

Tasneem Azad
Deputy Director Competition
Postcomm
Hercules House
6 Hercules Road
London SE1 7DB

5 April 2004

Dear Postcomm,

Review of Royal Mail's Special Privileges

Age Concern England (the National Council on Ageing) brings together Age Concern organisations working at a local level and 100 national bodies, including charities, professional bodies and representational groups with an interest in older people and ageing issues. Through our national information line, which receives 225,000 telephone and postal enquiries a year, and the information services offered by local Age Concern organisations, we are in day to day contact with older people and their concerns.

We welcome the opportunity to comment on Postcomm's consultation with regard to their review of the special privileges of Royal Mail. Our main concern is with regard to the special privilege of Royal Mail in being VAT exempt. As Postcomm will know from our previous responses, Age Concern remains unconvinced of the benefits of the introduction of competition for domestic consumers. We can understand Postcomm's argument that continuing to allow Royal Mail, as the ex monopoly postal service provider, to be VAT exempt whilst other postal operators are not distorts competition. However, introducing a VAT tax on postal services will clearly have the greatest effect on domestic consumers who cannot reclaim VAT.

Age Concern thinks it is therefore important before taking any decision, that there is an accurate assessment of the financial implications of changing this privilege. At the moment, because it is exempt from VAT, Royal Mail is not currently able to reclaim VAT itself. The estimate of the plus or minus effects of this on their final costs will affect the amount of any increase in postal charges that consumers would be subject to should VAT be levied on Royal Mail.

We note that Postcomm currently estimates that Royal Mail prices are, on average, 2.5% higher than they would be should Royal Mail be able to reclaim VAT. However, we are aware of previous disagreements between the cost estimates of Postcomm and those of Royal Mail. Age Concern considers this is, in part, a result of continuing problems with the accounting of Royal Mail which we consider still requires improvement. This is not surprising given that until very recently they enjoyed a monopoly of provision. However, at the moment we are not convinced Royal Mail, and hence Postcomm, are in a position to know the actual costs of individual services, let alone the amount of the hidden costs of unclaimable VAT that are passed on in the prices they charge for individual services.

We disagree with Postcomm's argument (paragraph 3.9) that implementing VAT at a rate of 17.5% on postal services is acceptable on the grounds that any price increase on the current level of expenditure of the average household of 56p per week will not result in an unaffordable universal service (US). This is not a valid argument. There is no competition whatever at the current time within domestic services and Age Concern does not consider that imposing a level playing field for business services that could automatically result in a price increase for non business customers is acceptable. Age Concern is aware that the European Commission was considering proposals that, to minimise the effect on domestic consumers, Member States should have the option to impose a limited reduced VAT rate on items weighing less than 2 kilograms posted for delivery inside or outside the UK. We agreed with their proposal on the basis that domestic consumers are unlikely to post items above this weight.

Age Concern considers that Postcomm should recommend, should it decide that VAT exemption for Royal Mail should be abolished, that there should be a lower rate levied on those items that come within the US. Age Concern thinks any other decision would be inequitable for domestic consumers. Whilst no doubt, Postcomm will argue that this is anti competitive, this is only because of its insistence, against our advice, that some business services which could benefit from competition should form part of the US.

Age Concern has always considered that businesses are most likely to benefit from liberalisation of the postal service market. The effect of the imposition of VAT on Royal Mail would be neutral as far as most of them are concerned because they are able to reclaim it. At the moment, all that is certain is that there is a danger that the imposition of VAT could increase prices for those least likely to benefit from the introduction of competition, the domestic user and businesses too small to register for VAT. Age Concern considers that until

Postcomm can be more certain that price rises for these customers can be avoided, this proposal is a little premature and should be deferred.

Yours sincerely

A handwritten signature in black ink that reads "Gretel Jones". The signature is written in a cursive style with a large initial 'G' and a long, sweeping tail on the 's'.

Gretel Jones

Consumer Affairs Policy Officer