

Title:

Mr

Forename:

Angus

Surname:

Russell

Representing:

Organisation

Organisation (if applicable):

TNT Post

What additional details do you want to keep confidential?:

No

If you want part of your response kept confidential, which parts?:

Ofcom may publish a response summary:

Yes

I confirm that I have read the declaration:

Yes

Additional comments:

Question 1: What is your response to this consultation?:

TNT Post supports the proposed change to remove unrecoverable input VAT from the calculation of downstream costs. To continue to allow unrecoverable input VAT to be treated as a downstream cost would unfairly reduce the cost level attributable to Royal Mail's upstream activities (by the amount of that unrecoverable VAT on its downstream activity). It would be unfair to leave the condition in its current form because Royal Mail's upstream competitors need to cover all of their own upstream costs in order to compete but Royal Mail's upstream costs would be artificially reduced.

TNT Post also supports the proposal that unrecoverable input VAT should not be deducted from End-to-End costs. VAT on non-USO retail services is recoverable so TNT Post agrees

that it is inappropriate to remove unrecoverable input VAT from the End-to-End cost calculation.

We would note that the principal distortion of competition, which arises from the (disputed) VAT exemption of mandated downstream access services, is that Royal Mail's direct delivery competitors continue to be at a material competitive disadvantage when seeking to sell competing downstream services to customers who are unable to charge VAT. This proposed change to the margin squeeze test is a welcome - but relatively small - step to mitigating the distortive effect of the current VAT rules. However, it is limited to the provision of upstream services which represent around 10-15% of total costs.

OFCOM could usefully clarify that, for the purposes of USPA 6.3, Relevant End to End Revenue is net of VAT. This would avoid any potential ambiguity which would lead to an artificial inflation of End to End Revenues.

In USPA 6.4, we think it would be appropriate to clarify the position in relation to recoverable VAT' in both paragraphs (a) and (b). While recoverable VAT is not itself a direct cost to Royal Mail, to the extent that it is an indirect cost (because of the time lag between paying the VAT to suppliers and recovering it from HMRC), then those indirect costs should be not be treated as part of the downstream costs.

TNT Post would be pleased to provide any necessary clarification of any of the above points.