of €7.5). The social costs are therefore the sum of €17.8 (employer's share of 20.5% of incurred

⁸⁵ For a detailed presentation see the Annex.

civil servant wage of €87) and the civil servants' contribution to health care expenses of €7.5.

- 5) Based on Germany's calculations, the civil servant's social costs would amount to only €25.3 compared to €41 for the private employee.

309. Although Deutsche Post and the private competitor pay the same net wage, Deutsche Post would have to bear social costs that are only about 62% of the compulsory social contributions for a private employee if the employee's share of the social contributions is included in the benchmark.
310. Furthermore, it must be noted that since 1999 the employer's share of the social contribution rate (which has been in the range of 19% to 21% since 1995) has also been significantly below the contribution rate of 33% of the incurred civil servant wages that the 1995 Pension law defined as the benchmark for Deutsche Post's contribution to the Pension fund. The German legislator did therefore not intend that Deutsche Post should only finance the employer's share but required Deutsche Post to pay a significantly higher contribution to the civil servants' pension costs and to assume as well all remaining social cost (e.g. contribution to civil servants' health care expenses).
311. The Commission rejects therefore the use of the employer's share of the social contribution rate as benchmark rate because civil servants – unlike private employees – are not obliged to contribute to the pension and unemployment insurances. Therefore, those contributions must necessarily be included into the benchmark rate to ensure that both Deutsche Post and private competitors bear, directly or indirectly, equivalent levels of contributions.

(b) Calculation of the wage base

312. As the level of social contributions that Deutsche Post has to bear for its civil servants should be aligned to the level of compulsory social contributions that private competitors have to carry, it is important that Deutsche Post is not only subject to an equivalent rate but also that the rate is applied to an equivalent wage base. As shown in the example above, calculating the employer's share of 20.5% based on the incurred civil servant wages leads to a contribution of €17.8 while the private competitor has to assume €20.5 (e.g. 20.5% based on the gross wage of €100).
313. It is therefore necessary to construct a gross wage for the civil servant (hereinafter referred to as civil servants' gross wage) that provides an equivalent wage base to the private employees' gross wage. It is assumed that the civil servants' contribution to health expenses equals the private employees' contribution to the health and nursing insurances. Therefore, the remaining difference between gross and incurred wage amounts to the employee's share of the contributions to the pension and unemployment insurances. The following formula converts the incurred wage into a gross wage that is equivalent to the private employees' gross wage:

Table 6 Calculation of civil servants' gross wage (based on 2006 contribution rates)

Civil servants' gross wage =

$$= \text{incurred wage} * \frac{100}{100 - (\text{employee share of unemployment and pension insurance})} =$$

$$= \text{incurred wage} * \frac{100}{100 - (3.25 + 9.75)} = \text{incurred wage} * 1.15$$

314. Taking e.g. the 2006 contribution rates, the civil servants' gross wage is 15% higher than the incurred civil servant wage. That percentage quantifies therefore the error that would be made if the incurred wage were used instead of the gross wage as a base to calculate Deutsche Post's social contributions compared to private competitors' compulsory social contributions. The example given at recital 308 illustrates that point as the employer's share of €20.5, which is correctly based on the gross wage, is 15% higher than an employer's share of €17.8 which would result on the incorrect basis of the incurred wage.

315. To conclude, the Commission finds that the benchmark rate for Deutsche Post's social contributions must be based on the employers' and the employees' contribution to pension insurance and unemployment insurance and the employers' contribution to health and nursing care . The benchmark rate has to be applied to the civil servants' gross wage (as defined in Table 6).

VII.3.2.2. Establishment of the wage-based social security contributions borne by Deutsche Post for its civil servants

316. Pursuant to Article 16(1) PostPersRG 1994, Deutsche Post had to pay a yearly contribution of €2,045 million to the Pension fund for the period from 1995 to 1999 which totals € 10,225 million. Pursuant to § 16(2) PostPersRG 1994, Deutsche Post pays as of the year 2000 a rate of 33%. That rate is applied to the incurred wage for civil servants.

317. However, the assessment of the necessity and proportionality of the aid also has to take into consideration the fact that from an economic point of view Deutsche Post does not have to bear the entire contribution of €2,045 million corresponding to 33% of the incurred wages to the Pension Fund. In that regard, the Commission considers that it is necessary to distinguish between the period from 1995 to 2002 and from 2003 until today.

(a) Deutsche Post's contribution in the period between 1995 and 2002

318. Germany claims that, notably with regard to the annual lump-sum payments to the Pension fund of € 2,045 million from 1995 to 1999, Deutsche Post paid social contributions above the compulsory social contributions that competitors had to pay. Therefore, for the period up to 1999 but also over the entire period of the investigation, Deutsche Post would have then paid at least the same if not higher contributions than those private companies had to face. Accordingly, it would not be possible to maintain that the pension subsidy has placed Deutsche Post in a

more favourable position than its competitors. The Commission has to reject argument because it does not take into account the specific regulatory arrangements decided by the German authorities with respect to the coverage of costs of non-price regulated services.

319. The Commission finds in this decision that Deutsche Post has been placed at an advantageous positions vis-à-vis competitors in the non-price regulated markets because a share of the incurred social costs for the civil servants working in those services has not been borne by those services themselves. Instead, that share of the incurred social costs has been put on the account of the price-regulated services whose revenues have been maintained at a sufficiently high level to allow the financing of those costs in addition to the incurred costs for the price-regulated services.
320. In fact, Deutsche Post's management accounts show since 1995 that Deutsche Post has allocated to the non-price regulated services only an amount of social contributions based on the regulatory contribution rate. Furthermore, the 2002 and subsequent regulatory accounts confirm that practice. Therefore, the economic advantage for the non-price regulated services has thus existed before and after 1999 because those services have been unambiguously relieved from incurred costs.
321. To the contrary, Germany's claim that Deutsche Post has suffered from a comparative disadvantage in the price-regulated markets because it had to finance higher social costs due to the lump-sum payments from 1995 to 1999 is not supported by the facts. First, Deutsche Post still benefited from the exclusive right for most of its regulated services. Second, and more importantly, the prices for the services subject to the exclusive right were set at a sufficiently high level to cover those costs from the captive consumers.
322. For the period until 1995, price regulation based on the Postdienstverordnung⁸⁶ of 24 June 1991 was applicable. It set out that prices for the monopoly were to be balanced. In the administrative practice, this included pension costs. For the period from 1995 to 1997, price regulation was based on the *Gesetz über die Regulierung der Telekommunikation und des Postwesens of 14. September 1994 (BGBl. I S. 2325, 2371)*. Article 4 in conjunction with Article 2 and Article 7 thereof allowed the price-regulated revenues to cover not only the costs incurred by the regulated services, including the contributions to the pension fund, but also to finance costs of non-price regulated services.
323. As Deutsche Post's annual accounts show, at the time of the 1995 pension reform, the level of the regulated prices was kept at the pre-existing level which had been in place when Deutsche Post had still to assume the total pension costs. While the pension costs were later either capped (for the period from 1995 to 1999) at the level of the lump sum or fixed (as of 2000) at 33% of the salary mass of the civil servants, which decreased year by year, the regulated prices were not correspondingly decreased to cover only social contributions in line with the

⁸⁶ Bundesgesetzblatt 1994 Teil I Seite 336.

compulsory social contributions that competitors pay. As the defined contributions to the Pension fund until 1999 (€2,045 million per year) remained about equal to the pension costs in 1994, the economic situation did not change for Deutsche Post with regard to the coverage of pension costs from the price-regulated services. Both the level of Deutsche Post's revenues as well as its contribution to the Pension fund remained in balance.

324. The PostG 1997 clearly set out that the regulated prices should not only cover the "efficient" costs but also burdens from e.g. civil servants' social costs. The PostG 1997 recognized therefore explicitly that the price-regulated revenues had to be set such that the coverage of the entire lump-sum payments was ensured. As the German legislator appeared to consider that the current level of regulated prices fulfilled the requirements of PostG 1997, he decided that the prices were to be kept at the existing level of 1997 until 1999. The Minister of Economics and Technology later decided as well on 27 March 2000 that the prices which were approved on 1 September 1997 should remain in force until 31 December 2002.
325. The regulated prices were therefore kept at the historically high level and were not reduced to a level such that Deutsche Post would have suffered from a comparative disadvantage.
326. In fact, Deutsche Post has been placed in an even better position compared to its competitors since 2000, because the defined contributions to the Pension fund were reduced to 33% of the incurred civil servant wages. That level gives in absolute terms a reduction in costs, which fell from € 2,045 million to € 735 million (even further in the subsequent years, as the number of civil servants was shrinking and that phenomenon was only off-set in part by the increase in wages). As the regulated prices were kept at the historically high level, Deutsche Post was allowed to earn since 2000 significantly positive profits from the price-regulated services.
327. Reviewing Deutsche Post's profitability from the price-regulated services over the whole period from 1995 to 2002, the WIK study comes to the conclusion that Deutsche Post has e.g. until 1999 not suffered from losses from the price-regulated services despite the lump-sum payments to the Pension fund. Since 2000, the WIK study even shows significantly positive returns.
328. The Commission has therefore to reject Germany's claim that Deutsche Post was placed in a worse position than competitors with regard to the coverage of social contributions in the price-regulated services, and that the pension subsidy was necessary and proportionate before 2002.
329. Notwithstanding the above, the Commission has to admit that in this case there is insufficient evidence for it to quantify exactly the level of wage-based social security contributions that Deutsche Post paid in the years 1995 to 2002. It considers that such a quantification could not properly be based on ex-post de facto findings that a certain proportion of social costs from non-price regulated services was shifted to be financed out of price regulated revenues and that Deutsche Post was not disadvantaged in overall terms under the pension fund arrangements because the price regulated revenues were de facto set at a level which was

sufficient to cover its contributions to the pension fund including the shifted burdens. It is also not possible to devise a method as to how the Member State could calculate such a level for that period. The Commission finds, after an assessment of legal basis for the regulated prices in force during the period 1995 to 2002, that it cannot be inferred with certainty from the legislative provisions how the competent authorities decided the composition of the regulated prices on an ex-ante basis. In particular, it cannot be proven in this case with certainty that when the competent authorities fixed the regulated prices at such a level that ultimately covered the shifted costs de facto, they unequivocally earmarked in their decisions a share of the regulated price to precisely cover the amount of claimed burdens from the non-price regulated services.

330. Unlike the 2002, 2007 and 2011 price cap decisions where those burdens are explicitly acknowledged and approved by the Postal regulator, that earlier de facto coverage could have been due to considerations of the competent pricing authorities as regards the evolution of other cost components or the development of other business variables. That earlier de facto coverage is therefore in this case not sufficient to quantify exactly and with certainty to which extent the competent authorities have increased the regulated price to take account of the claimed burdens for the non-price regulated services.

331. By contrast, for the period since 1 January 2003, it can be clearly established from the 2002, 2007 and 2011 Price cap decisions how the Postal regulator set the composition of the regulated prices. It is certain that they were unambiguously set at a higher level to cover the burdens of the non-price regulated services out of the price-regulated revenues.

(b) Deutsche Post's contribution since 2003

332. The PostG 1997 allows Deutsche Post to request that, when the regulator is setting the allowed level of revenues from the exclusive right and the regulated services, the regulator includes into the costs to be recovered from consumers *inter alia* the "excess social burden" as well as the costs for the efficient provision of the universal service. That method was applied by the Postal regulator for the first time in the 2002 price cap decision. The Postal regulator also approved the burden on excess social contribution in the 2007 and 2011 Price cap decisions. The fact that only a share of the price-regulated services is subject to ex-ante price control does not alter the Commission's assessment. Deutsche Post was still authorized to recover the entire burden by making use of its dominant position. In that regard, it does not make a difference whether the regulator exercises control ex ante or ex post.

333. The Postal regulator has consistently approved Deutsche Post's claim that the burden #2 on incurred social costs in excess of the regulatory contribution rate should be refinanced by the price-regulated revenues. Thus for 2001, to determine the excess social costs (burden #2), the incurred social contributions of Deutsche Post for its civil servants of [40 to 45%] of the incurred wages⁸⁷ were compared to

⁸⁷ E.g. the sum of the 33% contribution to the pension fund and [7 to 12%] expenditures for health and nursing care in percentage of the incurred civil servant wage.

the regulatory benchmark. That benchmark consists of the employers' share of social contribution, accident insurance and supplementary pension insurance, which together total [20 to 25%] of the incurred wages.

334. That difference between the two rates of [15 to 20%] of the incurred civil servant wage was included in burden #2 and covered by the price regulated revenues (see Table 2).
335. From an economic point of view, Deutsche Post therefore does not bear a rate of 33% of the incurred wages as wage-based social security contributions, but only a rate of [20 to 25%]. Since 2003, the remainder has been borne by captive consumers, who pay tariffs calculated to cover Deutsche Post's social costs for the services for which Deutsche Post had an exclusive right until 2007, respectively for the universal services for which Deutsche Post enjoys a dominant position.
336. In order to compare the rate applied to the incurred wages to the level of social security contributions of a competitor, it is then still necessary to convert the incurred wage into the gross wage of the civil servants.
337. The incurred wage corresponds to between [85% and 90%] of the civil servants' gross wage⁸⁸. On that basis, [20 to 25%] of incurred wages corresponds to [17.5 to 22.5%] of the gross wage.
338. As a result of the limitation of Deutsche Post's contribution to the Pension Fund at 33% and the approval, by the Postal regulator, of burden #2, Deutsche Post thus pays a level of wage-based social security contributions of [17.5 to 22.5%] of the gross wage of the civil servants.

VII.3.2.3. Comparison

(a) The period between 1995 and 2002

339. In the period between 1995 and 2002 the revenues from the tariffs applied by Deutsche Post in the reserved sector considerably reduced the actual economic burden of the contribution made by it to cover its social costs. However, in the absence of an earmarked element of the tariff, the Commission can only establish that the level of Deutsche Post's contribution remained below the benchmark rate. The Commission is unable to calculate the exact difference between those two levels, nor to devise a method that would enable the Member State to do so.

(b) The period since 2003

340. In order to compare the regulatory contribution rate to the benchmark rate, it must be noted that the regulatory contribution rate is based on the incurred civil servants' wages that are a too low wage base compared to the private employees' gross wage. The regulatory contribution rate needs therefore to be recalculated as a percentage of civil servants' gross wage.

⁸⁸ See the Annex for more details.

341. Carrying out the comparison for 2006, the non-price regulated services have effectively carried social contributions of [17.5 to 22.5%] of the civil servants' gross wage (respectively [20 to 25%] of the incurred civil servants' wage) compared to the benchmark rate of 33.5%. In terms of social contribution rates, Deutsche Post has therefore benefitted from a comparative advantage of [10 to 15%] of the civil servants' gross wages in 2006.

Table 7 Comparison of the regulatory contribution rate and the benchmark rate for DP's social contribution in 2006

	Social contribution rate	Regulatory contribution rate	Benchmark rate for DP's social contribution charge
in percentage of	Private employee's gross wage	Civil servant's gross wage	Civil servant's gross wage
Employer's share	20.50%	17.84%	20.50%
Health insurance	6.65%	5.79%	6.65%
Nursing insurance	0.85%	0.74%	0.85%
Unemployment insurance	3.25%	2.83%	3.25%
Pension insurance	9.75%	8.48%	9.75%
Employee's share	20.50%		
Health insurance	6.65%		
Nursing insurance	0.85%		
Unemployment insurance	3.25%		3.25%
Pension insurance	9.75%		9.75%
Supplementary pension insurance		[0 to 5%]	
Accident insurance		[0 to 5%]	
Contribution rate		[17.5 to 22.5%]	33.50%

342. Table 7 shows that the benchmark level for Deutsche Post amounts to 33.5% of the civil servants' gross wage and is [10 to 15] percentage points higher than the level which Deutsche Post has *de facto* borne.

343. The difference of [10 to 15] percentage points for 2006 goes beyond the nominal difference of [8 to 13]% between the benchmark rate of 33.5% and the regulatory contribution rate of [20 to 25]%. The difference includes a top-up of [2 to 3] percentage points that accounts for fact that the nominal regulatory contribution rate of [20 to 25]% has been inappropriately based on the incurred civil servants'

wage and not on the civil servants' gross wage that is equivalent to the private employees' gross wage.

VII.3.2.4. Preliminary conclusion on necessity and proportionality

344. The pension subsidy, which covers the funding need of the Pension fund that goes beyond the contribution of 33% of incurred wages of Deutsche Post's civil servants, is neither necessary nor proportionate, for the following reasons:

- 1) Between 1995 and 2002 Deutsche Post actually bore costs below the benchmark level, but the exact difference cannot be determined.
- 2) Since 2003 Deutsche Post has on average only borne costs of about [17.5 to 22.5]% of the civil servants' gross compared to the average benchmark rate of 32% of the civil servants' gross wage; the remainder has been born by the consumer, because the revenues authorized under the price cap include the burden on excess social costs which cover the remaining [10 to 15%] of civil servants' gross wage.

345. The difference in the rates since 2003 comes from two effects:

- 1) The level of wage-based social security charges which is borne by undertakings in the mail/parcel sector is 41% of gross wages. In order to compare it to the level that Deutsche Post pays for its civil servants, it is necessary to make a correction taking into account the fact that the civil servants bear 30% to 50% of their health and nursing care expenditures. That contribution by the civil servants is equivalent to the employees' share of health and nursing care expenditures of 7.5% of gross wages.
- 2) The contribution of Deutsche Post is calculated based on the incurred wage, not on the gross wage of the civil servants. The benchmark rate for Deutsche Post's civil servants is therefore 33.5% of gross wages. The relief that goes beyond that level is in principle neither necessary nor proportionate.

346. For the period between 1995 and 2002 it is impossible to determine the exact part of the relief that goes beyond what can be accepted as necessary and proportionate. Since 2003 that part corresponds to [10 to 15%] of gross wages.

VII.3.2.5. Impact of the particular competitive and regulatory environment on necessity and proportionality

347. The assessment of the necessity and the proportionality of the pension subsidy has, however, to take into consideration the particular competitive and regulatory environment.

348. As explained in section II.2.1, Deutsche Post enjoyed until 31 December 2007 an exclusive right for certain letter services. It was entrusted by § 52 PostG 1997 until that date with the universal service obligation foreseen in chapter 2 of Directive 1997/67/EC and § 11 PostG 1997. It has since 1 January 2008 continued to assume the universal service obligation on a voluntary basis.

349. As long as and to the extent that Deutsche Post enjoyed an exclusive right for certain letter services, its competitors could not compete for that part of the postal market. Therefore, the fact that for the civil servants who were in charge of the services falling under the exclusive right the Postal regulator allowed Deutsche Post to fully refinance all incurred social costs beyond the level of wage-based social security contributions of its competitors through increased regulated prices was unlikely to affect trade to an extent contrary to the common interest.
350. The rationale for the universal service obligation is that in a competitive market, postal operators will not offer certain services in rural and remote areas, or only at prices that are not affordable. Therefore, Article 4 of Directive 1997/67/EC obliges Member States to ensure that users enjoy the right to a universal service involving the permanent provision of a postal service of specified quality at all points in their territory at affordable prices for all users.
351. The German national legislation places in that regard a particular burden on any postal operator which enjoys a dominant position on a market which falls within the remit of the universal services. Pursuant to § 2 PDLV,⁸⁹ such an operator has to offer its services on the same conditions to all users. Up to now, only Deutsche Post has enjoyed such a dominant position and has been subject to that obligation.
352. Since its incorporation, Deutsche Post has not received any State aid as compensation for universal service obligations. For the services for which it enjoys a dominant position, the Postal regulator has, however, approved increased regulated prices to finance the costs of ensuring the universal service. When assessing the proportionality and necessity of the pension subsidy, the Commission considers it appropriate to take that fact into account.
353. The Commission concludes therefore that for the civil servants' social costs that have been incurred for the provision of the price-regulated services, which fall under the universal service obligation and for which Deutsche Post has enjoyed a dominant position, the fact that the Postal regulator has approved a full pass-on of those social costs through higher regulated prices – even if those social costs go beyond the level that is normally assumed by competitors – does not affect trade to an extent contrary to the common interest. That conclusion is based on the particular competitive and regulatory environment in which those services are performed. Therefore, it cannot be extended to cover other sectors.

VII.3.3. Conclusion

354. It can therefore be concluded that, from 2003 onwards, Deutsche Post has assumed for the civil servants working for its non-price regulated services a level of wage-based social security contributions that has been 11 to 14 percentage points below the level that competitors have paid.

⁸⁹ Postdienstleistungsverordnung vom 21. August 2001 (BGBl. I S. 2178).

Figure 8 Comparative advantage in social contribution rate with non-price regulated services (contribution rates in percentage of civil servants' gross wage)

[...]

355. That lower level of contributions is neither necessary nor proportionate to attain the objective of a gradual market opening in postal services. On the markets concerned, Deutsche Post is in fierce competition with other undertakings. The Commission therefore considers that the lower level of contributions affects trade to an extent contrary to the common interest and cannot be declared compatible with the internal market.

356. The incompatible share of the pension subsidy for the period since 1 January 2003 is calculated as the difference between the benchmark rate and regulatory contribution rate based on the civil servants' gross wage sum in the non-price regulated services according to the formula below:

Table 8 Calculation formula for incompatible aid for period since 1 January 2003

Incompatible aid =
= (Benchmark rate - regulatory contribution rate) x Civil servants' gross wage sum in non-price regulated services

357. Based on the available data, the calculations estimate a cumulated comparative advantage of €[500 to 1000] million for the period from 2003 to 2010 (see annex). The annual amount of the incompatible aid has decreased over time from €[...] million in 2003 to €[...] million in 2010 due to the shrinking workforce of civil servants.

VII.3.4. Response to the arguments presented by Germany

358. The 2011 Extension decision expressed doubts about the necessity and proportionality of the pension subsidy because the non-price regulated services benefited from a level of wage-based social security contributions that has effectively been 11 to 14 percentage points lower than the level that private competitors have had to carry. The 2011 Extension decision quantified the resulting annual advantage to be in the range of €100 to €200 million.

359. In reply to the 2011 Extension decision, Germany raises two main objections:

- 1) Germany insists that the benchmark rate can only be based on the employer's share of social contributions, because private undertakings have no legal obligation to pay the employees' contribution. Furthermore, the benchmark rate should take into account the fact that Deutsche Post has always paid higher than "competitive" wages.
- 2) Germany claims that the Commission has failed to establish that the revenues from the price-regulated universal services were sufficient to finance the claimed burdens of excess social costs.

VII.3.4.1. The Commission is right to include the employees' contribution into the benchmark rate and not to adjust the wage level to a "competitive wage"

360. Germany argues that any benchmark above the employer's share of the social contribution rate would put Deutsche Post at a disadvantage compared to competitors who are only liable to pay the employer's share.

361. With regard to that first argument, the Commission observes that civil servants – unlike private employees – are not obliged to contribute to the pension and unemployment insurances. Therefore, those contributions must necessarily be included in the benchmark rate to ensure that both Deutsche Post and private competitors carry, directly or indirectly, equivalent levels of contributions.

362. Germany furthermore maintains that the benchmark rate is applied neither to the gross wage of the civil servants nor to the incurred wage of the civil servants, but to "competitive" wages. In the 2002, 2007 and 2011 regulatory accounts, Deutsche Post considers that the "competitive wage" should be based on the ETV wage or on collective wage agreements for the postal sector from 2003.

363. In the 2009 regulatory accounts, the "competitive" wage is defined as the 2007 minimum wage, which is even lower than the ETV wage.

364. Germany claims that the calculation based on those "competitive" wages is necessary to place the social costs of Deutsche Post at the same level as those of its competitors.

365. The Commission cannot accept that argument because the aid must be limited to the minimum necessary to ensure that the gradual transition from a situation of largely restricted competition to one of genuine competition at Union level takes place under acceptable economic conditions.

366. It would be disproportionate to increase the aid to such an extent that since 1995 Deutsche Post would have to finance only social costs based on "competitive" wages that do not reflect labour market conditions in earlier years. Differences in wage levels for personnel hired at different points in time between incumbents and new entrants are a normal fact of economic life.

367. In the France Telecom case,⁹⁰ the Commission also rejected the argument presented by France that the level of wage-based social security contributions should also take into account the fact that civil servants are paid higher wages than the personnel employed by competitors. The Commission pointed out in that context that thanks to civil servants, at the time of the market opening the historic operator had a well-qualified and competent personnel, without which it would not have been able to maintain its market position. In any event, it would be entirely artificial to single out specific disadvantages of the postal incumbent and to

⁹⁰ Commission decision of 20 December 2011 in case C 25/2008, not yet published in the OJ, recitals 110 and 111.

disregard its considerable advantages e.g. in terms of market share, brand recognition and customer base.

368. Finally, Deutsche Post's calculations cannot credibly establish that, without the obligation to employ civil servants, Deutsche Post would have achieved the calculated savings in wage costs. Even assuming that the civil servants would in 1995 have effectively changed to a private employee status, it is neither established how many civil servants would have been replaced in 1995 and later years by private employees nor at which wage level. Just the sheer number of Deutsche Post's civil servants in 1995⁹¹ renders implausible the assumption that it would have legally and economically possible to replace since 1995 all civil servants by equally productive private employees at a lower wage.

369. The Commission therefore rejects those two claims made by Germany with regards to the benchmark rate and the wage.

VII.3.4.2. On Germany's claim that price-regulated revenues have not been sufficient to finance the claimed burdens

370. Germany claims that the Commission only assessed the level of wage-based social security contributions for the non-price regulated services but did not verify whether the profits from price-regulated universal services were sufficient to finance the claimed burdens.

371. Germany presents two lines of reasoning. First of all, it claims that the Commission did not prove that the national regulator effectively approved the burdens which Deutsche Post has claimed. Secondly, Germany argues that, even if the regulator had approved those burdens, the profits from price-regulated universal services were insufficient to finance them. Germany submitted two expert studies by Professor Weber and CTcon to show that the price-regulated services have not been sufficient to cover the claimed burdens on excess social costs and, consequently, Deutsche Post has been undercompensated for its excess social costs.

(a) The 2002, 2007 and 2011 price cap decisions are based on the regulatory accounts submitted by Deutsche Post and approve all burdens that have been claimed

372. Since the 2002 Price cap decision, it has also been clearly documented that the Postal regulator approved the burdens that Deutsche Post had and set the regulated prices accordingly to cover them. The 2007 and 2011 Price cap decisions also confirm that the Postal regulator accepted Deutsche Post's claims and approved the fact that the claimed excess social costs were financed by the price-regulated revenues.

⁹¹ About 140 000 civil servants in 1995.

(b) The study by Professor Weber does not support the claim that the profits from the regulated universal services were insufficient to cover the burdens that Deutsche Post had claimed

373. The study by Professor Weber covers the period from 1995 to 2010 and recognizes that Deutsche Post has not only benefited from the pension subsidy but also from a full coverage of burden #2 by the price-regulated revenues (see section VI.1.4.2(a) for a detailed description of the study).

374. To assess the expert study, it is useful to first recall the price setting rule of Article 20(2) PostG 1997. It requires that the price cap covers the efficient costs of the price-regulated services plus the burdens from social excess costs and net costs from the universal service obligation:

Table 9 Price-setting rule according to Article 20(2) PostG 1997

Price cap for regulated services =
= Efficient costs for regulated services + burdens =
= Total costs for regulated services + burden for non-regulated services

375. The Postal regulator has to set the regulated prices such that the revenue covers the price-regulated services' own "efficient" costs and the approved burdens. Expressed in a slightly different way, the regulated prices fully finance the total costs of the regulated services – irrespective of whether they are earmarked as "burden" or "efficient" cost – as well as the share of the burden that comes from the non-price regulated services. Article 20(2) PostG 1997 ensures therefore that the approved burdens are fully covered by the price-regulated revenues. Contrary to Germany's claim, it is therefore excluded by law that the price-regulated services suffer from undercompensation due to the take-over of excess social costs from the non-price regulated services.

376. The expert study defines in a first step the excess social costs for civil servants as the difference between all social costs incurred by Deutsche Post for its civil servants (contribution to the Pension fund, health expenses, accident insurance, further miscellaneous insurance payment) and the employers' contribution for pension, health and nursing care based on the 2007 minimum wage. In a second step, it compares that difference to burden #2.

377. The expert study by Professor Weber suffers from two main defects: First, it exaggerates the level of the excess social costs. Second, it overlooks that as a result of the exaggeration, the excess social costs include cost items for which Deutsche Post receives compensation not under burden #2, but under different headings. In detail, the Commission would point to the following defects:

378. First, the expert study calculates the excess social costs based on the employer's share of the social contribution rate. However, the burden #2 is calculated based on the regulatory contribution rate. As the latter is higher than the employer's share of the social contribution rate, the expert study's excess social costs are higher than

burden #2. Thus, the expert study includes excess social costs that the Postal regulator has considered as “efficient” costs.

379. Second, the expert study omits that burden #1 on excess wages also covers a share of the excess social costs (e.g. due to the difference between incurred wages and the “competitive” wage benchmark) and that they are subsequently financed through burden #1. Further social costs that the expert study includes are covered by separate burdens (e.g. the payments to BAnstPT by burden #6) and consequently compensated. Thus, while the total sum of incurred social costs is shown for civil servants, it is omitted that also other burdens than burden #2 cover excess social costs.
380. Third, it must be taken into account that the burden #2 contains excess social costs for both civil servants and private employees: The private employees’ incurred social contributions were higher than the regulatory benchmark before 2003 because interest expenses of about €[...] million for the private employee’s supplementary pension insurance were included in those costs. Since 2003, those interest costs have been allocated to the financial costs and the incurred social costs for private employees have been below the regulatory benchmark since then.
381. As the expert study includes the total of burden #2 as compensation for the civil servants’ excess social costs, the burden #2 provided excessive relief before 2003 and insufficient relief since 2003 for the civil servants’ social costs. To calculate the appropriate compensation that burden #2 has provided for civil servants’ social excess costs, the burden #2 needs to be accordingly split between civil servants and private employees.
382. Consequently, the result of under-compensation is erroneous because the expert study overlooks that the claimed excess social costs are not only covered by burden #2 but and that the Postal regulator has considered a higher share of social costs as “efficient” cost. An appropriate correction of the expert study’s mistakes on the compensation side puts the burdens exactly in balance with the excess social costs as required by Article 20(2) PostG 1997.
383. Germany’s objection that the Commission erred in the 2011 Extension decision to only calculate the comparative advantage for the non-price regulated services must therefore be rejected because, pursuant to Article 20(2) PostG 1997, the Postal regulator has to set the price cap so that the price-regulated revenues cover the efficient costs of the price-regulated services and the approved burdens.

(c) No proof of under-compensation of excess social costs based on WIK study

384. Referring to the 2009 regulatory accounts, Germany maintains that Deutsche Post has actually suffered significant losses with its price regulated services since 1990 because the regulated revenues have been eaten up by the costs for the price-regulated services as well as the net costs from the universal service obligations⁹²

⁹² E.g. maintenance of extensive post office network, sixth delivery day.

Thus, for that reason as well, Germany denies that the profits from price-regulated services would have been sufficient to finance any excess social costs from the non-price regulated services.

385. The Commission observes in that regard first that, since 2003, it is obvious from the Postal regulator's decisions that he has earmarked a share of the price-regulated revenues as compensation for burden #2. The existence of the contribution from the price-regulated revenue is therefore unambiguously established by the regulator's decisions.
386. Second, the WIK study shows, in contrast to the 2009 regulatory accounts, that the price-regulated services have since 2000 achieved significantly positive profit margins of more than [6.5 to 8.5]% on sales.

Figure 9 Calculation of ROS for price-regulated services based on WIK Study

[...]

Note: The calculations are based on the WIK study's adjustments to the 2009 regulatory accounts. Furthermore, it is assumed that the price-regulated services cover all losses of the non-price regulated universal services. The lower profit in 2007 is mainly due to an extraordinary depreciation charge for the real estate portfolio.

387. The higher profits since 2000 are directly linked to the reduction in the defined pension contributions according to the 1995 Pension law: While Deutsche Post had assumed annual lump-sum payments of € 2,045 million up 1999, the pension contribution went down in 2000 to about € 735 million (according to 33% of incurred civil servant wages). As the Postal regulator did not adjust in 2000 the regulated prices downwards in line with the decreased pension contribution, Deutsche Post's profit increased significantly. The realized profit has also remained after the 2002 price cap decision on a high level because the regulated prices were not sufficiently decreased to be in line with the price-regulated services' costs.
388. With regard to Germany's criticism of the WIK study, the Commission finds that the WIK study provides a more appropriate description of Deutsche Post's economic situation in general and of the profits from the price-regulated services in particular compared to the 2009 regulatory accounts. The reasons are the following:
- (i) More appropriate allocation of costs to commercial services
389. According to the Chronopost judgment, commercial services should bear their direct costs as well as provide an appropriate contribution to the common costs. The appropriate allocation of costs between different services can be proven either by external benchmarks (e.g. market prices) or by internal cost data.⁹³

⁹³ Chronopost judgment, paragraph 38; Opinion of Advocate General Tizzano for the Chronopost cases, paragraph 54; Commission Decision of 21 December 2005 on aid measure N 531/05 *La Banque Postale*, recitals 75 ff.

390. The 2009 regulatory accounts are based on the principle of Article 20(2) PostG 1997 that mandates that the non-price regulated services should only be allocated "efficient" costs while all burdens (e.g. excess costs from the employment of POSTDIENST staff and net costs from the universal service obligation) should be financed by the price-regulated revenues. However, the WIK study finds in its review of the 2009 regulatory accounts that Deutsche Post allocates too high burdens to the price-regulated services and too few costs to the commercial services based on a comparison to the profitability of private competitors.
391. The results of the WIK study are confirmed by the assessment of the allegedly "competitive" benchmarks that Deutsche Post has used accounts to calculate the individual burdens: It has already been shown that the regulatory contribution rate for the calculation of burden #2 on excess social costs is a too low benchmark compared to the compulsory social contributions that private competitors have to pay. Furthermore, considering e.g. the infrastructure burden on the post shop network, it is a purely hypothetical and unprovable benchmark that Deutsche Post would not have run any own post office since 1990 without the universal obligation. Similarly it cannot be proven whether Deutsche Post could have since 1990 operated only with personnel for whom it just has to pay wages at the level of the 2007 minimum wage.
392. The Commission finds therefore that the results of the WIK study provide a more appropriate calculation of the costs to be allocated to the commercial service.
393. Furthermore, the cost valuation must be in line with general accounting principles, in line with Directive 97/67/EC and Directive 2006/111/EC. Neither the increased depreciation charges nor the upward valuation of the supplementary pension costs are contained in the annual accounts of Deutsche Post. Such costs are normally financed out of the accounting profit that a company earns, which holds true for Deutsche Post as well as for its competitors. An upward re-evaluation would therefore favour Deutsche Post compared to competitors.
- (ii) Profit benchmarking in consideration of Deutsche Post's risk position
394. Deutsche Post's realized profits have since 2000 been significantly above the median ROS of 3.48% of the WIK-study as well as the lower bound ROS of 6.1% of the Deloitte-II study. Germany's claim that Deutsche Post has suffered from such high losses that it has not been able to cover the burdens from the price-regulated revenues can therefore not be accepted.
395. Furthermore, the Deloitte-II study, which builds on a small comparator set of mainly multinational express parcel operators (e.g. UPS, FedEx, TNT Express), needs to be critically reviewed. The Deloitte-II study's recommendation of a reasonable-profit range starting at a ROS of 6.1% and a median ROS of 7.4% neglects the fact that Deutsche Post runs a considerably less capital-intensive and less risky business:
- 1) Deutsche Post itself does not operate international express parcel services, which are operated only by its DHL subsidiaries.

- 2) Letter operations, which make up to 75% of Deutsche Post's revenues, need significantly fewer capital investments compared to the multinational parcel operators because the main costs of letter delivery are the labour costs of postmen. Express parcel operators must invest much more heavily in capital-intensive equipment.⁹⁴
- 3) Deutsche Post's dominant position on the letter market was created and guaranteed by the exclusive right that conferred a captive customer base to Deutsche Post without having had to undertake any major investments into marketing and brand name. By contrast, the multinational parcel operators had to build up their positions in each national market from scratch and have established some of the best known consumer brands⁹⁵ at their own risk and expense.
- 4) Finally, the market and cost risks of Deutsche Post have been hedged through the granted public measures⁹⁶). In particular, price regulation has provided for coverage of all burdens from the non-price regulated services⁹⁷.

396. The WIK study is therefore right to apply a profit benchmark below the Deloitte-II range to take proper account of the lower capital intensity and lower business risks of Deutsche Post compared to multinational express parcel operators. However, it is not necessary to determine precisely the level of the benchmark profit because the realized average ROS margins of 8.3% are already higher than the Deloitte-II study's lower bound estimate of a ROS of 6.1%. Even based on Germany's own expert study, it could not be established that Deutsche Post would have been undercompensated since 2000.

397. In any case, Germany's criticism of the WIK study is hard to understand because the median ROS of 3.48% does not go beyond the level of profit that the regulator and Deutsche Post have themselves considered as reasonable. On the one hand, as explained in section IV.4.3, the benchmark ROS of 3.48% yields in absolute numbers a higher profit than the capital costs (e.g. [...] and [...]) claimed by Deutsche Post in its regulatory accounts and approved by the regulator. On the other hand, WIK's median ROA of 7.66% is similar to the return on capital that Deutsche Post [...].

398. The conclusions on profit benchmarking are not affected by Germany's reference to reasonable profit rates of 7% to 8% on sales in the railways and bus transport sectors. Those sectors are more capital-intensive and therefore require a higher return on sales to cover capital cost. On the contrary, those figures confirm that the Deloitte-II study's profit benchmark is more in line with the average ROS of a capital- rather than of a labour-intensive industry.

⁹⁴ E.g. worldwide air transport and integrated delivery network.

⁹⁵ E.g. UPS or TNT.

⁹⁶ E.g. increases in regulated prices, public transfers, public guarantee, and pension subsidy

⁹⁷ E.g. excess social costs above the "competitive" benchmark

(c) Conclusions

399. The Commission has to reject Germany's claim that the price-regulated revenues have not been sufficient to cover the burdens on excess social costs. Neither the submitted expert study nor the 2009 regulatory accounts support Germany's claim.
400. On the contrary, it is clearly documented by the Price cap decision from 2002, 2007 and 2011 that the Postal regulator has consistently approved the compensation of the claimed burdens out of the price-regulated revenues.

VII.3.5. *Elimination of incompatible aid for the period from 1 January 2003*

401. According to the Court's established case-law, the Commission is competent to decide that the Member State concerned must abolish or alter aid⁹⁸ when it has found that that aid is incompatible with the internal market. As the Court has consistently held, that obligation is designed to re-establish the previously existing situation.⁹⁹ In that context, the Court has established that that objective is attained once the recipient has repaid the amounts granted by way of unlawful aid, thus forfeiting the advantage which it had enjoyed over its competitors on the market, and the situation prior to the payment of the aid is restored.
402. In line with that case-law, Article 14(1) of Regulation (EC) No 659/99¹⁰⁰ lays down that: “where negative decisions are taken in respect of unlawful aid, the Commission shall decide that the Member State concerned shall take all necessary measures to recover the aid from the beneficiary [...]. The Commission shall not require recovery of the aid if this would be contrary to a general principle of Community law.”
403. The Commission further observes that the 2007 and the 2011 Extension decisions focussed on the period from 1990 to 2007. However, the pension subsidy is a continuous aid scheme that did not stop in 2007. Likewise the compensation of the burdens from the price-regulated revenues did not cease in 2007. Indeed, in its submission of 2 January 2012, Germany provided data on the pension subsidy and the price-regulated revenues including 2010. Therefore, the Commission concludes that the recovery of the incompatible share of the pension subsidy should not stop in 2007 but should continue until go until the date of notification of this Decision.
404. For the calculation of the aid element which has already been put at the disposal of Deutsche Post, it should be pointed out that, according to the case-law of the Court of Justice, no provision of Union law requires the Commission, when ordering the recovery of aid declared incompatible with the internal market, to fix the exact amount of the aid to be recovered. It is sufficient for the Commission's decision to

⁹⁸ Case 70/72 *Commission v Germany* [1973] ECR 813, paragraph 13.

⁹⁹ Joined Cases C-278/92, C-279/92 and C-280/92 *Spain v Commission* [1994] ECR I-4103, paragraph 75.

¹⁰⁰ Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 (now Art. 88) of the EC Treaty, OJ L 83, 27.03.1999, p. 1.

include information enabling the Member State to work out itself, without overmuch difficulty, that amount.¹⁰¹

405. The incompatible aid has to be calculated according to the formula in Table 8 based on the regulatory contribution rate and the benchmark rate, as defined in the annex and shown in Table 7, and the civil servants' gross wage as defined in Table 6. The amount of incompatible aid granted each year should bear interest until recovery. Interest should be established pursuant to chapter V of Commission Regulation (EC) No 794/2004 of 21 April 2004 implementing Council Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 93 of the EC Treaty.¹⁰²
406. The calculations in the annex, which estimate the incompatible aid for the period from 2003 to 2010, excluding interest, are based on the assumption that civil servants work in the same proportion for price-regulated and non-price regulated services. The available data does not provide information on the exact number of civil servants who have worked for the price-regulated and non-price regulated services. It is therefore assumed that the revenue shares of the price-regulated and non-price regulated services provide a reliable first approximation for the split of the incurred wage costs.
407. More detailed data may therefore lead to a more precise calculation and change the results. Germany has recently submitted new information on the civil servants' wage sum in the non-price regulated services for the period from 1995 to 2007. That information suggests that the civil servants' wage sum should be estimated by means of a split based on personnel costs in accordance with the regulatory accounting of Deutsche Post. Such an approach might result in a lower civil servants' wage sum than estimated by the split based on revenue shares. Germany submitted comments on 2 and 19 January 2012 which suggest that, at least with regard to the 2011 Price cap decision, the relative sharing of burdens within the price-regulated services and also between price-regulated and non-price regulated services has been changed. That information seems to indicate that from 2008 onwards a share of burdens has been allocated to non-price regulated services. In the execution of this decision, the precise amount of the incompatible aid will be calculated in cooperation with Germany, taking those considerations into account.
408. Despite all its efforts, the Commission has been unable to arrive at a reliable assessment of the amount of incompatible aid for the period 1995 to 2002. Equally, it does not seem possible to incorporate in this Decision calculation parameters which are sufficiently precise to enable the Member State (whether alone or in cooperation with the Commission) to carry out the final calculation during the Decision's implementing phase. In those particular circumstances, respect for the Member State's rights of defence and the principle of legal certainty constitute obstacles to recovery pursuant to Article 14(1) of Regulation (EC) No 659/1999,

¹⁰¹ See, in particular, Case C-480/98 *Spain v Commission* [2000] ECR I-8717, paragraph 25, and Case C-415/03 *Commission v Greece* [2005] ECR 0000, paragraph 39.

¹⁰² OJ L 140, 30.4.2004.

according to which "the Commission shall not require recovery of the aid if this would be contrary to a general principle of Community law".

409. The recovery should therefore start at 1 January 2003 and continue until the comparative advantage for the non-price regulated services has ceased to exist.

410. For the time period from the date of notification of this decision, it must be ensured that the level of wage-based social security contributions that Deutsche Post pays for its civil servants is not lower than the level paid by its competitors for private employees. That comparison must take into account any compensation Deutsche Post receives on the basis of price regulation under § 20 PostG.

VIII. AID ASSESSMENT OF PUBLIC TRANSFERS

VIII.1. Assessment of existence of aid pursuant to Article 107(1) TFEU

411. Article 107(1) TFEU provides that '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, insofar as it affects trade between Member States, be incompatible with the internal market'. In determining whether a measure constitutes State aid within the meaning of Article 107(1) TFEU, the Commission has to apply the following criteria: the measure must be imputed to the State and use State resources, it must confer an advantage on certain undertakings or certain sectors which distorts competition and it must affect trade between Member States.

412. The public transfers constitute State resources, because they were based on Articles 37, 40 PostVerfG 1989 and Article 2 PostUmwG 1994, and were financed from public resources, because they came from the resources of the publicly-owned TELEKOM.

VIII.1.1. Financial advantage granted by public transfers

VIII.1.1.1. Germany's claim of Ablieferungen as special charge

413. Germany claims that the public transfers would only have compensated the Ablieferungen that were costs that private competitors would not have normally had to finance. It views the Ablieferungen as a levy 'sui generis' which could be qualified neither as a tax nor a dividend.

414. Deutsche Post had to pay the Ablieferungen, which ranged between 6.6% and 10% of the earned revenues, from 1924 until 1995. According to the KPMG report, the Bundesverfassungsgericht in its judgment of 22 March 1984 did not define the exact legal nature of the Ablieferungen but characterized them as income for the public budget ("Erwerbseinkünfte"). Furthermore, the Ablieferungen were identified as costs ("Kosten der Leistung") that Deutsche Post had to pay for the provision of its services.

415. Although the Bundesverfassungsgericht did not define exactly to which extent the Ablieferungen should be considered as a substitute for taxes or dividends, it is clear that the Ablieferungen generated revenue for the public budget:
416. Firstly, many Member States used the revenues of the postal and telecommunication monopolies as an income source for the public budget in the past. As BUNDESPOST and their predecessors were up to 1995 exempted from general taxes because of their public-law status, an imposition of a *sui-generis* levy was used to generate income for the public budget from those sectors. Furthermore, it was sensible from an economic point of view to impose levies on those monopolies. Consumers were ready to accept price increases without greatly reducing their consumption so that a high level of revenue could be generated for the public budget.
417. Secondly, unlike private undertakings, Deutsche Post was neither liable to pay direct and indirect taxes nor liable to pay any dividends on the provided equity. As a result, the Ablieferungen were the only means for the federal government – whether in its role of tax authority or shareholder – to receive income from Deutsche Post. In that respect, it does not matter whether the Ablieferungen fully correspond to the definitions of certain tax or dividend regimes. In any case, the Ablieferungen were payments that Deutsche Post had to pay since 1924 that generated revenue for the public budget.
418. To conclude, the imposition of the Ablieferungen was in line with the public objective to generate revenues for the public budget – whether in the form of taxes or dividends – from a State monopoly. The Ablieferungen constituted therefore a normal cost that Deutsche Post was liable to finance out of its own resources.

VIII.1.1.2. Germany's claim of public transfers in accordance with private-investor behaviour

419. Germany claims that it acted partly as a private investor when granting the public transfers because the public transfers financed profitable investments into Deutsche Post's network.
420. However, as the public transfers were granted based on accrued losses as opposed to on investment plans, it is evident that a private investor would have never adopted such an investment strategy.

421. Consequently, the public transfers provided a financial advantage to Deutsche Post.

VIII.1.1.3. Germany's claim of compensation of net costs from universal service obligation

422. Germany claims that the public transfers would not constitute aid because they compensated the net costs of the universal service obligation.

423. The Court ruled in the Altmark judgment¹⁰³ that public service compensation does not constitute State aid for the purposes of Article 107 TFEU provided that four cumulative criteria are met: *First*, the recipient undertaking must actually have public service obligations to discharge, and the obligations must be clearly defined. *Second*, the parameters on the basis of which the compensation is calculated must be established in advance in an objective and transparent manner. *Third*, the compensation cannot exceed what is necessary to cover all or part of the costs incurred in the discharge of the public service obligations, taking into account the relevant receipts and a reasonable profit. *Finally*, where the undertaking which is to discharge public service obligations, in a specific case, is not chosen pursuant to a public procurement procedure which would allow for the selection of the tenderer capable of providing those services at the least cost to the community, the level of compensation needed must be determined on the basis of an analysis of the costs which a typical undertaking, well run and adequately provided with means of transport, would have incurred.

424. As Deutsche Post was not selected by means of a public tender and as Germany has not proven that Deutsche Post was a well-run undertaking, the fourth condition of the Altmark judgment is not fulfilled.

VIII.1.2. Conclusions on existence of aid

425. The public transfers were granted from State resources and relieved Deutsche Post from costs that are normally assumed by private undertakings. Germany has not been able to prove that the public transfers fulfilled the Altmark criteria to escape the classification of aid.

426. For the reasons set out above in section VII.1.2, the public transfers are liable to distort competition and affect trade.

427. The Commission finds therefore that the public transfers constitute aid within the meaning of Article 107(1) TFEU.

VIII.2. Assessment of existing aid pursuant to Article 108(3) TFEU

428. The public transfers were introduced by Article 37(2)(3) PostVerfG 1989 and constitute therefore a new aid measure.

VIII.3. Assessment of compatibility pursuant to Article 106(2) TFEU

429. Article 106(2) TFEU provides that undertakings entrusted with the operation of services of general economic interest, or having the character of a revenue-producing monopoly are subject to the rules contained in the Treaty, in particular to the rules on competition. However, it foresees an exception from the rules contained in the Treaty, providing that a number of criteria are met: Firstly, there must be an act of entrustment, whereby the State confers responsibility for the execution of a

¹⁰³ Case C-280/00 *Altmark Trans GmbH*, paragraphs 89 ff.

certain task to an undertaking. Secondly, the entrustment must relate to a service of general economic interest. Thirdly, the exception has to be necessary for the performance of the tasks assigned and proportional to that end. Finally, the development of trade must not be affected to such an extent as would be contrary to the interests of the Union.

430. The Commission has – in the 1996 and 2001 Communications^{104,105} as well as in the 2005 Framework on services of general economic interest – explained the application of the necessity and proportionality requirements for the exception under Article 106(2) TFEU. Section 2.4 of the 2005 Framework is the latest codification of the meaning and extent of those requirements that have consistently been applied in the past by the Court of Justice, the General Court and the Commission.

431. According to section 2.4 of the 2005 Framework, the necessity and proportionality of the granted compensation must be in line with the following principles:

- 1) The amount of compensation may not exceed what is necessary to cover the costs incurred in discharging the public service obligations, taking into account the relevant receipts and reasonable profit for discharging those obligations.
- 2) The amount of compensation includes all advantages granted by the State or through State resources in any form whatsoever – irrespective of their classification for the purposes of Article 107(1) TFEU.
- 3) The amount of compensation must be actually used for the operation of the service of general economic interest concerned. Public service compensation used to operate on other markets is not justified, and consequently constitutes incompatible State aid.

432. In the Commission's decisional practice, public compensation for universal service costs has been considered as compatible aid (or even no aid) as long as the public compensation is lower than the incurred net costs of the universal service.¹⁰⁶

VIII.3.1. Entrustment with a service of general economic interest

433. The successive Postal Directives as well as Court jurisprudence¹⁰⁷ have always recognized the universal provision of postal services as a service of general economic interest.

¹⁰⁴ Services of general interest in Europe (1996/C 281/03).

¹⁰⁵ Services of general interest in Europe (2001/C 17/04).

¹⁰⁶ Commission Decision of 12 March 2002 on State aid N 650/01 – Ireland – Equity injection to An Post for the purpose of restructuring the counter network (C(2002)941 fin); Commission Decision 2002/782/EC of 12 March 2002 on the aid granted to Poste Italiane SpA, OJ L 282, 19.10.2002, p. 29.

¹⁰⁷ See e.g. Case C-320/91 *Corbeau* [1993] ECR I-2533, paragraphs 15 and 19.

434. Deutsche Post was entrusted until 31 December 2007 with the provision of universal postal services by the successive postal laws.

VIII.3.2. Necessity and proportionality of public transfers

435. Germany maintains that the public transfers were a proportional compensation measure because they were, according to the 2009 regulatory accounts, significantly below the incurred net costs of the universal service obligations from 1990 to 1995. The 2009 regulatory accounts show in 1995 that, despite the public transfers, Deutsche Post would have suffered from an under-compensation of €[...] million (actualized value in 1995) of the cumulated net costs deriving from the universal service obligations for the period from 1990 to 1995.

436. After the adjustments of the cost allocation and valuation in the 2009 regulatory accounts, the WIK study comes to the conclusion that the public transfers compensated the cumulated net costs from the universal service obligation for the period from 1990 to 1995.

437. The WIK calculations show that the compensation exceeded the cumulated net costs by €[0 to 20] million in 1995. However, the Commission acknowledges that the quality of the accounting data for those years is poor. Furthermore, WIK has only accepted the Ablieferungen as a capital cost, and not allowed any further reasonable profit.

438. For those two reasons, the Commission finds that the WIK study cannot be used as a base to refute Germany's claim that the public transfers constituted a proportional compensation of Deutsche Post's universal service costs.

Table 10 Calculation of cumulated net costs from universal service obligation and public transfers (actualized 1995 values)

	2009 regulatory accounts	WIK study
Cumulated net costs	- €[...] million	- €[...] million
Public transfers	+ €6707 million	+ €6707 million
Over/undercompensation	- €[...] million	+ €[0 to 20] million

439. The public transfers are therefore compatible aid pursuant to Article 106(2) TFEU because they did not exceed the net costs that Deutsche Post had incurred because of its universal service obligations.

IX. THE PUBLIC GUARANTEE FOR DEBT OBLIGATIONS ISSUED BEFORE 1995 CONSTITUTES EXISTING AID PURSUANT TO ARTICLE 108(3) TFEU

440. The Commission observes that the rules on the public guarantee for debt obligations were introduced in 1953 by § 22 (4) PostVwG 1953. When the PostVwG 1953 was repealed by the PostVerfG 1989, the same provision was taken over in § 40 PostVerfG 1989 without any modification.

441. As the public guarantee for debt obligations was introduced in 1953, and therefore prior to the entry into force of the Treaty of Rome in 1958, it constitutes existing aid according to Article 1(b)(i) of Regulation (EC) No 659/1999.

442. § 2(4) PostUmwG 1995 put an end to that existing aid. The fact that the State remained guarantor for the debt obligations issued prior to the incorporation of Deutsche Post does not constitute new aid, as the advantage for Deutsche Post has been granted at the point in time at which the debt obligation was issued.

X. CONCLUSIONS

443. The Commission finds that the pension subsidy and the public transfers constitute aid measures within the meaning of Article 107(1) TFEU because they have relieved Deutsche Post AG of costs that are normally assumed by undertakings.

444. The Commission finds that Germany has unlawfully implemented the pension subsidy and the public transfers in breach of Article 108(2) TFEU. The public guarantee for debt obligations issued by Deutsche Post prior to its incorporation constitutes existing aid, which was abolished in 1995.

445. The pension subsidy is incompatible with the internal market, in light of Article 107(3)(c) TFEU, to the extent that it provided a comparative advantage for the non-price regulated services whose financing from the price-regulated revenues in light of the burdens was approved by the Postal regulator. Germany has disproportionately relieved Deutsche Post AG from social contributions, since under the pension relief arrangements it not only granted the pension subsidy but also in addition allowed Deutsche Post AG to pass on to consumers of the price-regulated services a share of the non-price-regulated services' social costs that should have been borne by itself in order to be in line with private competitors.

446. As a result, the pension relief arrangements have placed Deutsche Post AG at an advantageous position with respect to private competitors, since Deutsche Post AG has borne for its non-price regulated services fewer social contribution charges compared to those that private competitors have to compulsorily bear as costs.

447. Accordingly, the incompatible aid should be calculated as the difference between the benchmark rate, which aligns Deutsche Post AG's social contribution charges for the non-price regulated services to those of competitors, and the regulatory contribution rate, effectively borne by Deutsche Post AG for its non-price regulated services, multiplied by the civil servants' gross wage sum in the non-price regulated services. In particular, the incompatible aid should be calculated according to the formula in Table 8 based on the definitions of the regulatory contribution rate and the benchmark rate as in Table 7 and in the Annex and the civil servants' gross wage as defined in Table 6.

448. The incompatible aid, which has been put at the disposal of Deutsche Post since 1 January 2003, should be recovered from that date until the comparative advantage will have ceased to exist. Furthermore, Germany should take the necessary steps to

amend the pension cost relief based on the pension subsidy and the price regulation with a view to abolish the comparative advantage.

449. The Commission finds that the public transfers are a compatible aid measure pursuant to Article 106(2) TFEU because they compensated the Deutsche Post's cumulated net costs from the universal service obligation,

HAS ADOPTED THIS DECISION:

Article 1

1. The pension subsidy to Deutsche Post AG constitutes State aid pursuant to Article 107(1) TFEU and has unlawfully been granted by Germany in breach of Article 108(3) TFEU.
2. The pension subsidy is incompatible with the internal market in so far as Germany has disproportionately contributed to the financing of Deutsche Post AG's retired civil servants' pensions.

Article 2

The public transfers that constitute aid to Deutsche Post AG pursuant to Article 107(1) TFEU and were unlawfully granted by Germany in breach of Article 108(3) TFEU are compatible with the internal market.

Article 3

The public guarantee constitutes existing aid to Deutsche Post AG pursuant to Articles 107(1) and 108(3) TFEU.

Article 4

1. Germany shall recover from Deutsche Post AG the incompatible aid referred to in Article 1, which has been put at the disposal of Deutsche Post AG for the period from 1 January 2003 until the comparative advantage has been brought to an end.
2. The sums to be recovered pursuant to paragraph 1 shall bear interest from the date on which they were put at the disposal of the beneficiary until their actual recovery.
3. The interest shall be calculated on a compound basis in accordance with Chapter V of Regulation (EC) No 794/2004 and to Regulation (EC) No 271/2008 amending Regulation (EC) No 794/2004.
4. From the date of notification of this Decision, Germany shall ensure that Deutsche Post AG will no longer benefit from a comparative advantage for the non-price regulated services in light of the financing from the price-regulated revenues of the burdens approved by the Postal regulator.

Article 5

1. Recovery of the aid referred to in Article 1, as foreseen in Article 4, shall be immediate and effective.
2. Germany shall ensure that this Decision is implemented within four months following the date of notification of this Decision.

Article 6

1. Within two months following notification of this Decision, Germany shall submit the following information to the Commission:
 - (a) Total amount (principal and recovery interests) to be recovered from Deutsche Post AG;
 - (b) Detailed description of the measures already taken and planned to comply with this Decision;
 - (c) Documents demonstrating that Deutsche Post AG has been ordered to repay the incompatible aid.
2. Germany shall keep the Commission informed of the progress of the national measures taken to implement this Decision until recovery of the incompatible State aid referred to in Article 1 has been completed. It shall immediately submit, on simple request by the Commission, information on the measures already taken and planned to comply with this Decision. It shall also provide detailed information concerning the amounts of aid and recovery interest already recovered from Deutsche Post AG.

Article 7

This Decision is addressed to the Federal Republic of Germany.

Done at Brussels,

For the Commission

Joaquín Almunia

Vice-President of the Commission

Notice

If the decision contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to publication of the full text of the decision. Your request specifying the relevant information should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Fax No: (+32) 2 296.12.42

**ANNEX – METHODOLOGY FOR CALCULATION OF INCOMPATIBLE AID (€MILLION);
PROVISIONAL CALCULATION BASED ON THE DATA AVAILABLE AS AT 31 DECEMBER
2011 FOR THE PERIOD FROM 2003 TO 2010***

<i>Social insurance contribution rates</i>		2003	2004	2005	2006	2007	2008	2009	2010
(1)	Total social contribution rate	42.20%	42.00%	41.54%	41.00%	39.70%	38.93%	39.25%	39.55%
(2)	Health insurance	14.50%	14.30%	13.84%	13.30%	13.90%	13.90%	14.60%	14.90%
(3)	Nursing insurance	1.70%	1.70%	1.70%	1.70%	1.70%	1.83%	1.95%	1.95%
(4)	Unemployment insurance	6.50%	6.50%	6.50%	6.50%	4.20%	3.30%	2.80%	2.80%
(5)	Pension insurance	19.50%	19.50%	19.50%	19.50%	19.90%	19.90%	19.90%	19.90%
(6)	Employer's share	21.10%	21.00%	20.77%	20.50%	19.85%	19.46%	19.48%	19.33%
(7)	Health insurance	7.25%	7.15%	6.92%	6.65%	6.95%	6.95%	7.15%	7.00%
(8)	Nursing insurance	0.85%	0.85%	0.85%	0.85%	0.85%	0.91%	0.98%	0.98%
(9)	Unemployment insurance	3.25%	3.25%	3.25%	3.25%	2.10%	1.65%	1.40%	1.40%
(10)	Pension insurance	9.75%	9.75%	9.75%	9.75%	9.95%	9.95%	9.95%	9.95%
(11)	Employee's share	21.10%	21.00%	20.77%	20.50%	19.85%	19.47%	19.77%	20.22%
(12)	Health insurance	7.25%	7.15%	6.92%	6.65%	6.95%	6.95%	7.45%	7.90%
(13)	Nursing insurance	0.85%	0.85%	0.85%	0.85%	0.85%	0.92%	0.97%	0.97%
(14)	Unemployment insurance	3.25%	3.25%	3.25%	3.25%	2.10%	1.65%	1.40%	1.40%
(15)	Pension insurance	9.75%	9.75%	9.75%	9.75%	9.95%	9.95%	9.95%	9.95%
(16)	Supplementary pension insurance	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(17)	Accident insurance	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
<i>Civil servants' gross wage</i>									
(18)	Gross wage	100%	100%	100%	100%	100%	100%	100%	100%
(19)	Unemployment insurance (employee)	3.25%	3.25%	3.25%	3.25%	2.10%	1.65%	1.40%	1.40%
(20)	Pension insurance (employee)	9.75%	9.75%	9.75%	9.75%	9.95%	9.95%	9.95%	9.95%
(21)	Incurred civil servant wage in %	87.00%	87.00%	87.00%	87.00%	87.95%	88.40%	88.65%	88.65%
(22)	Civil servants' wage sum	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(23)	Civil servants' gross wage sum	(22)/(21)	[...]	[...]	[...]	[...]	[...]	[...]	[...]
<i>Regulatory contribution rate (recalculated based on civil servants' gross wage)</i>									
(24)	Employer's share	(6)*(21)	18.36%	18.27%	18.07%	17.84%	17.46%	17.27%	17.14%
(25)	Supplementary pension insurance	(16)*(21)	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(26)	Accident insurance	(17)*(21)	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(27)	Regulatory rate	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
<i>Social insurance benchmark</i>									
(28)	Employer's share	21.10%	21.00%	20.77%	20.50%	19.85%	19.46%	19.48%	19.33%
(29)	Unemployment insurance (employee)	3.25%	3.25%	3.25%	3.25%	2.10%	1.65%	1.40%	1.40%
(30)	Pension insurance (employee)	9.75%	9.75%	9.75%	9.75%	9.95%	9.95%	9.95%	9.95%
(31)	Social insurance benchmark	34.10%	34.00%	33.77%	33.50%	31.90%	31.06%	30.83%	30.68%
<i>Revenue share for non-regulated services</i>									
(32)	Total revenue	14,683.21	14,726.82	14,479.35	13,773.79	13,479.96	13,392.81	12,846.17	12,656.75
(33)	Non-regulated revenue	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(34)	Share of non-price regulated services	(33)/(32)	[...]	[...]	[...]	[...]	[...]	[...]	[...]
<i>Incompatible aid</i>									
(35)	Difference in contribution rates	(31)-(27)	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(36)	Incompatible aid	(23)*(34)*(35)	[...]	[...]	[...]	[...]	[...]	[...]	[...]
(37)	Sum 2003 to 2010	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]

Explanatory notes

Lines (1) to (17): Data on social contribution rates

Those lines present the social contribution rates that have to be compulsorily paid to the social insurances (decomposed in the employer's and employee's share) by private employers. The last two lines show the contribution rates to the supplementary pension and the accident insurances that are included in Deutsche Post's regulatory rate.

Lines (18) to (23): Calculation of civil servants' gross wage

To have a common denominator for the benchmark rates, it is important to note that the private-employee's gross wage is generally defined as net wage plus the employee's share of the social contributions. As civil servants have to finance 30 % to 50 % of their health care expenses but do not contribute to the pension and unemployment insurance, the incurred civil servant wage equals the private employee's gross salary (100 %) minus the employee's share of the social contribution rate for pension and unemployment insurances. It rests on the assumption of a 50 % contribution to the health insurance by civil servants themselves.

Line (21) expresses the incurred civil servant wage in percentage of the private employee's gross wage). To calculate the civil servant's gross wage sum, the incurred civil servant wage is inflated by $100/(100 - \text{employee's share of unemployment and pension insurance})$ as shown in line (23).

Lines (24) to (27): Regulatory contribution rate

The regulatory contribution rate includes the employer's share of the social contribution rate plus the contribution rates to the supplementary pension and accident insurances. To have a common base to compare the regulatory contribution rate to the social insurance benchmark, the regulatory contribution rates are expressed in percentage of the civil servants' gross wage. Due to the change in the base, the adjusted regulatory contribution rates are lower than the respective statutory rates.

Lines (28) to (31): Social insurance benchmark

As it is assumed that civil servants cover 50 % of their health expenses out of their own pockets, the social insurance benchmark includes the total contribution rate for pension and unemployment insurance but only the employee's share for health and nursing insurance.

Lines (32) to (34): Calculation of the civil servants' gross wage sum for the non-price regulated services

The civil servants' gross wage sum in the non-price regulated services is approximated by taking the revenue shares of the non-price regulated services because the precise number of civil servants who have worked for the non-price regulated services was not retrievable from Deutsche Post's accounting.

Lines (35) to (37): Calculation of incompatible aid

The comparative advantage in terms of the contribution rate is given as the difference between the benchmark contribution rate and the regulatory contribution rate. The incompatible aid is calculated based on the civil servants' gross wage sum for the non-price regulated services.

*** This table is based on the assumption that 100% of burden 2 has been put by the regulator on the price-regulated services. This assumption would have to be adapted if Germany were to show during the recovery phase that the Postal regulator has actually placed a certain percentage of burden 2 on the competitive services.**