

Dow Jones, 6 May 2003

EU Commission Tells Postal Operators To Start Adding VAT

(Copyright (c) 2003, Dow Jones & Company, Inc.)

BRUSSELS -(Dow Jones)- The European Union Commission Tuesday told national postal operators they must play by the same rules as private operators and charge value added tax on their letter and parcel services.

Under the current system, national operators like Germany's giant Deutsche Post AG (G.DPW) don't pay VAT. Now the E.U. wants to stop publicly owned and incumbent operators from using their exemption from the levy, which can be as high as 21%.

The E.U. aims "to level the playing field," said E.U. Internal Markets Commissioner Frits Bolkestein.

The proposal still needs to be approved by E.U. member states.

Consumers and competitors welcomed the initiative as an important step toward a fully liberalized European postal market. But they warned national operators against using VAT as an excuse to raise stamp prices for consumers.

"It is fundamental that citizens are not penalized," said Philippe Bodson, president of the Free and Fair Post Initiative.

On Tuesday, the E.U.'s Bolkestein tried to ease fears of price hikes for private users of postal services. He stressed that national operators would be allowed to charge reduced VAT rates as low as 5% on items under 2 kilograms, including mail, books and newspapers. National operators also would save money by being able to deduct VAT on their expenses for fuel, vehicles and equipment.

But Brian Simpson, a British member of the European Parliament, wasn't convinced. He warned Tuesday that the E.U.'s VAT plan would raise the cost of a first class U.K. stamp by 5 pence.

"The Royal Mail are losing money now," said Simpson, a Labour member. "There's no way they can do anything but pass the additional costs on to the consumer."

Addressing business users, Bolkestein said companies using national operators could deduct VAT even if they send packages or use express mail and courier services.

Under the current rules, business users only can make such deductions if they send goods through private postal operators.

-By James Kanter, Dow Jones Newswires; 322-285-0136; james.kanter@dowjones.com