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PART A

Part A.

SECRET

(Circulate under cover and
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Begins : 11/9/86.
Ends : 25/1/89.

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PART A

Chancellor's (Lawson) Papers:

STRATEGY FOR THE FUTURE
OF THE POST OFFICE

Disposal Directions: 25 Year

[Signature]

25/8/95

PO -CH /NL/0243
0871
PART A

C/ You asked for official advice. The advice in this case is that the substantive reply comes from

- 1. MR COLMAN
- 2. PS CHANCELLOR

J.F.C. DTI letter attached to issue?

FROM: DAVID BARTLETT
DATE: 11 September 1986

cc: Mr Hood
Mrs Lester

CR 11/9

**POST OFFICE AND PRIVATE SECTOR CARRIERS :
LETTER FROM ALAN JONES**

Alan Jones of TV Worldwide Transportation Group (TNT) argued in his letter to the Chancellor of 31 July that the Post Office enjoyed "unfair advantages" over private sector carriers such as TNT. He also maintained that TNT could provide an efficient alternative to the Post Office's domestic letter service if it had access to certain parts of the Post Office network.

2. It is usual for letters covering detailed questions about nationalised industries to be answered by the relevant sponsor department: in this case Department of Trade & Industry. I therefore attach a short draft reply for the Chancellor to send to Mr Jones explaining that his letter has been passed to DTI Ministers for reply.

David Bartlett

DAVID BARTLETT

*Central
I asked for
their views on this
matter for the
for the... This is a potential
Chairman for (CP), etc.!*

DRAFT LETTER TO:

Alan Jones Esq
TNT Road Freight (UK) Limited
TNT House
102 Long Street
Atherstone
Warwickshire CV9 1BS

Thank you for your letter of 31 July about the unfair advantages you believe the Post Office has over private sector carriers.

I have passed your letter to Department of Trade & Industry Ministers, who have ~~day to day~~ responsibility for the Post Office. The matters you raised are being looked into and a full reply will be sent to you as soon as possible.

NIGEL LAWSON



Roadfreight

TNT Roadfreight (U.K.) Limited

TNT House
102 Long Street
Atherstone
Warwickshire CV9 1BS
Telephone: (08277) 5311
Telex: 341032 TNTATH
Telefax: (08277) 2839

ADJ/DG

official advice?

PERSONAL

July 31 1986

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
London W1

Handwritten notes: "Jh", "Post", "6/8" in red ink.

Dear Mr Lawson,

During your recent visit to Atherstone you asked me what unfair advantages the Post Office has over private sector carriers.

The competition which we believe to be unfair includes:-

- (i) The Post Office is not required to instal and use tachographs.
- (ii) Post Office drivers do not have to record meal breaks and rest periods etcetera (such records have to be maintained and checked by private sector carriers).
- (iii) Post Office drivers of Heavy Goods Vehicles are allowed longer driving and duty hours than drivers of vehicles of similar weights operated by the private sector.

All the above concessions allow the Post Office to operate with lower unit costs than private sector parcels carriers.

In addition the Post Office Datapost system enjoys concessions with HM Customs which provide service and cost advantages over private sector international couriers.

TNT is capable of providing a very efficient competitive alternative to the Post Office monopoly domestic letter mail service. To achieve this TNT would have to be allowed access to parts of the Post Office network (we enjoy this facility in Australia) in a similar way to the system whereby Mercury has been given rights to use the British Telecom network.

We have raised this idea before with the Post Office but have not met with any success. I would be delighted to expand on this proposal which I am sure would be a popular measure with the British business community.

Yours sincerely,

Alan Jones

Directors:
P.W. Allsebrook (Chairman), Sir Peter Abeles (Australian), J.R. Cribb O.B.E. (Australian),
D.M. Dick (New Zealand), L.R. Clifton-Bligh (Australian), A.D. Jones, C. van Leeuwen (Netherlands),
Lord Euan Geddes, W. V. Hanley

Reg. Office:
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London EC2A 1SX.
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TO:
 PRIME MINISTER
 FROM:
 KENNETH CLARKE
 18 September 1987

SECRETARY	
NO.	18 SEP 1987
TO	Mr Gilhooly
	CX FST PMG
	Mr Butler Mr Kemp
	Mr Monck Mr Bagnall
	Mr Moore Mr Turnbull

Mr Gray Mr Truman
 Mr Hefford Mr Cropper
 Mr Tyrone Mr Call

POST OFFICE - SHORTER WORKING WEEK

1 In my letter of 14 September to John Major, I described the position on the claim by the Union of Communication Workers (UCW) for a three-hour reduction in the working week. I have now met Sir Ronald Dearing to discuss the handling of this problem.

2 The formal position is that the Post Office Board has not yet decided its response to the claim, but expects to do so at its meeting on Tuesday 22 September. Alan Tuffin, the General Secretary of the UCW, has been told this, and will meet Post Office management the following day to learn the Board's attitude. On Thursday 24 September the UCW Executive Committee will meet to consider what action to take in the light of the Board's response.



3 Mr Tuffin is unsettled because he is due to stand for re-election next year. The UCW membership includes a number of militant activists and the moderate national leadership is under pressure from the left. Any final offer will have to be put to either the membership or the executive for approval. In recent years the leadership has been unable to deliver local implementation of national business efficiency agreements without a plethora of localised unofficial action. I have to say that in my opinion there is a strong possibility of serious industrial action on this issue. We have to decide what ground to recommend to the Board to stand on to seek to reduce the risk of a strike or to seek to win the argument during a strike. The ground must be consistent with our general policy on pay and the working week.

4 The present offer of a one hour reduction has been clearly rejected and will almost certainly lead to a vote in favour of industrial action if rigidly maintained. There is a risk of such a vote even if a major move is made and it would be pointless to move to an unacceptable position as a new base before action has even started. It must be for Sir Ronald and his Board to judge how far to go in adding credibility to the offer. I discussed with him the limits to which we would be



prepared to go eventually if, but only if, an offer would produce no industrial action or the settlement of industrial action. I did not discuss with him at this stage before his Board meeting the extent to which he might judge it expedient to move in this direction next Tuesday and Wednesday to improve the prospects of this result.

5 I therefore propose that the Post Office should be authorised to seek to avoid or settle industrial action on the basis of a reduction of up to 1½ hours a week for the UCW grades, but on the following conditions:

(a) the UCW are prepared to recommend acceptance to their members;

(b) it should be restricted to the manual staff who are currently on 39½ hours net. There is no case for such a reduction for white collar staff who have a net 37 hour week (36 in London) at the moment;

(c) it should be, to the fullest practicable extent, self-financing as it is in addition to this year's pay settlement of 5%;



(d) it should be applied separately in the three individual businesses (Letters, Parcels and Counters) which would be a valuable step towards breaking up monolithic bargaining procedures;

(e) it should be implemented locally, office by office, on the successful conclusion of negotiations on the changes required to finance it.

Only if the UCW indicated they could accept all of these conditions would a formal offer be made at any stage. All the conditions were either suggested by or perfectly acceptable to Sir Ronald as a final settlement position.

6 Sir Ronald and I agreed on the need to keep in close touch, and he will be reporting to me on Tuesday 22 September on the Board's discussion. Subject to your agreement and that of colleagues, I would propose to tell him then that I would be prepared to support a settlement on the lines set out in paragraph 5 above.

7 I am copying this minute to members of E(PSP) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'Kc' or similar, written in a cursive style.

KENNETH CLARKE

mp

CONFIDENTIAL

FROM: J F GILHOOLY
DATE: 18 SEPTEMBER 1987

CHIEF SECRETARY

Ch
I have not shown you these before: CST has been handling. He has, however, departed without seeing this latest ppr.

2. Because the P.O. Board are meeting tomorrow, Pay will find it very helpful to know if you are content with the terms of their advice. (They can then say that CST will be writing in those terms. PS/CST agree with this procedure). Are you content?

We spoke ✓

- cc Chancellor
- Financial Secretary
- Paymaster General
- Mr Peter Maudslayi*
- Mr F E R Butler
- Mr Kemp
- Mr Burgner
- Mr Moore
- Mr Turnbull
- Mr Culpin
- Mr P R C Gray
- Mr Truman
- Mr Cropper
- Mr Tyrie
- Mr Call

POST OFFICE: SHORTER WORKING WEEK

1. Mr Clarke's minute of today to the Prime Minister seeks agreement to improving the Post Office's offer on shortening the working week. No.10 will wait for your comments before replying. We advise you to minute the Prime Minister arguing against the proposal.

2. ~~Background is set out in earlier submissions by Mr Hefford.~~ Briefly, these negotiations cover 156,000 postmen and clerical grades. Pay has been settled at an overall cost of just under 5 per cent on average earnings but the UCW's separate claim for reductions in the working week remains. Here, the Post Office has offered a one-hour reduction from 1 April 1988. This has been rejected by the UCW, and - as Mr Clarke's letter says - there is a strong possibility of industrial action: there has been a lot of localised industrial unrest in the Post Office over recent months.

3. Mr Clarke's proposal is set out in paragraph 5 of his minute. It is a risky strategy.

4. There is no assurance in Mr Clarke's letter that the UCW would accept an offer along the lines he describes. As he says, Mr Tuffin

is running for re-election for next year, and that could add to the difficulties of accepting an offer which treats his manual and non-manual members differently, and which - Mr Clarke's 5(d) - aims at furthering the Post Office's (very creditable) wish to break up monolithic bargaining procedures. The risk is that letting the UCW know, however informally, that the Post Office is willing to move would merely up the ante, and convince the union leadership that increasing the pressure would lead to further concessions.

5. Second, even if such an offer were successful, and led to a settlement in the Post Office, there is the question of its effects elsewhere. A move to 1½ hours reduction in the working week, even if it could be confined to the manuals alone, would reinforce, for the economy as a whole, the concessions which the engineering employers have made on hours. In the public sector other groups - including civil servants - have been seeking reductions in the working week. For them and others, it will be the headline figure of 1½ per cent which will have impact: the qualifications and caveats - including the point about self-financing - listed in Mr Clarke's minute will be unnoticed or ignored. These are real risks of repercussions through to the public expenditure and to private sector costs.

6. Mr Clarke's minute does not give a basis for judging whether it would be preferable to stand firm in the case of the Post Office, or to make concessions there and take the consequences which will follow sooner or later elsewhere. He says that the risk of industrial action is real, but does not say how extensive or expensive it might be.

7. You may wish to minute the Prime Minister making these points, and I attach a draft minute below. Since the Post Office Board is meeting on Tuesday, your private office might telephone No.10 and Mr Clarke's office to warn them what the minute says.

8. The late arrival of Mr Clarke's minute has prevented me from clearing this advice with others in the Treasury. If they have further points, we will let your office know on Monday morning.


J F GILHOOLY

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DRAFT MINUTE TO THE PRIME MINISTER FROM THE CHIEF SECRETARY

POST OFFICE - SHORTER WORKING WEEK

I have seen Kenneth Clarke's minute to you of 18 September and I fear I have considerable worries about what he is proposing.

Looked at narrowly in the context of the Post Office negotiations, I think there must be a doubt whether the concession Kenneth describes would succeed, particularly since it seeks to treat the manuals and clericals differently. However right this is on merits, it may be difficult for Mr Tuffin to accept in the situation he is in. If for this, or other reasons, he was not able to accept a new offer - however informally made - the ante would have been raised for the eventual outcome. And we must not lose sight of the fact that the Post Office's offer is already a substantial one.

Looked at more widely, I am very concerned at the implications of a major public sector employer going further down the route of the engineering employers. An improvement will only increase the problems which will arise from the one-hour concession already made. Against those repercussions, it is not clear from Kenneth's minute how certain, extensive and expensive industrial action might be if the Post Office stands firm and makes it clear to the UCW that it will stand firm.

For all these reasons, I would be against any concessions being made.

I am copying this minute to Kenneth Clarke, other members of E(PSP) and to Sir Robert Armstrong.

(SIGNED)

A handwritten signature in dark ink, appearing to be 'J. M. M.', written over the typed word '(SIGNED)'. The signature is stylized and somewhat illegible.

cc Chancellor of the Duchy
Other members of E(PSP)
Sir Robert Armstrong

CONFIDENTIAL

FROM: J de BERKER
 DATE: 2 December 1987

- I agree*
[Signature]
1. MR GILHOOLY
 2. CHIEF SECRETARY

cc Chancellor of the Exchequer
 Financial Secretary
 Paymaster General
 Sir Peter Middleton
 Mr Anson
 Miss Mueller
 Mr Monck
 Mr Kelly
 Mr Burgner
 Mr Turnbull
 Mr Gilhooly
 Mr Coleman
 Mr Hood
 Mr Tyrie
 Mr Call

POST OFFICE: SHORTER WORKING WEEK

You have received a copy of today's letter from Mr Clarke's Principal Private Secretary to Number 10 reporting the breakdown of negotiations yesterday afternoon between the Post Office and the Union of Communication Workers (UCW). We understand that nothing further came out of the meeting this morning. Mr Clarke is likely to raise the threat of industrial action at the Post Office at tomorrow's Cabinet meeting. It is just possible he may take the opportunity to get colleagues' agreement for the Post Office to offer more than the bottom line agreed at E(PSP) last Wednesday.

Background

2. The Union of Communication Workers (UCW) submitted a claim for a two hour reduction in the working week for all Post office workers along with this year's pay claim. The pay claim was settled for 5.1 per cent in April, but the Post Office's offer of a one hour reduction in the working week for manual workers only, fully financed by improved productivity, was rejected.

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3. The UCW annual conference in May gave the Executive a mandate to secure a three hour reduction for all workers, from 39½ to 36½ hours for manuals, and from 36½ to 33½ hours for non manuals; and if this was not secured by 1 September to hold a strike ballot.

4. The Post Office stuck to its original offer of one hour for manuals fully financed, but sought Ministers' agreement to increase this to two hours for manuals, provided this could be financed by increased productivity. Ministers rejected this.

3. The UCW balloted its members and the results were announced on 18 November. About 45 per cent of the membership voted in favour of strike action, 35 per cent voted against, and 20 per cent did not vote. Under the Government's trade union legislation the ballot decision has to be implemented by 10 December or the union must ballot again for a fresh mandate.

6. At E(PSP) last Wednesday it was agreed that the Post Office could increase its offer to 1½ hours for manuals provided it was fully financed by productivity - but only if a settlement could be reached on that basis. So far, the bottom line has not been revealed to the UCW.

7. In public Mr Tuffin (General Secretary of the UCW) has continued to insist on a 3 hour reduction for all workers with no productivity strings. In practice, he has already made some compromise. Talks broke down yesterday because he would not budge from a two hour reduction, of which only one hour would be funded by the Post Office with the other being paid for by improved productivity. This morning he tried to persuade the Post office to go to arbitration. Sir Bryan Nicholson (Post Office Chairman) has refused. (His view is that arbitrators would be likely to split the difference, he

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considers the issue to be too important to allow this to happen.)

8. Reductions in hours financed by productivity have comparatively little attraction for the UCW. They will be introduced . office by office as, and when, the productivity gains are realised. There is unlikely to be an immediate reduction in hours. In the absence of a compensating increase in productivity, a one hour reduction in the working week would add between 2 and 3 per cent to the wage bill.

9. Mr Tuffin is under considerable pressure to deliver something since he is due to stand for re-election in the Spring. Despite this year's 5 per cent pay deal, we understand that gross earnings in the Post Office are currently only running at about 2 per cent above this time last year because overtime has fallen. This is less than the TPI (currently running at about 3 per cent), so many Post Office workers are experiencing a fall in their real take home pay. The Post Office do not think that the UCW have realised this. They may not, but it might explain why Mr Tuffin has pressed for arbitration. Even ½ an hour funded by the Post Office would increase earnings by 1 to 1½ per cent, which would be enough to stave off an actual fall in his membership's real take home pay.

The Issues

10. The immediate problem is whether to yield in the face of the UCW's threat to disrupt the Christmas mail. Ultimately this is a political decision, but there are good reasons for taking a robust line.

11. Reductions in the Post Office working week will have repercussions elsewhere. If the UCW claim for all Post Office workers were to succeed, these would affect manual and non manual workers. The latter would be serious for the Civil Service since Post Office non-manuals were once Civil Servants.

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Even if the Post Office productivity deal is genuine, this would not prevent claims from other groups which would not be financed by increased productivity.

12. Productivity increases do not belong to just the labour force. They should be shared by customers and shareholders - in this instance the taxpayer.

13. The Post Office has suffered a lot of minor disputes. Making concessions under the threat of industrial action is an invitation to further industrial action. If there is to be a strike this is as good a time as any.

14. There must also be some doubt as to whether the UCW are as militant as they might like us to believe. Less than half the membership voted in favour of industrial action, more than half either voted against or abstained. Post Office manual workers are paid weekly. Strike action now will lead to a very thin Christmas for them and their families. The public are unlikely to be sympathetic if the Christmas mail is disrupted and they will probably blame the postmen .

15. Ministers' threat to suspend the postal monopoly must also concentrate minds on the long run consequences of industrial action.

16. There is the chance that Mr Clarke may suggest that a compromise is devised, which would wrap up the hours issue in a 3 year pay deal with pay increases of 5 per cent per annum. DTI officials floated such a possibility across us yesterday, when the talks with Mr Tuffin were still going on, without being specific about the details. We have heard no further news of this idea and it may be dead, but, if not, you will want to know more before agreeing even in principle. You will also want any pay increases spread over two or more years to be on a declining trend - otherwise they will give the wrong

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signal.

Conclusion

17. We suggest you take a **robust** line and resist the UCW claim. If Mr Clarke suggests a compromise along the lines above, reserve your position until your officials have had an opportunity to explore the details.

18. We have not had time to clear this with PE.

19. Speaking notes are attached.

Jonathan de Berker

JONATHAN de BERKER

Speaking notePost Office: Shorter Working WeekRepercussions

If UCW claim is conceded there will be repercussions among manual and non-manual workers. Non-manual workers include Civil Servants - Post Office used to be part of the Civil Service.

Yielding in the face of industrial action

The Post Office has suffered from a rash of minor disputes. Making concessions under the threat of industrial action is an invitation to further industrial action. If we must face a strike now is a good time.

UCW not as militant as they might like us to believe

Less than half the membership (45 per cent) voted in favour of industrial action; the rest either voted against going on strike or abstained.

Postmen are paid weekly. If they go on strike now they will have a very thin Christmas.

The public are unlikely to be sympathetic to the Postmen if they disrupt the Christmas mail.

Ministers' willingness to suspend the postal monopoly must concentrate minds about long-term job prospects.

Three year pay deals (if raised)

Must see the details before considering: pay increases should be on a declining trend otherwise they give the wrong signal.



Handwritten signature

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5147
GTN 215) 5147
(Switchboard) 01-215 7877

From the Chancellor of the Duchy of Lancaster
and Minister of Trade and Industry

THE RT HON KENNETH CLARKE QC MP

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

CH/EXCHEQUER	
REC.	04 DEC 1987
ACTION	CST
COPIES TO	

4 December 1987

Dear Nigel,

POST OFFICE NEGOTIATIONS

You will have seen reports that the Post Office management are nearing settlement with the Union of Communication Workers. The formal position is that the UCW Executive Committee are meeting this morning to consider a recommendation by their negotiators for acceptance of proposals as discussed with the Post Office management.

The final details have yet to be decided. It appears, however, that the management have negotiated a very successful arrangement. The main attraction is that they have been able to get rid of the existing bonus scheme under which many postal workers were able to secure excessively generous payments. The previous Post Office Chairman had said that it would take a year to get rid of this scheme and at a cost of some £50m. In the event, the management team appear to have succeeded in getting rid of it at no net cost.

The terms of the proposed settlement have yet to be finally agreed but they are very much as I indicated at the E(PSP) meeting on 25 November. The management have not made any formal offer but have indicated they would be prepared to agree to a reduction of 1½ hours in the working week for postal staff only subject to certain conditions. In particular, they have insisted that the old



bonus scheme be eliminated and that any reduction in hours must be fully self-financed. In addition, the implementation of the new arrangements will be on a business by business basis with watertight local agreements. The Post Office management are clear that there will be no cost to the customer.

I hope you will agree that this looks like a very satisfactory basis for a settlement. The management appear to have negotiated very skilfully and I shall be writing to the Chairman to offer my congratulations both to him and his negotiating team.

I am copying this letter to the Prime Minister, E(PSP) colleagues and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'K. Clarke', with a large flourish on the left and a smaller mark on the right.

KENNETH CLARKE



pmp

Board Room
H M Customs and Excise
King's Beam House
Mark Lane London EC3R 7HE

From: H M Massie
Date: 8 December 1987

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Economic Secretary
PS/Sir Peter Middleton

POSTAL STRIKES: CONTINGENCY PLANS

Although the threatened postal strike seems to have been averted, you may be interested to know that we do have contingency plans (which we have for obvious reasons just dusted down) for nullifying the effect of a postal strike on the collection of trade statistics data and the receipt of revenue duties. Payments of VAT by larger traders should not be affected either, and payments from smaller VAT traders would only ^{also} be affected by a prolonged strike of a month or longer. We ^{also} have alternative arrangements for the issue of VAT returns and acceptance of payments which can be introduced if necessary.

Heather Massie

H M MASSIE



QUEEN ANNE'S GATE LONDON SW1H 9AT

John Alderton
PNVP

5/2

CH/EXCHEQUER	
REC.	05FEB1988
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Present to B/CST
5 February 1988

Must be sent for an more response. But is it really the case that there is no alternative suppliers? Write to B/CST for a trial?

Dear David,

My officials have reported to me their failure to reach agreement with the Post Office about payments for counter services carried out in connection with television licensing in 1986/87 and 1987/88. The Post Office's final offer for these two years is £4 million more than can be justified on the basis of the information which they have been willing to provide; and my officials have concluded that there is strong evidence to suggest that the Post Office is trying to secure an excessive profit on this particular aspect of its negotiations.

I of course understand the need for the Post Office to operate on a more commercial basis and to have a freer hand than was possible in previous years to try to market and price its services so as to meet the profit and other targets determined by the Government. At the same time the Home Office is responsible for securing the best possible value for money for its services, and I cannot accept that my Department should be required to pay whatever figure the Post Office alight upon. In the case of the two financial years in dispute, the normal means of testing value for money are not available. During this period the Post Office has been our sole provider of television licensing counter services, and in response to a request by your predecessor I gave an undertaking that no action would be taken to disturb this position until April. The Post Office have also refused to make available either to my officials or to independent accountants the cost information which would show the extent to which prices proposed reflected the cost of providing an efficient service. The Post Office have claimed that it would be contrary to normal commercial practice to make such information available to a customer. I understand, however, that there are many precedents for this in the case of a customer reliant on a single major supplier. The Post Office have also claimed that it would be contrary to the way Government wants them to operate for them to disclose cost information to an individual customer. I hope you can assure me that this is not so. My officials for their part have tried hard to reach an agreement on price with the Post Office which could be justified in terms of value for money and my Parliamentary accountability for expenditure incurred in connection with the administration of the television licensing system. The position has not been helped by the recent action of the Post Office in withholding from television licensing receipts which should be paid into the

Consolidated Fund, nearly £11 million, representing the balance of the amount they have claimed. For obvious reasons I would be reluctant at this stage to authorise the institution of legal proceedings for recovery of the money, although if no other way forward can be found I shall have to consider doing so in order to safeguard the revenue. Apart from any other consideration the amount which the Post Office has taken exceeds the Vote Provision made for the cost of administering the system.

I hope that you agree that it would be desirable to bring this dispute to an early conclusion, especially in view of our plans to transfer responsibility for the television licensing system to the BBC through broadcasting legislation. You will not wish to become directly involved in the Post Office's commercial operations. However, I hope that you will feel able to encourage the Post Office to agree to put the matter to arbitration, as my officials have suggested. It seems to me that this is likely to prove the most sensible and quickest way of proceeding. Alternatively, there may be a case, on which I should welcome your views, for referring the Post Office's action on this to the Monopolies and Mergers Commission, given the way in which they are exercising their market power in situations (including television licensing and the issue of British Visitors Passports) where there is no effective alternative supplier. This would fit in well with the review which the MMC has in hand of counter services generally.

I am copying this letter to Nigel Lawson.

Yours,
Duyin.



RWP

✓

C.

PRIVATISATION : POST OFFICE

1. You will have seen the story below.
2. DTI are doing some briefing for John Wakeham for PM's Questions, & will send us a copy. But they said the line in brief was:

- PM's election pledge was that the Royal Mail would not be privatised
- ~~but~~ nothing else is ruled out
- but no present plans for privatisation.

AH

11.2

THE TIMES

Mail delivery monopoly may be ended

Cabinet considers move / to license private firms

By Philip Webster, Chief Political Correspondent

The Government is actively considering breaking the Post Office's monopoly, on delivering letters.

Private sector companies could be allowed to compete with the Post Office under plans being considered in secrecy by Cabinet ministers.

Proposals drawn up by Mr Kenneth Clarke, the Minister for Trade and Industry, have gone to a sub-committee of the Cabinet's economic affairs committee. There has been no decision in principle yet to end the monopoly, but the viability of doing so is being examined with urgency.

The plans would not break the Prime Minister's general

election pledge that the Royal Mail would not be privatized.

There will always be a public mail service, and in any plans to privatize the Post Office, the mail service will remain in the public sector.

But the Prime Minister and her senior colleagues believe it is time to consider whether the Post Office letters service should itself face competition from the private sector.

Mrs Thatcher is understood to be enthusiastic about breaking the ancient monopoly.

In past postal disputes, ministers have threatened suspending the monopoly. Last December, it was suggested that the monopoly might be suspended for up to a year to encourage reputable courier services to take up the work.

Mr Clarke condemned industrial action by postal workers in the Christmas run-up as "heartless" and backed the Post Office management in their refusal to go to arbitration.

A number of couriers said they were ready to step in and take over the delivery of letters and parcels.

Mr Alan Jones, managing director of TNT, the transport company, said he was eager to see Post Office monopoly broken and called on Mrs Thatcher to end it permanently.

He said his firm already offered a cheaper and more efficient overseas service than its public sector counterpart.

Just such a permanent break is now being considered. Ministers believe that just as the Post Office's parcel business faces competition from outside, so could the letter business.

Although discussions are at an early stage, one possibility is that a rival company could be licensed to provide a service in competition with the Post Office in an arrangement similar to that which allows Mercury, the telecommunications supplier, to compete against British Telecom.

The rival firm could be asked to set a national standard-rate postage charge, lower or higher than the Post Office's if it wished, and compete with the public delivery system in terms of speed and cost.

The Post Office's speed of delivery has been criticized frequently. A survey of 4,231 letters posted in Britain between June and September last year found that only 72 per cent of second class letters arrived within three working

days. The Post Office National Council said the Post Office continued to fool itself and its customers about the quality of its mail service.

Another possibility being considered by ministers, although much less likely to be implemented, is to allow companies to operate regional services with differential rates, depending on the length of the letter's journey. Under a standard rate, people posting letters in London to London addresses subsidize those who send letters from London to Scotland at the same cost.

It is accepted that differential costing would have pitfalls, because private firms would want to operate all the most profitable routes.

Until now it was felt that the Prime Minister's election pledge ("I have indicated that the GPO — the Royal Mail — would not be privatized. People feel very strongly about it and so do I") meant that the letters business would not be opened to competition.

But senior government sources made it plain last night that her pledge and the study of the monopoly were not incompatible. "Her remarks do not preclude us from looking at the letters monopoly. There will always be a public mail service."

The study of the monopoly is part of a wider consideration of privatizing parts of



the Post Office, which could see its banking subsidiary, Girobank, sold off during the lifetime of this Parliament.

Plans for selling the bank — the sixth-largest in Britain, with profits last year of £25 million — will be considered by the Cabinet committee.

The Post Office now has four parts, the letters business, parcels business, Girobank and counter services provided in 20,000 high street post offices and sub-post offices. The scope for privatizing them is also to be considered by ministers.

dti

the department for Enterprise

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Douglas Hurd CBE MP
Secretary of State
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

16/1

CH/EXCHÉQUER	
REC.	16FEB1988
ACTION	CST
COPIES TO	

[Handwritten initials]
**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

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01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147

Our ref

Your ref

Date 15 February 1988

Dear Douglas,

Thank you for your letter of 5 February to David Young.

While I understand the pressures you are under to obtain value for money, there is a matter of principle at stake here. The old Agency Services Agreement under which the Post Office charge to Government contractors was fixed in known relation to costs was discontinued in 1985. The Post Office has been given the responsibility to meet policy objectives set by my Department with the agreement of the Treasury. Within these objectives particular contracts are for bilateral commercial negotiation between the parties. A contractor cannot insist on continuing to receive a service at a charge it chooses or on the Post Office's handing over information which the Post Office is unwilling to hand over. Free commercial negotiation must mean that there is no compulsion on either side other than the law of the land imposes. If the contractor does not like the lowest price he can negotiate, the only sanction available is to take his business elsewhere.

In these circumstances I have to say with regret that it would be wrong for me to intervene with the Post Office in the dispute between you. You must conduct your negotiations yourself as you think best. You mention the possibility of a reference to the Monopolies and Mergers Commission. I have to say I am not attracted to this idea; it could smack of the Government using its powers of reference to further its case in a commercial


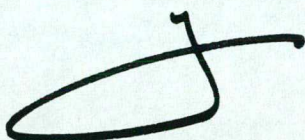
EC4AGN

dispute. Nor is it clear that a monopoly situation exists as defined in the competition law. My own feeling, without studying the position in detail, is that other ways could if necessary be found to issue both television licences and British Visitors Passports if you withdrew this business from the Post Office, albeit at some inconvenience to all concerned.

As you say my predecessor Paul Channon wrote to you in 1986 emphasizing the political sensitivity of the Post Office network and asking you to give it a chance to compete for this business and not to make any changes to the arrangements for TV licence fee collections until April 1988. However we have emphasized, as Geoffrey Pattie said in a letter to David Mellor on 6 April 1987, that the prices charged were a matter for your Department to negotiate with the Post Office.

Sir Bryan Nicholson the Chairman of the Post Office has written to me on the same subject asking me to confirm the pricing policy this Department wishes the Post Office to follow. The Department discussed this with the Treasury at official level last summer and I enclose a copy of Sir Bryan's letter and of my reply to him.

I am copying this letter and enclosure to Nigel Lawson.



KENNETH CLARKE



The Rt Hon Kenneth Clarke QC MP
The Chancellor of the Duchy
Department of Trade and Industry
1 Victoria Street
LONDON
SW1E 0HT

To: Mrs Jones

FOR ADVICE (AND
DRAFT REPLY IF
APPROPRIATE)

PLEASE BY:

10-2-88

COPIES TO
PS/SOS

PS/JSB 2nd February 1988

PS/SH, Mr Wesner

Mr Mountfield

Mr Macdonald

Mr Piddie

Mr Willot

Mr ~~W~~ Treadgold

Dear Ken,

In line, we believe, with the Government's wishes, as set out in Cmnd. 7131, we have been following a policy for the pricing of our counter services which takes into account our market situation. It has developed as a result of the arms length, market based negotiations set up at the time of the ending of the old (and unsatisfactory) cost-plus Agency Services Agreement in 1985. The policy has been discussed with, and accepted by, your officials in our last two Corporate Plan discussions and I was very pleased to have your own endorsement of it in your recent letter of 31 December. For my part I am sure it is the best commercial approach for us.

Unfortunately a problem has arisen with just one of the range of Government and non-Government clients with whom we deal. This is the Home Office, who, over the last two years have felt unable to reach agreements with us unless we adopt an open book approach and give them access to any costing information they wish to see. My predecessor tried to resolve this impasse with their Permanent Secretary, but to no avail, and while a recent meeting with John Roberts has closed the gap between us to £4m, the Home Office has said it is prepared to go no further. For our part the loss of £4m income is a major matter for the Counters Business, operating on such small margins as it does.

Nor do we feel the Home Office has a case for such a reduction. As the attached table shows, we have for some time been reducing our real prices to them and have passed on benefits greater than the level of the RUC efficiency target you set us. I do not feel we can, or should, go any further. To meet Home Office demands would mean reductions additional to this of 11% in real terms over the last two years (which are the ones in dispute), something the Counters Business cannot stand. On the other hand, the Home Office is developing other methods of payment (direct debit, payment through the post) which compete with counter transactions and recently have told us they have opened discussions with the Joint Stock Banks. We accept they have every right to do this and that if we cannot compete on price we will lose the business.

What strikes me as so uncommercial is to reject our prices; refuse to take the business away and merely reduce arbitrarily (as happened this year) the amount they have been paying us. To counter this and protect our own position we have had to withhold an equivalent sum from the revenue we collect for them. I hope you would agree that all of this is unsatisfactory. The Home Office do not seem prepared to accept the same pricing policy which is applied to all our other clients and which we have agreed with you - even though all these facts have been explained to them.

If we are unable to resolve the issue over the next few weeks we risk a qualification on our accounts at the end of the year, and possible public comment on our relationship with a Government department. I very much hope we can avoid this but I believe the only way forward now is for the Home Office to have confirmed at the highest level the pricing policy you wish us to follow. If, as I hope, we can continue to develop the commercial approach I have outlined then the Home Office must accept the same terms as other clients.

I am sorry to have to raise this with you but we have now exhausted all other avenues and it is important we resolve the fundamental issue. I would be most grateful for your help.

Yours sincerely,

Neil

Index of Price Movement for Home Office TV Work Across Counters

% Real price reduction
to HO above Counters RUC target

	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>	<u>1986/87</u>	<u>1987/88</u>
TRAFFIC (serving hours)	720,787	786,395	804,490	846,493	%	%
<hr/>						
i. PO offer price per hour of serving time £	29.16	31.79	32.32	32.25		
Indices using base of:						
a.1982/83 - RPI/RUC combined	106.8	111.4	114.2	117.4		
- serving hour	95.0	103.5	105.2	105.0	9	12.4
b.1984/85 - RPI/RUC combined	100	104.3	107.0	109.9		
- serving hour	100	109.0	110.8	110.6	[-3.8	0.7] Real price increase
c.1985/86 - RPI/RUC combined		100	102.6	105.4		
- serving hour		100	101.7	101.4	0.9	4.0
<hr/>						
ii. HO offer price per hour of serving time £	29.16	31.79	29.58	30.08		
Indices using base of:						
a.1982/83 - RPI/RUC combined	106.8	111.4	114.2	117.4		
- serving hour	95.0	103.5	96.3	97.9	17.9	19.5
b.1984/85 - RPI/RUC combined	100	104.3	107.0	109.9		
- serving hour	100	109.0	101.4	103.2	5.6	6.7
c.1985/86 - RPI/RUC combined		100	102.6	105.4		
- serving hour		100	93.0	94.6	9.6	10.8

Note

The indices compare the movement in the RPI less the target reduction in RUC set by Government for each year, with the movement in the unit price per serving hour for Home Office TV work. This is done from (a) 1982-83, first year of the open-book ASA agreement. (b) 1984-85 the final year of the same agreement and (c) 1985-86 the last year a price was agreed with the HO.



the department for Enterprise

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Sir Bryan Nicholson
Chairman
The Post Office
33 Grosvenor Place
LONDON
SW1X 1PX

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147

Our ref

Your ref

Date 15 February 1988

Dear Sir,

Thank you for your letter of 2 February.

In my view, negotiations between the Post Office and Government Departments should be conducted on a bilateral commercial basis. You are under no obligation to disclose more information than you regard as commercially justifiable or to accept any particular price or conditions. In the last resort if a Department is dissatisfied with the lowest price it can negotiate, its only sanction is to take its business elsewhere.

I am sending a copy of your letter and of my reply to the Home Secretary.

KENNETH CLARKE

FE4AAI



dti

the department for Enterprise

1 Jonathan
2 [signature]

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 2AG

CH/EXCHEQUER	
REC:	26 MAY 1988
	CST
COPIES TO	

✓ 26/5

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 26 May 1988

Dear Chief Secretary,

LETTER PRICE INCREASES

You will wish to be aware that I have received proposals from Sir Bryan Nicholson for increases of 1p to the price of both first and second class letters to apply from 5 September this year. Increases are also proposed for higher weight letters and on mainstream international services.

The last increase in the standard 1st class charge was of 1p in October 1986; the last increase in the standard 2nd class tariff was of 1p in 1984 (although the second class tariff was reduced by 1p in November 1985 and restored to its end-1984 level in October 1986). Letter prices have increased 12% less than the RPI since 1983.

I will be writing to you shortly on the Post Office's performance against its profit and efficiency targets, and will discuss the pricing proposals more fully in that context. In my view the proposals should be seen against the background of the Post Office's almost certain failure to meet its 3-year cumulative target of reducing real unit costs by 5.5% over the period 1986/7 - 1988/9. I will be giving the Post Office my views on this shortly and may support changes from the Post Office's proposals on the price increase.

MY4ABR



the department for Enterprise

My reason for writing now is to give you warning that the Post Office has started the process of consultation with the Post Office Users' National Council on the proposed increases today, and that details may become public. We have told the Post Office that in view of the 3-month statutory timescale for this consultation and the time needed for the preparation of the new stamps, and because any increase could not be less than 1p, it may go ahead and consult POUNC without prejudice to my views or those of colleagues on the increases and on their timing. The position of course remains that the Post Office's proposals are under consideration.

I am sending copies of this letter to members of E(NI) and Sir Robin Butler.

Yours sincerely,

Linda Joyce

pp

KENNETH CLARKE

(Approved by the Chancellor
and signed in his
absence).

CONFIDENTIAL

12/2

FROM: T TARKOWSKI

DATE: 3 JUNE 1988

1. MR MOORE *Note at end JN 3/6.*
2. FINANCIAL SECRETARY

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Scholar
Mrs Lomax
Mr Odling-Smee
Miss Peirson
Miss Noble
Mrs Brown
Mr Gieve
Mr Lyne
Mr Bent
Mr Kroll
Mr Morgan
Mr Tyrie
Mr Call

GIROBANK PRIVATISATION: PUBLIC ANNOUNCEMENT

E(A), at its meeting on 25 April, endorsed Mr Clarke's proposals for the privatisation of Girobank and agreed on a public announcement in two to three weeks time subject to agreement with the Post Office.

2. In the event, it has taken a little longer to secure the agreement of the Post Office Board, but DTI now intend to make an announcement on Tuesday, 7 June.

Background

3. You will remember that E(A) agreed Mr Clarke's proposal that the Post Office's preferred option, a management buy-out, should be rejected, and that trade purchasers should be invited to submit bids. The Post Office would be told that a management buy-out could not be considered in parallel.

4. We understand that Bryan Nicholson accepted this decision, but that it has taken time for him to win round the rest of his

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Board. Malcolm Williamson, the Managing Director of Girobank, was predictably disappointed but has, as expected, agreed to see privatisation through. (A separate submission from Miss Swift to the Paymaster General deals with the loyalty bonus arrangements which the Post Office has proposed.)

5. Although the Post Office Board has not yet formally agreed, we understand from DTI that Bryan Nicholson is confident that they will do so at a meeting on Monday morning. The intention is that this should be followed by an oral statement by Mr Clarke at 3.30 pm on Tuesday and a press conference jointly with Bryan Nicholson and others at 4.30 pm. We are told that the business managers have been consulted on this timetable and that the Bank has been alerted.

The Statement

6. I attach a draft for the oral statement which DTI have put to Mr Clarke, following discussion with the Post Office. We are told that it is in line with what he will want to say. A copy has been sent to the Bank, who are generally content. Also attached is the text of the statement which the Post Office intend to make, (also being cleared with the Bank). We are checking the supplementary briefing which has been prepared.

7. Although we have not been consulted in their preparation, we do not think the drafts cause any difficulty. The key paragraph in the oral statement starts at the bottom of page 1. This sets out the considerations which will be taken into account in the evaluation of bids, namely price, potential benefits to consumers and the effects on Post Office counters. It also signals that purchasers will be invited to propose arrangements for management/employee participation.

Disposal timetable

8. The detailed timetable for the next steps is still under discussion. We have made it clear that the Treasury will need to be consulted on this. At present, Schrodgers (who are acting for the Post Office) envisage making a preliminary information

memorandum and sale questionnaire available to potential buyers by end-June and a deadline of mid-July for the first round of bidding. This would be consistent with completion of sale by the end of November.

9. This note has been agreed with FIM who are content.

Tancred Tarkowski

T TARKOWSKI

The present estimate of proceeds is £120-150 million. These will go to the Post Office and will lead to a corresponding reduction in their 1988-89 External Financing limit. There is therefore no impact on the privatisation proceeds estimate for the year.

The sale will be close to the BSC offer. But as Giro is a trade sale, and relatively small, this should not matter.

J. Moore.

DRAFT STATEMENT TO PARLIAMENT

Mr Speaker, I will, with permission, make a statement about Girobank plc, a subsidiary of the Post Office Corporation.

Since 1968 the Girobank has grown into a successful banking arm of the Post Office, with a particular strength in money transmission, especially of small sums, and in handling deposits of corporate cash. It now has more than 2 million personal account holders and in 1986/7 made a profit after tax of £17.4 million, up nearly 30 percent on the previous year.

Girobank now needs to expand into other banking sectors in order to develop in the competitive world of modern banking. The Post Office and the Government believe that this expansion can take place best in the private sector, where Girobank will be able to develop free from the restrictions which necessarily apply in the public sector [over capital investment and borrowings].

The Board of the Post Office has therefore decided, with the support of the Government, to sell Girobank. The Post Office plans to offer it for sale to an institution or organisation and appropriate bodies will be given the opportunity to buy through a tendering process.

Price will, of course, be a major consideration in the evaluation of bids. The Chairman of the Post Office and I are

agreed that weight should also be given to the promise the potential purchaser brings of widening customer choice in the banking market and of safeguarding the mutuality of interest between Girobank and Post Office Counters plc. Purchasers will also be invited to propose arrangements whereby management and employees share directly in the success of the business. The successful purchaser will, of course, have to satisfy the requirements of the Bank of England.

This is a major opportunity to promote competition in the banking sector through the sale of a public sector institution. I believe that the Post Office, Girobank, Girobank's staff and its customers will all be well served by this new and exciting stage in the bank's development.

DRAFT

POST OFFICE STATEMENT

PRIVATISATION OF GIROBANK

Commenting on today's Government announcement on the privatisation of Girobank, Sir Bryan Nicholson, Chairman of the Post Office said:

"Girobank enters its twentieth year in robust shape, in a financial world very different from the one it entered in 1968.

Today's Government announcement means that Girobank can take another large step forward, with a new partner, but still closely linked with the Post Office.

Over the 20 years Girobank has developed from a money transmission system to clearing bank status, with a full range of banking services. It is the sixth largest bank in the UK with more than two million customers.

Now it will be put on equal footing with other UK banks in the way it's controlled by the financial authorities. It will have the freedom to trade on equal terms in a highly competitive market without the constraints that operate in the public sector.

A privatised Girobank will be free to raise capital to allow it to expand its activities.

At the same time there exists a very close relationship and interdependence between Girobank and other parts of the Post Office, particularly our Counters.

The continuation of this link, and in particular the ongoing contract between Girobank and the Counters business will be an essential and important part of our discussions with potential purchasers.

We shall also of course ensure that the assets of the bank - its customers and staff - are protected while the sale is negotiated.

At the end of the day, Girobank will be in a strong position to continue the expansion of customers and services it has won in recent years and the benefit of its present links with the Post Office will be maintained."

I agree that we should support the DTI proposal.

FROM: MISS J M SWIFT

DATE: 22 JULY 1988

- 1. MRS BROWN
- 2. CHIEF SECRETARY

cc: PPS
 PS/Financial Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Monck
 Mr D J L Moore
 Miss Noble
 Mr Ilett Miss O'Mara
 Mr Lyne
 Mr Morgan
 Mr Tarkowski or
 Mr G Roberts
 Mr Call

I do not recall having seen this.

EXTENSION OF POWERS OF POST OFFICE COUNTERS LTD

Mr Clarke's letter of 21 July proposes a limited extension of the powers of Post Office Counters Ltd to enable it to widen the range of services it offers to the public. We recommend you agree and endorse the terms of Mr Clarke's proposed announcement.

Assessment

2. Ministers agreed in 1985 that legislation should be enacted to remove the general limitation on Counters' business to the provision of agency services for public sector bodies. This agreement was announced publicly. Present DTI Ministers however were considerably less keen to press ahead with a move which they thought may expand the public sector into areas where it would have a competitive advantage over the private sector. Not unnaturally, the Post Office continued to pursue implementation of the public commitment. Law Officers meanwhile advised that Counters' powers could be extended by authorisations under the Telecommunications Act 1981 and did not require new legislation.

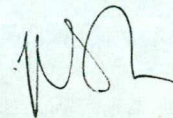
3. In the circumstances, Mr Clarke, while he still has reservations about any general expansion of Counters' services, is minded to consent to three new areas of activity. These are the

marketing of unsecured personal loans provided by another body (probably initially Giro), the marketing of risk insurance with an associated discount club targeted at the elderly and a limited expansion of retailing activities eg, stationery, some office equipment, Post Office memorabilia. The first two will be for a trial period of six months. Girobank already provide loans through Counters to their account customers. DTI are satisfied that no conflict of interest will arise between this activity and Counters' plan to market Giro loans to all Counters customers. Neither the lending nor the insurance activities will require Financial Services Act approval. In the longer term Mr Clarke may wish to authorise a goods ordering scheme.

4. We think you can be generally content. There is a need to develop new business for Counters as the old declines and the new proposals are expected to contribute up to 5.7% to Counters' income and £16 million to profit over the next ten years.

5. Draft reply attached.

6. MGI and FIM are content.



MISS J M SWIFT

pe.sh.docs.draft2

DRAFT LETTER TO:

Rt Hon K Clarke QC MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

EXTENSION OF POST OFFICE COUNTER LTD POWERS

Thank you for your letter of 21 July.

I am content with your proposal to consent to a limited extension of Counters' powers and with the terms of your draft announcement.

J MAJOR

dti

Department for Enterprise

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The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

SECRETARY

REC 21 JUL 1988

Mrs Brown

Mr. [unclear]

Mr. [unclear]

Mr. [unclear]

Mr. [unclear]

Mr. [unclear]

Department of
Trade and Industry

1-19 Victoria Street
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Direct line 215 5147

Our ref

Your ref

Date 21 July 1988

Dear John,

Sir Bryan Nicholson has requested my consent to a limited extension of the powers of the Post Office's subsidiary, Post Office Counters Ltd, to allow it to engage in certain activities beyond those already provided for by Section 7 of the Post Office Act 1969, as amended.

At present the Post Office's Counters business is, with some minor exceptions, restricted to providing agency services for public sector bodies only. In July 1985 we agreed that, as part of the strategy to help improve Counters' prospects, a suitable opportunity should be taken to enact new legislation to remove this constraint. The intention to find an early opportunity for legislation was announced publicly in May 1986 in response to a Parliamentary Question from Paddy Ashdown MP.

Subsequently the Law Officers advised that Counters powers may be extended under current legislation. Section 61(2) of the British Telecommunications Act 1981 gives the Secretary of State power to allow by means of a consent or general authorisation a subsidiary of the Post Office to engage in activities in which the Post Office itself has no power to engage. An approval would also be required under Section 64 to enable Counters to purchase the goods for its retailing activities.

I have considerable reservations about giving Post Office Counters a general authorisation which would allow it to undertake any activity for the supply of goods and services. This could lead to an expansion of the public sector where it would not be competing on equal terms with the private sector. I therefore suggested to Sir Bryan Nicholson that he should consider more specific ways in which the current limits on Counters' activity might be relaxed.

LS7AAU

The Post Office has now suggested four areas of new activity, of which only three are likely to need my consent in the near future. They are: the marketing of unsecured personal loans (provided by another body - currently likely to be Girobank); the marketing of risk insurance with associated discount club, targeted at the elderly ("senior plus" club); a limited expansion of Counters' current retailing activities; and, in a longer timescale, an ordering scheme where Counters would act as an agent for manufacturers, probably adding its logo to the marketing of the goods. Counters is proposing a trial period of 6 months for the loan and "senior plus" schemes.

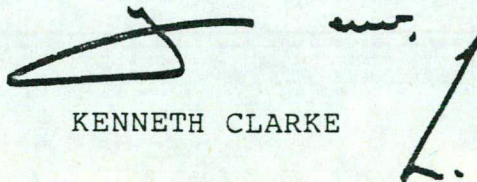
The three areas where my consent is currently being sought would, according to Counters' projections, contribute £28.7 million to income (or 3.9% of total forecast Counters income) in 1992/3 and £40.7 million or 5.7% in 1997/8. Their contribution to profits is expected to be in the region of £10 million in 1992/3 and £16 million in 1997/8.

There are in my view good arguments for agreeing to this modest extension of Counters' activity. In two of the cases this will explicitly be on a trial basis only. Support for some relaxation of restrictions on new business is given by the Monopolies and Mergers Commission in their report on Post Office Counter Services in Crown Offices, published last month.

The extension is also consistent with our wish to see the Post Office operating as a commercial organisation. The new activities for which trials are proposed are ones in which Counters would be acting as agent for the private sector. The markets are also highly competitive. The Post Office has assured me that no cross-subsidy from other services would be involved. Finally, the proposals would be of particular benefit to sub-postmasters - who will have access to all the new areas of business.

Counters wishes to be able to launch trials of the loans and 'senior plus club' schemes in the autumn. I intend to clarify the position by means of a Written Answer before the summer recess. This will prepare the way for a more detailed announcement by the Post Office of its plans during September. This will be important as a counterweight to the announcement which the Post Office plans to make at around the same time of its plan to regrade 250 Crown offices during 1989/90 to sub-post offices or a new type of franchised office. I attach the terms of a draft Parliamentary Question and Answer which I will arrange to appear in the week beginning 25 July.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robin Butler.



KENNETH CLARKE

TO ASK THE CHANCELLOR OF THE DUCHY OF LANCASTER WHETHER HE INTENDS TO CONSENT TO AN EXTENSION OF THE POWERS OF POST OFFICE COUNTERS LTD SO AS TO ENABLE IT TO EXPAND THE RANGE OF SERVICES OFFERED TO THE PUBLIC.

I have considered proposals from the Post Office Chairman for a limited extension of the powers of Post Office Counters Ltd. I have agreed in principle to extend those powers to allow it to retail certain specified products in addition to the limited range currently available; and to act as an agent, initially on a test basis, in two financial services-related schemes. I therefore propose to grant Post Office Counters Ltd the necessary consents under section 61(2) and approval under section 64(1) of the British Telecommunications Act 1981 to enable it to engage in these activities.

JY3ABA

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10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	25 JUL 1988 ✓ 25/7
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From the Private Secretary

25 July 1988

Dear Peter,

EXTENSION OF POST OFFICE COUNTERS

The Prime Minister has seen the Chancellor of the Duchy's letter of 21 July to the Chief Secretary. The Prime Minister is unhappy with the proposed announcement. She considers that extension of Post Office counters' services in the way proposed could provide unfair competition with the private sector. She thinks that proposals for horizontal expansion of Post Office counters need to be considered within the context of an overall plan for privatisation.

I should be grateful if you and copy recipients would ensure that this letter is seen only by named individuals with a clear operational interest.

I am copying this letter to the Private Secretaries to members of E(NI) and Trevor Woolley (Cabinet Office).

Yours,
Paul

(PAUL GRAY)

Peter Smith, Esq.,
Office of the Chancellor of the Duchy of Lancaster.

CONFIDENTIAL

FROM: MARK CALL
DATE: 25th July 1988

pmf

CHIEF SECRETARY

cc Principal Private Secretary *12/2*
PS/Financial Secretary
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Moore
Mrs M Brown
Mr Ilett
Miss Noble
Miss O'Mara
Mr Lyne
Mr Morgan
Mr G Roberts
Miss Swift
Mr Tarkowski o.r

Ch. / All ops behind
25
25/7
✓

EXTENSION OF POWERS OF POST OFFICE COUNTERS LTD

POCL seem to be anticipating the developments referred to in Miss Swift's minute of 22 July. At the branch opposite New Scotland Yard they have given (I hope sold) a concession to a photographic developing outfit now located in the foyer, and have introduced a rack of basic stationery. Quite why it has taken the Post Office so long to realise that people who buy stamps might also want to buy envelopes is beyond me. Better late than never.

Mc
MARK CALL



FROM: JILL RUTTER
 DATE: 25 July 1988

MRS BROWN

2- CC:
 Principal Private Secretary
 PS/Financial Secretary
 Sir Peter Middleton
 Mr Anson
 Mr Monck
 Mr D J L Moore
 Miss Noble
 Miss O'Mara
 Mr Ilett
 Mr Lyne
 Mr Morgan
 Mrs Brown
 Mr Tarkowski
 Miss J M Swift
 Mr G Roberts
 Mr Call

EXTENSION OF POWERS OF POST OFFICE COUNTERS LTD

As I told you No. 10 have now written to object to Mr Clarke's proposals for an extension of the powers of Post Office Counters Ltd. We have not yet seen the No. 10 letter. I understand that their objections are based on the advice of the Policy Unit that this is objectionable on deregulation grounds.

2 In the light of this development we agreed to stop the Chief Secretary writing in the terms attached to Miss Swift's minute 22 July which he had previously approved. You agreed to resubmit advice as appropriate in the light of No. 10's comments.

JILL RUTTER
 Private Secretary

CONFIDENTIAL

CHIEF SECRETARY

FROM: MRS M E BROWN

DATE: 27 July 1988

cc Chancellor
 Financial Secretary
 Economic Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck (or)
 Mrs Lomax
 Mr Moore (or)
 Miss Peirson
 Miss Noble
 Mr Tarkowski (or)
 Miss Swift
 Mr Jessop
 Mr Tyrie
 Mr Call

Ch.
 Content to be
 "associated" with this (X, over)?



27
 29/7

EXTENSION OF POST OFFICE COUNTERS

Following Miss Rutter's minute of 25 July, I have reviewed our advice on the DTI proposal to allow the Post Office to market certain financial services and commercial products. Mr Gray's letter of 25 July recorded the Prime Minister's view that these proposals could provide unfair competition with the private sector. The Prime Minister thinks that proposals for horizontal expansion of Counters need to be considered "within the context of an overall plan for privatisation".

2. I attach a draft letter to Mr Newton, querying whether it is appropriate for the Post Office to market financial services products (as distinct from allowing Giro to operate on its premises), and asking how far the Post Office would give preference to Giro products if it went ahead. These, I think, are the concerns which lie behind the Prime Minister's letter, although I have not yet been able to

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contact Mr Guise in the Policy Unit who apparently advised on this. [I have now spoken to him - this advice is in line with his to the Prime Minister].

3. The Prime Minister's comments raise the whole question of Post Office - or at least Counters - privatisation. The present position is that no specific study of the prospects for privatising any parts of the PO business other than Giro have been commissioned. The Prime Minister herself has said that the Royal Mail is not to be privatised. On the rest of the Post Office's business, DTI Ministers have taken the line that privatisation is not excluded: in general they believe businesses do better in the private sector, but there are at present no specific plans for the Post Office. The Prime Minister now seems to be asking for an assessment of the prospects for privatisation. DTI are planning to review the future of the Counters business, following the recent MMC report, and

the size of the Post Office network. The draft letter proposes that these studies should now incorporate a specific assessment of the prospects for privatising the Counters network, and any other suitable parts of the business - notably Parcels.

X | 4. Since this bears on a possible major future privatisation, you may wish to associate the Chancellor with your suggestion for a review: there is a reference in square brackets in the draft letter.

5. Because of the deadline for papers to reach you today, I have not had time to clear this advice with FIM or ST Divisions. Perhaps Miss Rutter would check that Mrs Lomax, Miss Peirson and Miss Noble are content.

Mary Brown.

MRS M E BROWN

2230/35

DRAFT LETTER FROM CHIEF SECRETARY TO CHANCELLOR OF THE DUCHY OF LANCASTER

EXTENSION OF POWERS OF POST OFFICE COUNTERS

I am responding to Kenneth Clarke's letter of 21 July. I have also seen the letter from the Prime Minister's Private Secretary of 25 July.

I would not want to discourage the Post Office from using the Counters network for certain commercial activities where these are relevant to its business. For this reason I would have no difficulty with your proposal to allow a limited expansion of Counters' current retail activities, for example selling stationery products. The sub-post offices, of course, are already allowed to engage in quite extensive retail activities.

However, I share the Prime Minister's concern about the competitive aspects of your proposals, particularly as regards the marketing of financial services products. I think there are two main questions here. First, is it appropriate for the Post Office to market financial services products as (opposed to the banking activities which Girobank conducts under its own name on Post Office premises)? The worry here must be whether a Post Office "label" in some way implies Government endorsement of the products concerned. It would be helpful to know more of your thinking on this.

Secondly, if the Post Office does market financial services products, should it favour Giro products? Giro has, I know, negotiated a 5-year contract with Counters, which specifies a range of services which Counters will perform for the bank, such as encashment of cheques. But in areas not covered by this agreement, I am not clear how far you consider it appropriate for the Post Office to give priority to Giro products over those of its competitors. Competitive considerations indicate that if the Post Office markets products such as personal loans, all financial institutions should have an opportunity to compete for the contract on

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equal terms. We would no doubt get a better price for Giro if it had a favoured position, but I do not think we could defend this on wider grounds.

As ~~the~~ Prime Minister has commented, it is clearly right that we should consider the plans for any significant extension of Counters' business in the context of the long term future of the organisation. You are due to consider the future direction of Counters' business (following the MMC report) and the size of the Post Office network. [Nigel Lawson and] I suggest that it would now be useful for you to associate with this work an assessment of the prospects for privatising the Counters' network, together with any other parts of the Post Office which you may consider suitable, such as the parcels business. I should be grateful to know whether you and colleagues agree with this approach, and when you would be able to complete your assessment.

In the meantime, I would be reluctant to agree to allow the Post Office to market personal loans or insurance, unless you can satisfy me that the concerns I have raised do not apply to the particular proposals which Kenneth Clarke put forward.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robin Butler.

J. M.

dti *Min. Sec. Mr. Major* *cc. Mr. Major*

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Exchequer
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

SECRETARY
2 JUL 1988
Mr. G. Smith
Mr. G. Smith
Mr. G. Smith
Mr. G. Smith
Mr. G. Smith

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Direct line 215 5147
Our ref
Your ref
Date 21 July 1988

Dear John.

Sir Bryan Nicholson has requested my consent to a limited extension of the powers of the Post Office's subsidiary, Post Office Counters Ltd, to allow it to engage in certain activities beyond those already provided for by Section 7 of the Post Office Act 1969, as amended.

At present the Post Office's Counters business is, with some minor exceptions, restricted to providing agency services for public sector bodies only. In July 1985 we agreed that, as part of the strategy to help improve Counters' prospects, a suitable opportunity should be taken to enact new legislation to remove this constraint. The intention to find an early opportunity for legislation was announced publicly in May 1986 in response to a Parliamentary Question from Paddy Ashdown MP.

Subsequently the Law Officers advised that Counters powers may be extended under current legislation. Section 61(2) of the British Telecommunications Act 1981 gives the Secretary of State power to allow by means of a consent or general authorisation a subsidiary of the Post Office to engage in activities in which the Post Office itself has no power to engage. An approval would also be required under Section 64 to enable Counters to purchase the goods for its retailing activities.

I have considerable reservations about giving Post Office Counters a general authorisation which would allow it to undertake any activity for the supply of goods and services. This could lead to an expansion of the public sector where it would not be competing on equal terms with the private sector. I therefore suggested to Sir Bryan Nicholson that he should consider more specific ways in which the current limits on Counters' activity might be relaxed.

dti

Department of Trade and Industry

The Post Office has now suggested four areas of new activity, of which only three are likely to need my consent in the near future. They are: the marketing of unsecured personal loans (provided by another body - currently likely to be Girobank); the marketing of risk insurance with associated discount club, targeted at the elderly ("senior plus" club); a limited expansion of Counters' current retailing activities; and, in a longer timescale, an ordering scheme where Counters would act as an agent for manufacturers, probably adding its logo to the marketing of the goods. Counters is proposing a trial period of 6 months for the loan and "senior plus" schemes.

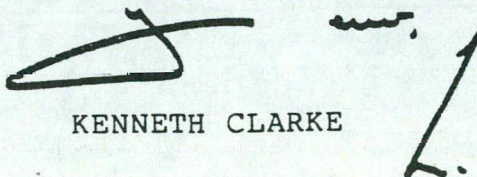
The three areas where my consent is currently being sought would, according to Counters' projections, contribute £28.7 million to income (or 3.9% of total forecast Counters income) in 1992/3 and £40.7 million or 5.7% in 1997/8. Their contribution to profits is expected to be in the region of £10 million in 1992/3 and £16 million in 1997/8.

There are in my view good arguments for agreeing to this modest extension of Counters' activity. In two of the cases this will explicitly be on a trial basis only. Support for some relaxation of restrictions on new business is given by the Monopolies and Mergers Commission in their report on Post Office Counter Services in Crown Offices, published last month.

The extension is also consistent with our wish to see the Post Office operating as a commercial organisation. The new activities for which trials are proposed are ones in which Counters would be acting as agent for the private sector. The markets are also highly competitive. The Post Office has assured me that no cross-subsidy from other services would be involved. Finally, the proposals would be of particular benefit to sub-postmasters - who will have access to all the new areas of business.

Counters wishes to be able to launch trials of the loans and 'senior plus club' schemes in the autumn. I intend to clarify the position by means of a Written Answer before the summer recess. This will prepare the way for a more detailed announcement by the Post Office of its plans during September. This will be important as a counterweight to the announcement which the Post Office plans to make at around the same time of its plan to regrade 250 Crown offices during 1989/90 to sub-post offices or a new type of franchised office. I attach the terms of a draft Parliamentary Question and Answer which I will arrange to appear in the week beginning 25 July.

I am copying this letter to the Prime Minister, members of E(NI) and Sir Robin Butler.


KENNETH CLARKE

LS7AAU

TO ASK THE CHANCELLOR OF THE DUCHY OF LANCASTER WHETHER HE INTENDS TO CONSENT TO AN EXTENSION OF THE POWERS OF POST OFFICE COUNTERS LTD SO AS TO ENABLE IT TO ENLARGE THE RANGE OF SERVICES OFFERED TO THE PUBLIC.

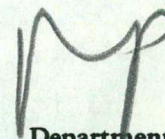
I have considered proposals from the Post Office Chairman for a limited extension of the powers of Post Office Counters Ltd. I have agreed in principle to extend those powers to allow it to retail certain specified products in addition to the limited range currently available; and to act as an agent, initially on a test basis, in two financial services-related schemes. I therefore propose to grant Post Office Counters Ltd the necessary consents under section 61(2) and approval under section 64(1) of the British Telecommunications Act 1981 to enable it to engage in these activities.

JY3ABA

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CHIEF SECRETARY	
REC.	31 AUG 1988
ATTN	Mrs BROWN
	Mr ANSON, Mr PHILLIPS
	Mr MORRIS, Mr BURGESS
	Mrs CASE, Mr MORRIS



Department of
Trade and Industry

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Mr ANSON, Mr PHILLIPS
Mr MORRIS, Mr BURGESS
Mrs CASE, Mr MORRIS
Mr TURNBULL, Mr CASE

Direct line 215 5147
Our ref
Your ref
Date 30 August 1988

Dear Chief Secretary,

POST OFFICE PAY: INDUSTRIAL ACTION

You will be aware that the Union of Communication Workers (UCW) is planning industrial action in protest against payment by the Post Office of supplements to new recruits in areas of difficult recruitment, principally in London and the South East. The payments are known as **Difficult Recruitment Area Supplements (DRAS)**.

The Post Office management made it clear to the union last week that it was prepared to abolish DRAS from 30 September if the Unions were prepared to discuss an alternative system to act as an incentive to recruits in difficult areas to operate from 1 October. It was also prepared to broaden discussions to encompass problems of retention other than of new recruits and certain non-pay issues, eg improved local working arrangements and training. Staff shortages, due to recruitment difficulties and a staff turnover rate of over 50% in some areas, are making it increasingly difficult for the Post Office to provide an acceptable level of service in London and the South East. The UCW's position, however, hardened over the 1 October deadline

and it has now said it is not prepared to negotiate on what it sees as an issue of principle relating to regional pay. Its position is that DRAS payments should be made to all new recruits or to none. The Post Office management thinks that an all out one-day strike on 31 August in the Letters business is now unavoidable and that support is likely to be substantial if not universal.

I have met Sir Bryan Nicholson to discuss the industrial relations position. He is planning to take a robust line with the unions on DRAS and the issue of regional pay more generally. I have made it clear to Sir Bryan that I welcome and encourage Post Office moves towards regional pay. One specific measure that he has in mind is to use private contractors to move mail from railway stations. This would be unprecedented and would be intended to help underline the management's determination to keep the service running as far as possible. It could of course also be seen as confrontational by the unions and may provoke further action. For this reason, I understand Sir Bryan has yet to take a final decision. In any event, however, Post Office management will resort to its usual practice of employing casuals to move mail more generally.

The Chairman has been pleased with the response of the Press which he thinks has been generally favourable to management. He considers it difficult for the union's leadership to present its case attractively when one alternative they have advocated is that supplements should be withdrawn from new recruits already receiving them.

It is not yet clear what further action might follow tomorrow's 24 hour national strike. I understand that if the UCW seeks to negotiate following that strike, management will only do so provided the union undertake not to commence any further industrial action during the period of the negotiations. There are no signs of a very early resolution to the dispute. I am keeping developments - including the desirability of suspending the letter monopoly - closely under review. I shall keep you and other colleagues informed as appropriate.

I am copying this letter to the Prime Minister and other Cabinet members and to Sir Robin Butler.

Yours sincerely,

Peter Smith

PP TONY NEWTON

(Approved by the Chancellor and signed in his absence)

dti

the department for Enterprise

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The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
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CH/EXCHEQUER	
REC.	05SEP1988 ✓ 5/9
ACTION	CST.
COPIES TO	

MP

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Direct line 215 5147
Our ref
Your ref
Date

2 September 1988

✓

Dear Chief Secretary,

POST OFFICE INDUSTRIAL ACTION

This letter reports developments following my letter of 30 August.

Sir Bryan Nicholson came in to see me yesterday. He reported that some 95% of the Union of Communication Workers (UCW) members in Post Office Letters and Parcels went on strike on 31 August, varying from 70% in some offices to near total support in others. Picket lines were quite.

The UCW had instructed members to return to work normally on 1 September. This happened in the large majority of the 64 letter districts but some staff in 11 districts stayed on strike. Their main reason was the use of casual labour to help clear the backlog; other reasons included the use of private contractors' vehicles to move mail from railheads and the demand by management for a formal agreement by individual employees before returning to work. The number on strike today has increased to about 20,000 out of about 140,000 Letters and Parcels staff.

SE1AAU



the department for Enterprise

The Post Office is continuing to concentrate the debate on the need for flexibility to pay supplements over the nationally negotiated rates in difficult recruitment areas and particularly to the grades with high turnover. The UCW has set its face against any solution which contains such flexibility, although it has recently concluded an agreement with British Telecom which has some similarities; BT, however, paid a price.

There have been no recent developments in the negotiating position of either side. A letter from Mr Tuffin of the UCW yesterday afternoon to Sir Bryan Nicholson did not suggest any change to the Union's position.

The Post Office management sees the way forward as likely to be through an extension of London Weighting. The Post Office would wish this to allow flexibility by area and in amount and as between difficult grades and Post Office businesses. The Union are prepared to look at London Weighting but are demanding the ending of the Difficult Recruitment Area Supplement before talks can begin. The Post Office is prepared to talk about an extension of London Weighting but not to drop the DRAS beforehand.

The Post Office's tactic is to put pressure on union members by maintaining their usual practice of employing casuals to deal with mail affected by strike action instead of allowing it to accumulate to be dealt with by postmen at overtime rates when they come back. It is, however, allowing normal overtime. It has also instituted a system of three warnings after which staff would be suspended until strike action is over. The first is a simple warning, reminding staff of the terms of their employment; on a repeat of strike action, staff are required to sign an undertaking to work normally; and on a third warning when they had breached their signed undertaking, they would not be taken back until the end of strike action. The measures are designed to ensure on fair grounds that strike action hits the strikers' pay. The union does not give strike pay. I have emphasised to Sir Bryan the need to avoid action which can be represented as provocative and to try if possible to reach the third stage only in offices where the Post Office is on strong grounds because of a past history of disruptive action.



the department for Enterprise

The Post Office is pleased with the generally favourable comments on the line it has taken in the press. Reports on television have been less consistently favourable although Mr Bill Cockburn, the Managing Director of Letters, has put over the Post Office's case strongly.

I am copying this letter to the Prime Minister and other members of the Cabinet and to Sir Robin Butler.

Yours sincerely,

Peter Smith

PP TONY NEWTON

(Approved by the Chancellor and signed in his absence)

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
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**Department of
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CHIEF SECRETARY	
REC.	8 SEP 1988
ACTION	Miss Keaton
TO	Ex FCO, Sir Philip Dutton, Mr Anderson, Mr Mack, Mr Phillips, Mr Rogers, Mr Crowley, Mr Moore, Mr Tombs, Mr Seaman, Mr Strachan, Mr Gray, Mr Call, Miss Swift.

Direct line
Our ref
Your ref
Date

215 5147

7 September 1988

Dear John,

POST OFFICE STRIKE

The Post Office strike and its effects continue to spread. All but 1 of the 80 main sorting offices are on strike and services across the whole country are disrupted. The most common reason for striking is now refusal by employees who had not taken action to deal with postings which would normally go to offices on strike. When the management require staff to handle these postings they refuse, are suspended and then the whole office goes on strike. The other main reasons are refusal to work with casual staff taken on to clear the backlog, refusal to work as directed, and refusal to cross picket lines.

Talks about talks are continuing but there seems little likelihood of an early breakthrough. The two separate issues in play are differential recruitment bonuses, the original cause of the dispute, and the terms of an orderly return to work. Some limited progress has been made towards a formula on the first point; there is a wide gulf on the second. The union wants all temporary staff beyond those normally employed to be dismissed when the strikers return to work, enabling its members to clear the backlog at overtime rates, which would compensate them for the wages they are losing while on strike. The management is prepared to allow normal overtime but insists on its right to use casuals beyond this.



the department for Enterprise

Sir Bryan Nicholson's present expectation is that the disruption is likely to increase. Mr Tuffin, the General Secretary of the Union of Communication Workers, is at this week's TUC meeting and is not personally engaged in the negotiations. To the extent that he is in charge of the situation, he may feel constrained about permitting concessions while it is in progress. The influence on postal workers of the loss of pay from pay packets will not be felt before Friday. My present assessment, therefore, is that we must expect the action to run at least until the weekend.

Sir Bryan came in to see me again today. I agreed with him that it was important for the Post Office not to give way on the underlying issue of the need for flexibility on pay to meet recruitment difficulties and the more general aim of securing regional pay differentials. I also endorsed the need for management to remain firm on overtime, otherwise it is the consumer and the taxpayer who lose, not those who are taking strike action.

Counters Staff

In Liverpool and Manchester, Counters staff are taking action in sympathy with their colleagues in the letters business. Alternative services are available in local sub-offices. The Post Office do not at present intend to take legal action since they feel this would unnecessarily exacerbate the situation and not help to resolve the main dispute. Their legal advisers say it is doubtful that they would win such an action.

The Post Office is also acutely aware that a strike ballot is currently being conducted amongst UCW staff in the Counters business on the unrelated issue of the 1500 offices in the Crown Office network. The ballot seeks authority for industrial action on the alleged plans of the Post Office to re-grade 750 Crown Offices to sub-offices (of which there are over 19,000). The result is due to be announced on 15 September.

The Post Office has plans, which are known publicly, to re-grade up to 250 Crown Offices. The MMC Report in June commended this policy and urged its extension. My predecessor also endorsed the approach in confidential correspondence with Sir Bryan. The Post Office is not yet committed to going further but the MMC report disclosed Post Office thinking that they might extend it to 750 offices.



the department for Enterprise

Careful judgement is required on how the Post Office should respond. They are of course aware of the need to try to avoid the UCW having any pretext to extend its current action to Counters services. I am keeping in close touch with Sir Bryan on this.

Post Office Monopoly

We have power under Section 69 of the British Telecommunications Act 1981, after consultation with the Post Office, to suspend the Post Office's exclusive letter privilege. My predecessor told Parliament last year that he would consider using these powers if there was a cessation or serious decline in the quality of postal services.

We have to be clear that a suspension of the monopoly would be likely to have a major effect only if it were for a substantial period, so that there was an incentive for private firms to invest in alternative services. Even then, such services would take some time to build up. Such a suspension, as colleagues recognised when the issue was discussed earlier this year, would have major implications, eg for the cost of services in rural areas. It would also require legislative action if it were not to lead to a totally unregulated competitive market, in which many customers may come off badly. I shall be giving further consideration to this once the present dispute is over but I think it would be wrong to embark on such a long term change as a hasty reaction to the present situation.

The case for a short term suspension, however, is much stronger. It would then be open for small businesses, who are suffering at present, to try to make alternative arrangements. We also have to recognise that some couriers are already providing, albeit in a limited way, a service which might technically be said to be contrary to the present legal position on the monopoly. We cannot continue to turn a blind eye to this but it would clearly be against our interests to prevent such services from continuing. Having repeatedly made clear our intention to consider the monopoly in the event of a serious decline in the quality of service, I think presentationally we must also be seen to be responding.

I have established that, should it be necessary, I could consult the Post Office at short notice on a limited suspension. Should it become clear that there is no serious prospect of progress towards a solution to the dispute by early next week, I would propose to suspend the monopoly for a limited period, probably two months. I would present this as a practical response to the immediate situation, with any further action needing to await developments.



the department for Enterprise

Conclusion

The position is a complex one and I shall need to be able to respond quickly to any significant developments. I hope you and colleagues will be content for me to have the flexibility to suspend the monopoly as set out above. In the meantime, it is also important that, so far as possible, we try to co-ordinate any operational responses which Departments may wish to make, eg alternative arrangements for delivery by private courier of bulk items. I have asked my officials to keep in touch with other Departments on this and should be grateful if colleagues could consult me in advance before authorising any such action.

I am sending a copy of this letter to the Prime Minister, Douglas Hurd, Norman Fowler, John Moore, John Wakeham, Malcolm Rifkind, Peter Walker, Tom King and Sir Robin Butler.

TONY NEWTON

[Handwritten signature]

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FROM: MISS J M SWIFT
DATE: 8 SEPTEMBER 1988

- 1. MRS BROWN
- 2. CHIEF SECRETARY

- cc
- PPS
 - PS/FST
 - PS/EST
 - Sir P Middleton
 - Mr Anson
 - Dame Anne Mueller
 - Mr Monck
 - Mr M C Scholar
 - Mr C W Kelly
 - Mr D J L Moore
 - Mr C D Butler
 - Miss M Pierson
 - Ms D Seammen
 - Mr L Watts
 - Miss M O'Mara
 - Miss G Noble
 - Mr Tarkowski
 - Mr P Morgan
 - Mr Cropper
 - Mr Call

[Handwritten notes in red ink:]
 C/S
 I am concerned that
 Mr Newton's remarks
 are not
 to be taken
 as a
 comment
 itself
 on the
 matter?

POST OFFICE INDUSTRIAL ACTION

- 1. Mr Newton has written to you:
 - (i) proposing that HMG should not seek to intervene in the management's handling of the dispute this week - both because the UCW is not expected to agree to terms while the TUC congress is on and to allow staff to feel the effects of loss of wages in Friday pay packets.
 - (ii) seeking colleagues' agreement to move rapidly to a limited, probably two-month suspension of the monopoly early next week if no resolution is in sight.
 - (iii) ruling out any more fundamental modification of the monopoly as an immediate option because Ministers have still to give this detailed consideration.

Mr Newton's letters of 30 August and 2 September are also relevant.

2. We recommend you reply supporting a temporary suspension as circumstances warrant. You can agree that a longer-term change is not an option for the current dispute but you should press for progress on the January E(A) remit to the Chancellor of the Duchy to examine and report on this issue. You will wish to welcome PO management support for the principle of regional pay.

Background

3. Most national and all international postal services are now suspended. The main issues between management and unions are:

(i) A formula for resuming negotiations on recruitment bonuses. The UCW broke off negotiations over management insistence that abolition of recruitment supplements from 30 September must be accompanied by union agreement to negotiations on alternative system from 1 October.

(ii) How to bring about orderly return to work. Industrial action escalated over management decisions to employ casuals to clear backlog created by last week's one-day national strike and to use private contractors to move mail between sorting offices.

DTI advise that there are signs of movement on the first issue but the second is likely to prove very difficult.

4. A wide range of Departmental business as well as industry is already affected by the dispute eg the processing of vehicle and import and export licenses. A ballot of UCW members due on 15 September seeks authority for industrial action on a new issue: the disclosure in the June MMC report that the PO is considering extending a planned down-grading of 250 Crown offices to a total of 750 offices. Mr Newton is keeping in close touch with the Chairman on his planned response and you need not comment at this stage. An escalation of the dispute to Counters would cause difficulties for, particularly, the processing of social security pensions and allowances, and unemployment benefits. Departmental contingency

arrangements were reviewed before Christmas when PO-wide action was threatened over a claim for a shorter working week.

Assessment

5. In the event of cessation or serious decline in the quality of the mail service, legislation empowers Ministers temporarily to suspend the monopoly on deliveries for which the charge is less than £1 to the extent and for the time Ministers may decide. In the course of industrial action last year, Mr Clarke publicly confirmed Ministers' intention to use these powers if those circumstances arose. The necessary prior consultation with the Chairman was in fact put in hand just before Christmas but the dispute was resolved.

6. Postal services are evidently now in "serious decline." DTI think however that in practice a suspension would have little immediate practical effect on services. PO handles in three days the items all private UK couriers handle in a year. It would inevitably take some time before competitors could offer a viable alternative service for most users although it could well promote some local competitive services in response to local needs. Mr Newton is therefore cautious about deploying the option. But it may prove necessary to bring pressure to bear on both sides of the dispute and to reassure customers that HMG is taking all possible action to preserve normal services. We recommend you should therefore strongly support the proposal for a two-month suspension.

7. Mr Newton is right to say, however, that further changes must be in the longer term. E(A) discussed in January (E(A)(88) 1st Meeting) Mr Clarke's proposal to put in hand work on new legislation aimed at ending the monopoly and introducing a system of licensed competition. E(A) asked for more detailed studies prior to decisions or wider consultations. No option was ruled out although E(A) asked for an assessment of reducing the monopoly to 50p and the possibility of combining local deliveries with other services. DTI officials did prepare such an assessment (which Treasury officials were not allowed to see) but Mr Clarke

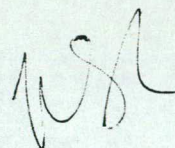
did not progress the issue. We recommend you support Mr Newton's intention to do so.

8. The PO management's moves towards regional pay are in line with Ministerial policy and are to be welcomed. Assuming resumption of pay negotiations, management see a way forward through extension of London Weighting rather than the disputed recruitment supplements. You could note support for this presentation so long as it preserves the substance of flexibility by area and in amount and between difficult grades and Post Office businesses - and subject to cost. (DTI have not been able to provide us with costings so far).

Wider Treasury interests in the stoppage of mail services

9. The main ones are at present: a temporary loss of revenue to the Exchequer through delay to monies due to Revenue departments, and a consequent interest cost; disruption to certain National Savings Bank business; delays to processing of warrants for dividend payments and redemption of gilts; some longer term difficulties for retail banking operations as postal communications with customers break down (there should otherwise be no specific effect on the banking system). Interested divisions will advise Ministers in more detail as and when appropriate.

10. Draft reply attached.



MISS J M SWIFT

pe2.ss/js/let/9

DRAFT REPLY TO:

The Rt Hon Tony Newton OBE MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

POST OFFICE STRIKE

1. Thank you for your letter of 7 September. I am grateful to you for keeping me in touch with developments.

2. I agree that you should be ready to use the option of a temporary suspension of the monopoly, if, in your judgement, the dispute is likely to drag on much beyond the weekend. While the result ^{may} not be to create a viable alternative service for most users, I think it will by then be important to show that we are committed to the policy Kenneth Clarke announced last year and are prepared to take action to preserve services by allowing private carriers wider scope to offer an alternative service if only to local customers. I therefore strongly support your proposal.

3. I also agree that we should not take an immediate decision on a fundamental alteration to the monopoly. But the dispute underlines the limited nature of competitive pressures on a large part of Post Office business. There would have to be a strong longer-term justification for removing business from private carriers when any temporary suspension came to an end, if they had shown themselves capable of providing effective alternative

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services. I hope you will be able to bring proposals to E(A) as soon as possible, in line with the remit agreed in January, and taking account of experience in the present dispute. I would be grateful if my officials could be associated with this work.

4. The Post Office management's promotion of regional pay is something which I strongly support. The idea of an extension of London Weighting as a way forward is an acceptable one, subject to the sort of flexibility the management propose and, of course, to the implications for PO costs. I am sure it is right to encourage the Chairman to avoid in the meantime action which may harden attitudes and mean further costs for industry and the wider public sector.

5. Finally, I will of course consult you on any proposal by my Department to make alternative arrangements for delivery of bulk items.

JOHN MAJOR

FROM: P N SEDGWICK
DATE: 5 OCTOBER 1988

MR SCHOLAR

cc Sir P Middleton
Sir T Burns
Mr O'Donnell
Ms Turk
Mr Curwen

THE SEPTEMBER TRADE FIGURES

I attach a note that summarises the position on the September trade figures following the postal strike. You could send it and the table to Eddie George now to put him in the picture while, following Eddie's suggestion, we consider with DTI whether and how to inform the outside world that there could be a distortion to the export figure.

2. On the substance of the problem my principal worry is that Customs could be producing an upward bias to exports in September and a downward bias in October: it would not be easy to explain away a low October figure two months after the postal strike had ended. Peter Stibbard, with whom I discussed this problem this morning, is going to talk to Customs statisticians to see whether they can do more to ensure that October export documents do not get into the September total. There does not yet appear to have been much serious joint discussion of the problems by the responsible DTI and Customs statisticians.

3. When I raised the possibility of letting it be known in public that there could be distortions to exports, though not imports, following the postal dispute, Peter Stibbard's instant reaction was that it was not DTI's normal practice to volunteer such guidance before publication of the figures. He promised to consider this possibility, as well as to satisfy himself that Customs were calculating the figures correctly, and to come back to me at the beginning of next week. It would help if you could have a word with Hans Leisner before then.

P.N.S.
P N SEDGWICK

THE TRADE FIGURES FOR SEPTEMBER

This note sets out the position on the recording of foreign trade for September in the light of the postal strike.

Imports are likely to be relatively unaffected. About 90 per cent of import entries are normally cleared by computer (see table 1) and postal entries had until 5 October to reach their destination, by which time the postal service was close to normal and the backlog had probably been cleared.

The picture on exports is more confused. The accounting period for exports was due to close on 27 September. However, Customs delayed closing their books for up to two days after this depending on the type of document (see table 2) that was being processed. Customs kept open their account an extra day for 'export pre-entry' documentation and an extra two days for exports recorded under post-shipment procedures. Although this will have had the benefit of capturing any late post it has a ^{serious} disadvantage. Customs ^{do} ~~will~~ not have known ~~for sure~~ whether the documents they received in the two days after the end of their original accounting period were genuinely 'September' exports.

Exports might either be under-recorded because of a lower than normal postal return or, possibly, over-recorded because some of 'October's' exports have been allocated to September. We will not of course be able to assess the effect until we see together the export figures for September and October.

TABLE 1 : RECEIPT OF TRADE FIGURES

	Per cent of total	
	EXPORTS	IMPORTS
Computer	c10	c90
Post	c90	c10

TABLE 2 : RECORDING OF EXPORTS

Type of procedure	Per cent of total	
Pre-Entry	64	1 day
Post shipment		
- Periodic entry	5	
- Simplified clearance	21	2 day
- Local export control	9	

$$.64 \times 5\% + .36 \times 10\%$$

$$= 3.2 + 3.6$$

$$= 6.8\%$$

$$.70 \times 5\% + .15 \times 10\%$$

$$= 3.5 + 1.5$$

$$= 5\%$$

$$\rightarrow 7183$$

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	10 OCT 1988
ACTION	CST
COPIES TO	

10/10

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line
Our ref
Your ref
Date

215 5147

10 October 1988

John

POST OFFICE: PROPOSED CHRISTMAS STAMP DISCOUNT

You will be aware that the Post Office increased its tariff on 5 September. With your support, I only agreed to this on condition that they made a genuine £20 million efficiency saving. The Post Office proposed to apply £10 million of the saving to funding a Christmas discount for 2nd-class stamps and the remaining £10 million to fund a stamp book sale in the New Year.

In the wake of the postal strike last month, Sir Bryan Nicholson has approached me with a proposal to abandon the £10 million Christmas discount. There are two reasons for this: first to help compensate for some of the revenue lost during the strike; and second presentational - the Post Office considers that to offer a second class stamp discount primarily benefitting domestic consumers would be a slap in the face to business customers who may have suffered financially during the strike.

I am disposed to agree to the Sir Bryan's request. Preliminary estimates of the revenue loss to the Letters business range from £35 million to £45 million during the remainder of the current financial year. The discount would be unlikely to lead to a significant increase in sales volume to compensate for the lower revenue. But, more importantly, I think it would be quite wrong to give the public the impression that the Post Office has "money to spare" when the strike has resulted in financial loss for some and inconvenience for many.



the department for Enterprise

If you agree with my proposal to accept Sir Bryan's request, I would still wish to insist that the Post Office should find the promised £20 million efficiency savings, and that our officials will monitor the savings to ensure that they are genuinely additional. I understand that officials have already received some indication from the Post Office of where the savings are to be found. I shall be writing to you separately in due course about the £10 million of the efficiency savings that are currently earmarked to fund a stamp book sale.

The Post Office needs an early reaction in order to print sufficient second class stamps at full face value. I should therefore be grateful for a response by Friday 14 October.

I am copying this letter to members of E(NI) and to Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Tony Newton'. The signature is written in a cursive style with a large initial 'T' and 'N'. There is a small word 'ever' written above the signature.

TONY NEWTON

TN5ABI

SECRET



Permanent Secretary
H M TREASURY

Alex

September Trade figures

PEM would like to discuss this with the Chancellor tomorrow morning. First estimates of the September exports figures (which will be officially received tomorrow) show an exceptionally large rise over the August figures. PEM is thinking of writing to Sir B Hayes asking for a downward adjustment to bring the figures back to where they would have been had Customs followed their normal procedures.

Simon 18/10

SECRET



Ch

My options wd be
in reverse order to Ms
Tuck's :

(b) - get figs right,
if poss

(c) - make ad hoc
adjustment to get
figs back to roughly
what they should be

(a) - do nothing.

[figs are (£m)

Aug 6748

Sept 7561

+813

AT

They are very annoying and very
inconvenient. Option (a) is probably the least risky,
though it might be worth seeing if it is possible
to run over anything on
(b) or (c).

FROM: C TURK
DATE: 14 OCTOBER 1988

P.N.J.
14.8
John Curwen
T. Burns
O'Donnell
Curwen

- 1. MR SEDGWICK
 - 2. SIR P MIDDLETON
- cc Sir T Burns
Mr Scholar
Mr O'Donnell
Mr Curwen

THE SEPTEMBER TRADE FIGURES

Mr Sedgwick's minute to Mr Scholar (5 October) set out the position on the September trade figures following the postal strike. Our principal worry then was that Customs could be producing an upward bias to exports in September and a downward bias in October by extending the September accounting period for an extra two days.

2. We were reassured by subsequent conversations with Hans Leisner and Peter Stibbard which led us to believe that Customs statisticians would be taking steps to exclude from the September figures any documents received during the extension of the accounting period which should correctly have been classified in the October figures. (This is possible because most documents are dated.) However, we have now ascertained from Customs statisticians that they are not in fact proceeding in this way; all documents received up to the end of the extended accounting period are being classified to September. Customs claim that they had insufficient time and resources to weed out the relevant documents before today's deadline for passing the tapes on for processing by the DTI.

3. So although there may be an offsetting effect arising from documents which will be counted in the October figures which should have been classified to September, it seems very likely that the September trade figures will overstate exports. This is the opposite of what commentators will be expecting.

- 4. In the circumstances, we seem to have the following options:
 - (a) accept the figures as they are, but warn the press about the procedures used to compile the figures. Contact with the press on this would be best handled by the DTI or, possibly, the CSO, who may receive some justifiable criticism from commentators.

95.
10

- (b) press the DTI and Customs to produce an alternative set of statistics which exclude any October documents from the September count. This option might, however, lead to a delay in publishing the trade figures, currently scheduled for 27 October. This would be strongly resisted by the DTI, and would arouse suspicions among the press and other commentators.
- (c) press the DTI to make an adjustment to the figures as they stand which gets us back to the figures which would have been produced if the September accounting period had not been extended. This is possible to do in an approximate way by using estimates produced by Customs of the average number of documents received in a given period. This option has two advantages. First, the resulting figures are likely to underestimate rather than overestimate September's exports, which is what commentators will be expecting. Second, the relevant adjustments could be made within the existing timetable. However, it could lead to some embarrassment for Customs and the DTI.

5. I recommend option (a). If there is a delay in publishing the statistics, the markets will become suspicious that we are fiddling the numbers. This rules out option (b). Unless the documents received during the extension of the September account period can be distinguished accurately in the time available, which seems unlikely, option (c) would just cause confusion. With hindsight it would have been better for Customs to have done nothing and simply issued an early warning that the strike could affect the numbers. The best that can be done now is to own up as soon as possible to the change in procedure and let the markets make of it what they will. Since DTI decided to institute the changes without prior consultation, it is for them to explain what they have done.

6. There is likely to be a very wide spread of estimates of the September deficit so the impact of any distortion should be not overstated. Nevertheless if the current procedure is adopted without any prior warning and the trade deficit comes down sharply because exports have been overstated there could be unwelcome downward pressure on interest rates. Option (a) would at least prevent this unwelcome scenario.

Caldine Turk

C TURK

SECRET



H M Treasury

11, Downing Street, London SW1P 3AG

Switchboard 01 272 390

Direct Dialling 01 272 390

cc PPS
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr O'Donnell
Miss Turk

Sir Peter Middleton KCB
Permanent Secretary

(pulling punches)

Sir Brian Hayes GCB
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1

19 October 1988

Dear Sir Brian,

I understand that an attempt has been made to allow for the effect of the postal strike on exports by increasing the normal accounting period by two days. It would be preferable in my view to stick to normal practice and explain in notes that the figures may be distorted due to the postal strike. Can we, at this admittedly late stage, make this change - or better still remove any October dated exports which will have got into the September figures by the extension of the reporting period.

I am very apprehensive indeed about the consequences for both the integrity of the statistics and for the effects on the October figures if we fail to do this. We shall be very loath here to go along with any suggestion that increasing the export figure by allowing an extra 10% of recording time produces an undistorted figure for September.

I am copying this letter to Brian Unwin and to Jack Hibbert.

*Yours sincerely,
Peter Middleton*

P.P.

P E MIDDLETON

*Done by Sir Peter Middleton and
signed in his absence*

SECRET AND PERSONAL

FROM: C TURK
DATE: 19 OCTOBER 1988

SIE P MIDDLETON

cc Chancellor
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr O'Donnell
Mr Curwen

EFFECT OF THE POSTAL STRIKE ON THE SEPTEMBER TRADE FIGURES

1. Sir T. Burns held a meeting this afternoon attended by Jack Hibbert (CSO), Hans Leisner and Peter Stibbard (DTI), Mitch Pratt and Athol Cowley (Customs and Excise) and Messrs Scholar, Sedgwick, O'Donnell and Ms Turk (Treasury) to discuss the adjustments made to the September Trade figures to allow for the postal strike.
2. At the start of the meeting Mr Stibbard informed everyone that exports were up 12 per cent in September. This would be a new monthly record. There has been a tendency recently for the September figure to be large - indeed last year the increase between September and October was around 6 per cent - which suggests that incorrect seasonal adjustment may explain part of the increase. (The export note containing these figures will go to Ministers tomorrow, until then you should regard this information as personal.)
3. Messrs Pratt and Cowley claimed that they had adopted the normal procedures for handling pre-entry exports (two thirds of the total). Customs know if any documents relevant to the month are missing because they are numbered. Hence, say document no. 50 is the last to be received before the cut-off date, they will include documents numbered below 50 in that month's statistics as long as they are received within a fixed period after the cut-off date. This procedure was followed as usual this month and they received an unusually large number of documents after the cut-off date as expected. But Customs argue that there is no reason to believe that this standard procedure has biased the figures. However,

There must be some doubt about this account of the handling of pre-entry exports in view of the contrast with the account given by Mr Cowley in a telephone conversation last week when he said that the September cut-off date had been extended for pre-entry documents.

4. Post shipment exports (20% of the total) were handled differently. The books were held open for an extra two days. Customs are able to estimate the lag between shipment and receipt of the document. They had initially told us that the lag had returned to the normal 12 days when the books were finally shut. This would have implied that some of October's exports were definitely included in the September figure. They now say that the lag was only down to 14 days when the books were closed. Nevertheless they feel that they could have kept the account open for too long. They currently estimate that this could have resulted in an overestimate of £100 million in the exports figure.

5. In support of their claim that the figures were unbiased they pointed out that the proportion of export documents received through various routes was similar to the usual pattern. In particular the balance between documents received in computerised and non-computerised forms was not unusual.

6. The Customs and DTI officials claimed that it would only be possible to unscramble these adjustments if the publication of the figures were delayed by up to two weeks. Sir T. Burns said that a delay of this length was not acceptable. He asked for a note from Customs giving a detailed explanation of what they had done and providing an estimate of the extra exports that had been included as a result of keeping the books open longer than usual. This figure, together with a description of the adjustments, would be made public and would at least give the markets some idea of what the figures would have looked like if Customs had followed normal procedures. Customs agreed to provide this note tomorrow (20 October). Our best guess is that this figure will be around £300 to £400 million.

7. DTI had been telling any press inquirers that Customs had adopted procedures to ensure that the postal strike would not

distort the figures and that there was no reason to expect a downward bias to the figures. It was decided to use the slightly different form of words which had been suggested by Customs:

"The postal strike delayed the receipt of export documents by Customs and Excise; action was taken to minimise the distorting effect of these delays. Any distortion which may have occurred will be compensated in the October account."

8. Sir T Burns ended the meeting by stressing that his main worry was the perceived integrity of government statistics. If occasions like this arose again he suggested that it was much better to stick with the standard procedures and where necessary provide estimates of the possible distortions.

Catherine Turk
C TURK

*omit
figures
docs!*

SECRET AND PERSONAL

From: S D H SARGENT

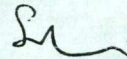
Date: 20 October 1988

MS TURK

cc Chancellor
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr O'Donnell
Mr Curwen

EFFECT OF THE POSTAL STRIKE ON THE SEPTEMBER TRADE FIGURES

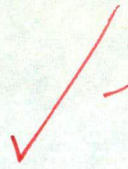
Sir Peter Middleton was most grateful for your note of Sir T Burns' meeting of 19 October. He very much agrees with the line taken by Sir T Burns.



S D H SARGENT
Private Secretary



the department for Enterprise



CONFIDENTIAL

CH/EXCHEQUER	
DATE	20 OCT 1988
AMOUNT	
CURIES TO	

TO:

Minister for Trade

FROM:

PETER STIBBARD
Hd S2
Rm 260 1 V/S
215 4872

20 October 1988

SEPTEMBER

OVERSEAS TRADE FIGURES FOR ~~OCTOBER~~ EXPORTS

September

The timetable for the ~~October~~ figures required me to report exports to you yesterday. The basic figures were received within the agreed timetable from H M Customs, but in view of action taken by Customs to counteract the effects of the postal strike, we are scrutinising them even more closely than usual.

To allow more time for this, I now intend to report the export figures on Friday 21 October, at the same time as the import figures and the resulting balance of trade.

P J STIBBARD

CONFIDENTIAL

CIRCULATION LIST:

Copy No: 1 Minister for Trade
2 Prime Minister
3 Chancellor of the Exchequer
4 Secretary of State for Trade and Industry
5 Chancellor of the Duchy of Lancaster
6 Sir Robin Butler (Cabinet Office)
7 Sir Brian Hayes (Dept Trade and Industry)
8 Sir Peter Middleton (H M Treasury)
9 Governor of the Bank of England
10 Chairman of the Board of H M Customs & Excise
11 Mr J Hibbert (CSO)
12 Mr M J Pratt (H M Customs & Excise)
13 Mr B Buckingham (CSO)
14 Mr Curwen (H M Treasury)
15 Mr P Sedgwick (H M Treasury)
16 Mr A McIntyre (CSO)
17 Mr D Wilson (Dept Energy)
18 Mr J Hibberd (H M Treasury)
19 Mr H H Liesner)
20 Mr P J Stibbard)
21 Mr G Jenkinson)
22 Mr E J Wright) Department of
23 Mrs A Brueton) Trade and Industry
24 Miss H Chapman)
25 Mr J Cottis)
26 Mr C Martin)
27 Mr Wright (Bank of England)
28 Ms Turk (H M Treasury)
29 File

Sir Brian Hayes GCB
Permanent Secretary

SECRET

Sir Peter Middleton KCB
HM Treasury
Parliament Street
LONDON SW1

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

PERM. SEC'S. OFFICE	
RECEIVED	
20 OCT 1988	
Action	Miss C Turk
Copies	PPS
To	Sir T Burns Mr Schöler Mr Seagwick Mr O'Donnell.

Direct line 215 4439
Our ref
Your ref
Date 20 October 1988

Dear Sir Peter

SEPTEMBER VISIBLE EXPORT FIGURES

Thank you for your letter of 19 October.

I understand it is not now operationally possible for Customs to re-calculate the export figures in all their detail using the normal closedown date. To do so would delay public release of the September figures and possibly have consequential effects on the processing timetable for the October figures.

Fortunately, the impact of the extension of the accounting period on the value of recorded September exports is much less than is implied by your last sentence: in effect, the extension was only applied to about one-fifth of trade. Any "October" trade that was put in September account as a result of Customs action may well be balanced by "September" trade which missed the extended closedown date.

I understand that Terry Burns called a meeting yesterday afternoon at which Customs explained the mechanics of the action they took and no doubt Terry will be reporting to you on the outcome.

SECRET

2

I agree of course that the paramount consideration must be the integrity of the figures. As I understand it, however, it was precisely with integrity in mind that Customs took the action they did; they were trying to correct for distortions in the September figures caused by the strike, thus contributing to a better understanding of recent export trends. I gather that their intention to carry out some action of this kind was made clear at the meeting on the August figures, held here on 22 September, at which Treasury representatives were present.

I am copying this to Brian Unwin and to Jack Hibbert.

Yours sincerely,

T. Hayes

for BRIAN HAYES

*(Approved by Sir Brian
and signed in his absence)*

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30 a.m
ON 27 OCTOBER 1988 AND THEREAFTER UNCLASSIFIED

TO:

Minister for Trade

Copy No 3. (29)

FROM:

PETER STIBBARD
Hd S2
Rm 260 1 V/S
215 4872

21 October 1988

Ch
See X — advice on this
is all over the place. Need
urgent views from Peter & Terry on
Monday
Yes *Wick* *in* *AA*

OVERSEAS TRADE FIGURES FOR SEPTEMBER 1988

THE CURRENT ACCOUNT

In September, the value of exports was £7.6 billion and imports, £8.6 billion, so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £1.1 billion compared with the deficit of £1.8 billion in August.

The Central Statistical Office continue to project a surplus on invisibles of £0.5 billion for months in the third quarter of 1988 so that the current account is provisionally estimated to have been in deficit by £0.6 billion, compared with a provisional estimate of £1.3 billion in August.

TABLE 1: CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES (Table 2 of Press Notice)

Seasonally adjusted
Balance of Payments Basis
£ million

	Current Account Balance	Visible Trade Balances			Invisibles Balance
		Total	Oil	Non-oil	
1986	-198	-8715	+4056	-12772	+8517
1987	-2504	-10162	+4184	-14346	+7658
1988 Q2	-2914	-4433	+677	-5111	+1519
1988 Q3	-4024A	-5524	+361	-5885	+1500A
1988 July	-2151A	-2651	+65	-2716	+500A
Aug	-1313A	-1813	+140	-1953	+500A
Sept	-560A	-1060	+156	-1216	+500A

A = Projection or part projection

What is 1988 Q1?

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30 a.m
ON 27 OCTOBER 1988 AND THEREAFTER UNCLASSIFIED

In the third quarter there was a deficit on visible trade of £5.5 billion - a surplus on trade in oil of £0.4 billion, offset by a deficit in non-oil trade of £5.9 billion. Between the second and third quarter, the visible trade deficit increased by £1.1 billion; the surplus on oil fell by £0.3 billion while the deficit on non-oil trade rose by £0.8 billion.

EXPORTS

The value of exports in September was £813 million (12 per cent) higher than in August. Exports of oil rose by £41 million and exports of the erratic items rose by £234 million between the two months. Excluding oil and the erratic items, exports rose by 9 per cent between August and September.

In the third quarter, total export volume was unchanged from the previous quarter but 1½ per cent higher than in the same quarter last year. Excluding oil and the erratic items, export volume was 5 per cent higher than in the previous quarter and 6 per cent up on the same period a year ago. The underlying level of non-oil export volume continues to rise.

TABLE 2: EXPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop Basis, Seasonally Adjusted

	VALUE (£m)		VOLUME (1985 = 100)	
	Total	Total less Oil and erratics	Total	Total less Oil and erratics
1986	72678	59098	103.6	102.3
1987	79422	65000	109.9	109.2
1988 Q2	20238	17050	111.1	112.7
1988 Q3	21084	18337	110.8	118.3
1988 July	6775	5965	108.1	117.3
Aug	6748	5917	105.1	113.4
Sept	7561	6455	119.2	124.0

By value, total exports rose by 4 per cent in the latest quarter compared with the previous quarter. Exports of manufactures were 6½ per cent up on the previous quarter; within manufactures,

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27 OCTOBER 1988 AT 11.30am AND THEREAFTER UNCLASSIFIED

exports of capital goods rose by 15 per cent and exports of passenger motor cars rose by 12 per cent.

Also by value, the rise in exports to the developed countries was 2½ per cent - within which exports to the rest of the European Community rose by 4 per cent while exports to North America rose by 3½ per cent.

IMPORTS

The value of imports in September was £60 million higher than in August. Imports of oil rose by £25 million while imports of the erratic items decreased by £353 million between the two months. Excluding oil and the erratic items, imports rose by 5 per cent between August and September.

In the third quarter, total import volume was 6½ per cent higher than in the previous quarter and 13 per cent higher than in the same period last year. Excluding oil and the erratic items import volume was 7½ per cent higher than in the previous quarter and 15 per cent up on the same quarter a year ago. The underlying level of non-oil import volume has been rising strongly in recent months.

Table 3: IMPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice).

	Bop Basis, Seasonally Adjusted			
	VALUE (£m)		VOLUME (1985 = 100)	
	Total	Total less oil and erratics	Total	Total less oil and erratics
1986	81394	73598	107.0	106.0
1987	89584	81462	114.4	115.0
1988 Q2	24671	22496	127.4	127.9
1988 Q3	25608	24469	135.5	137.8
1988 July	9427	8651	145.1	146.7
Aug	8561	7715	130.1	130.5
Sept	8621	8103	131.1	136.3

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30 a.m.
27 OCTOBER 1988 AND THEREAFTER UNCLASSIFIED

By value, imports rose by 8 per cent in the latest quarter compared with the previous quarter. Imports of manufactures during the latest quarter were 8 per cent up on the previous quarter; within manufactures, imports of passenger motor cars rose 15 per cent.

Again in value terms, imports from the developed countries rose by 5 per cent over the latest quarter, with arrivals from the European Community countries up by 5 per cent, from North America up by 9 per cent and from the other developed countries up by 8½ per cent. Imports from the developing countries increased by 17 per cent between the two three-month periods.

TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in this month's press notice. On present estimates they show a deficit in the third quarter of £3.7 billion compared with a deficit of £3.3 billion in the previous quarter.

Table 4: TRADE IN MANUFACTURES (SITC 5-8) (Table 16 of Press Notice, quarterly data only)

	£ million Seasonally Adjusted Balance of Payments Basis		
	Exports	Imports	Balance
1986	54454	60165	-5710
1987	60656	68146	-7490
1988 Q2	16233	19510	-3277
1988 Q3	17307	21045	-3738
1988 July	5455	7461	-2006
Aug	5580	6782	-1202
Sept	6272	6802	-530



the department for Enterprise

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11.30am
ON 27 OCTOBER 1988 AND THEREAFTER UNCLASSIFIED

QUALITY OF THE FIGURES

X About half of export documents are sent to Customs' Statistical Office via the postal services and the postal dispute disrupted the supply of these documents during the September period of account. To allow time for the backlog relating to the September account to clear, closedown for certain types of 'post-entry' trade was delayed by two days beyond the scheduled date. During that two-day period an estimated £200 to £250 million of exports were processed. A proportion of these would normally have been included in the October period of account. But this has to be set against any 'September' trade that may not have been captured by extending the closedown date, which will be included in the October account. ~~The net effect on the September figures of the disruption to the postal services is, therefore, probably quite small.~~

Import figures are not affected by postal disputes as the information is sent almost entirely by electronic means.

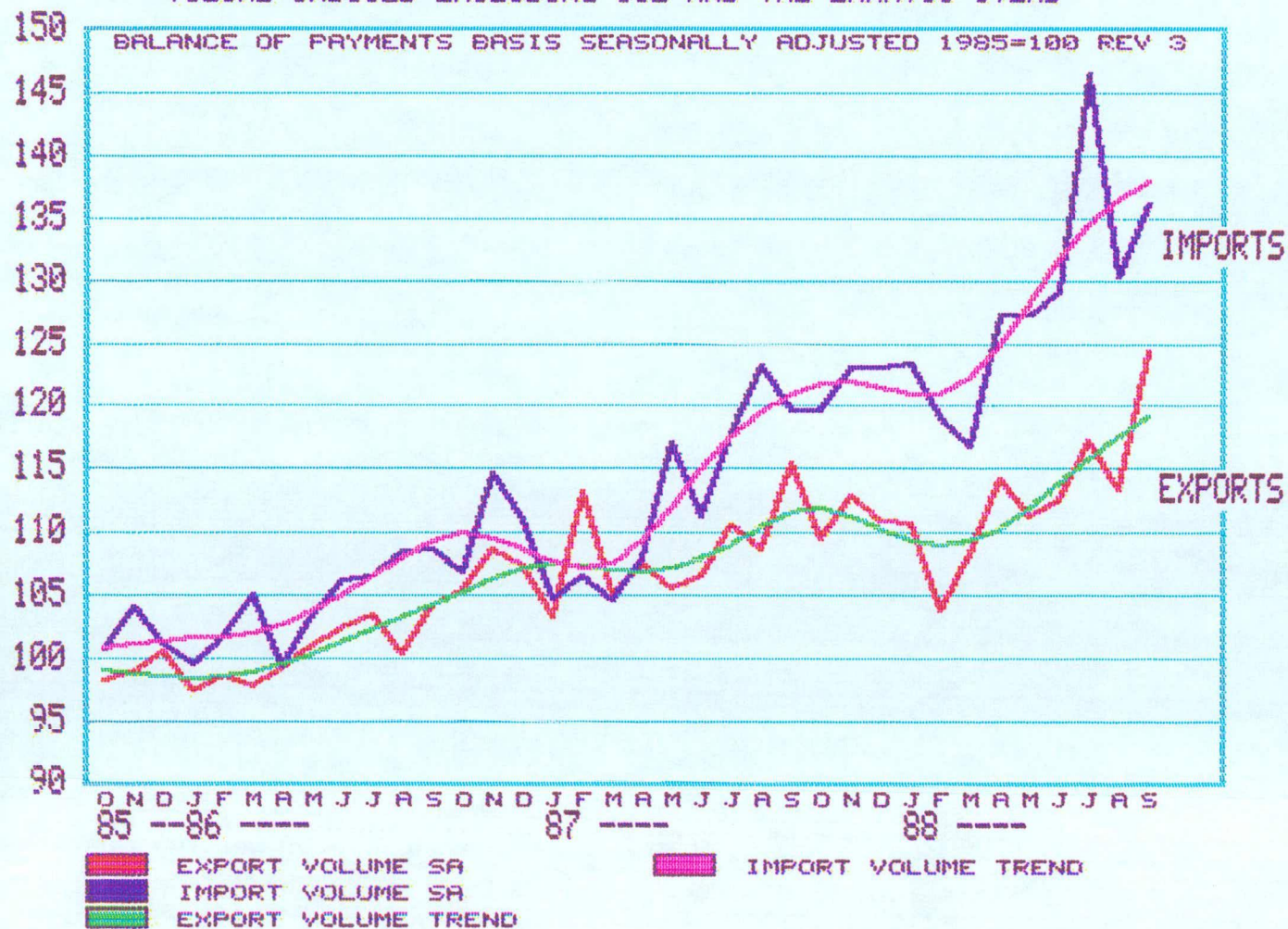
PUBLICATION

The press notice containing the September figures is scheduled for release on Thursday 27 October 1988.

P J STIBBARD

SECRET AND PERSONAL UNTIL THE RELEASE OF THE PRESS NOTICE ON 27.10.88

VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS



CIRCULATION LIST:

Copy No: 1 Minister for Trade
2 Prime Minister
3 Chancellor of the Exchequer
4 Secretary of State for Trade and Industry
5 Chancellor of the Duchy of Lancaster
6 Sir Robin Butler (Cabinet Office)
7 Sir Brian Hayes (Dept Trade and Industry)
8 Sir Peter Middleton (H M Treasury)
9 Governor of the Bank of England
10 Chairman of the Board of H M Customs & Excise
11 Mr J Hibbert (CSO)
12 Mr M J Pratt (H M Customs & Excise)
13 Mr B Buckingham (CSO)
14 Mr Curwen (H M Treasury)
15 Mr P Sedgwick (H M Treasury)
16 Mr A McIntyre (CSO)
17 Mr D Wilson (Dept Energy)
18 Mr J Hibberd (H M Treasury)
19 Mr H H Liesner)
20 Mr P J Stibbard)
21 Mr G Jenkinson)
22 Mr E J Wright) Department of
23 Mrs A Brueton) Trade and Industry
24 Miss H Chapman)
25 Mr J Cottis)
26 Mr C Martin)
27 Mr Wright (Bank of England)
28 Ms Turk (H M Treasury)
29 File

SECRET

I am strongly of the view that we should make the figure public along the lines of the draft in paragraph 4. However DTI are reluctant and we need to discuss how hard to push them.

FROM: C TURK

DATE: 21 OCTOBER 1988

- 1. SIR T BURNS
- 2. SIR P MIDDLETON

- cc PS/Chancellor
- Mr Scholar
- Mr Sedgwick
- Mr O'Donnell
- Mr Curwen

T.B.

This is a major work up. Though the figures done by DTI are well-attended, it was not at all; a lot of padding is in there.

THE SEPTEMBER TRADE FIGURES

We have now received the paper (attached) which Customs and Excise promised to provide at Sir T Burns' meeting on Wednesday. It describes the special procedures used to calculate the export figures and gives an estimate of the value of the extra exports which were included in the figures as a result of these procedures.

2. It is estimated that between £200 and £250 million would be deducted from the September exports figure if normal procedures had been followed. Customs concede that this may represent an overestimate of the 'correct' adjustment on account of the postal strike (ie some 'October' trade may be included) but argue that any error will be offset to the extent that some September trade is counted in the October figures because the documents arrived too late to be included even in the extended September accounting period.

3. DTI have suggested following paragraph for inclusion in their press notice under the heading, "Industrial action in the postal services":

"About half of export documents are sent to Customs' Statistical Office through the postal services. Although the receipt of these documents was delayed by the postal strike, action was taken to minimise the distorting effects of the delays. [It is likely that as a result of these measures the September period of account includes some documents which in normal circumstances would have formed part of the October account but also excludes some document proper to the

*Wm T
go @
all*

*The proposed DTI
writing is really
unacceptable: it's
para 4 version
is not fresh but can
accept. I will write*

let DTI accept

in my view, I need to see

*4
The DTI
is not
fresh
but can
accept*

September account which had not arrived by close-down.] The net effect on the September export figures arising out of the disruption to the postal services is therefore probably quite small. Any distortion which may have occurred will be compensated for in the October account."

4. We had previously suggested an alternative paragraph which refers to the figure of £200-250 million, as was agreed at Sir T Burns' meeting:

"A significant proportion of export documents are sent to Customs statistical Office via the postal services, and the postal dispute disrupted the supply of these documents during the September period of account. In order to minimise the distorting effects of the delays, some of the documents received after the normal closing date were included in the September account. It is estimated that this resulted in the exports figure being £200-250 million higher than if no action had been taken. Although this figure may well include some documents which would normally have formed part of the October account, any resulting over-estimate of September's exports will be offset if some documents proper to the September account had not arrived in time to be included."

5. We will have a further chance to come to some agreement on this at the usual interdepartmental meeting on Monday 24 October. I will need to receive any comments by 11.30am on Monday.

Assessment of Customs' paper

6. Customs' analysis of the possible distortion to the figures caused by the special procedures is at the end of the third section of the paper. ('Effect of delayed closedown'.) They concede that the figures may overstate September's exports by up to £150 million, but that this figure would be reduced to the extent that some abnormally delayed September documents were not caught by the extension of the accounting period. However, the chart on the back page, and the lag analysis, suggest that most of the postal backlog had been cleared by the time the September account was closed. The figure of £150 million therefore seems a

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reasonable estimate of the distortion for post-entry documents, if one ignores the possible 'secondary effects' (second to last paragraph).

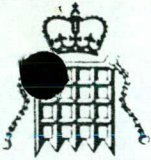
7. Customs are unable to put a figure on the possible 'secondary effects' of the special arrangements made for circumventing the effects of the strike on the receipt of documents. They claim that any such effects are likely to be small because onward transmission of documents from local Customs offices "appears to have been slower than the postal service". It does seem very strange that procedures which had been set up specifically to avoid postal delays actually resulted in even longer delays. However, it is not obvious that this effect would necessarily add to the distortion discussed in the last paragraph because the effect of the special arrangements on the length of the average lag between shipment and receipt of documents was the main determinant of the extension of the September account; if the special arrangements led to a change, whether positive or negative, to the average lag, the close-down date would have been changed accordingly.

8. Customs claim that no special arrangements were used to process pre-entry documents, so that no distortion to the September export figures could arise from this source. The fact that we had previously understood the opposite to be true could either mean that Customs are now inventing a plausible-sounding but untrue account of what they did, or it could just be a genuine misunderstanding caused by wrong and imprecise information provided by Customs. I personally am marginally more convinced by the latter explanation. Nevertheless there must be some doubt over this.

9. It is encouraging that Customs are now predicting an optimistic outturn for October's export figures.

Codrine Turk

C TURK



HM CUSTOMS AND EXCISE
STATISTICAL OFFICE
PORTCULLIS HOUSE 27 VICTORIA AVENUE
SOUTHEND ON SEA ESSEX SS2 6AL
TELEPHONE 0702 36 7155

SECRET

Mr P N Sedgwick
HM Treasury
Parliament Street
London SW1P 3AG

21 October 1988

Dear Peter

I enclose four copies of a paper which outlines the action we took to minimise the consequences of the Post Office strike and our current analysis of the effect of that action. I am sorry that we were unable to meet our hoped for deadline of yesterday evening.

You may care to know that our current prognosis for October is that it should in item terms come fairly close to September before seasonal adjustment.

Copies of this letter and the enclosure go to Jack Hibbert and Peter Stibbard.

Yours sincerely

M E PRATT
Controller
Statistical Office

Copies to

Jim T. Burns

Mr. Williams

M. T. L.

EFFECT OF POSTAL STRIKE ON SEPTEMBER 1988 OVERSEAS TRADE STATISTICS

Introduction

The postal strike grew out of the aftermath of a one day national stoppage on the 31 August (this was about the payment of special allowances in London and the South East). Sporadic action over the following days, caused by local disagreements over the employment of casual staff to clear the backlog, spread and by the 7 September 90,000 of the 140,000 staff in the Post Office's mail operation were on strike. It was estimated that the equivalent of 2 days mail was trapped in the system.

A national agreement to end the strike was reached on the 13 September but required local agreements to be reached on the terms for return to work. It was therefore some days before all sorting offices were operating again; by the 16 September the Post Office claimed to have a national service but 20,000 staff were still on strike. Southend sorting office returned to work on the 17 September but the last two offices affected did not resume until the 22 September.

As soon as it became apparent that the action was developing into a national and possibly protracted strike Customs and Excise set up alternative arrangements for the transfer of export entries from the ports to the Statistical Office. This still left post-entries submitted direct to the Statistical Office by traders under the Simplified Clearance Procedure blocked by the action, and larger traders were contacted by phone and asked to lodge documents at the most convenient Customs and Excise Office for onward transmission. This arrangement was put into operation on the 9 September and approximately the largest 600 SCP traders were contacted. Traders were instructed that they should continue to use the arrangement for one week after the end of the strike.

Decision to vary closedown

Despite the special arrangements just described it became clear from routine monitoring that document receipts were depressed, and that a substantial number of SCP documents from the early days of the action had not been received and were probably trapped in sorting offices. It was also evident that the alternative transmission arrangements within Customs and Excise were taking longer than the normal postal service, with documents being received erratically. Even after the action ended it was several days before document flows recovered sufficient to indicate that backlogs were being cleared.

Bearing in mind the considerable publicity earlier this year which was attracted by the distorting effects on the balance of payments when the normal flow of documents to Southend was delayed the Statistical Office was concerned to minimise any distortion on this occasion. It was therefore decided that efforts should be made to ensure that as much as possible of trade proper to the September account should be included, even if this meant including some documents received beyond the scheduled date of the closedown. The potential need for such action was discussed at the interdepartmental meeting immediately prior to the publication of the August figures; the Central Statistical Office, Department

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of Trade and Industry and the Treasury were all represented. The Department of Trade and Industry were in agreement provided that any consequential delay did not affect the timescale for the publication of the September figures.

Five different export procedures are conventionally identified for operational and analytical purposes. These are: pre-entry, period entry; and three categories of post-entry - computerised; documents and schedules. Table 1 shows the composition of total exports in terms of these five procedures for the six months up to September. Period entry and computerised post-entry were not affected by the action and no special action was needed to ensure they were completely recorded.

what's the diff?

In the case of **pre-entry** documents (which represent approximately 65 per cent of trade by value) it is possible to make a reasonable assessment of the month in which they should be recorded, based on detailed historical knowledge of the flow of documents, from the ports. It is normal for some batches of documents to be delayed in transit and to be included in the account for a particular month even though received after the closedown. In September this was necessary to a much greater extent and effectively amounted to keeping the account open for an extra one and a half days. Batches received during this period which were proper to the September account were allocated accordingly, the smaller number of batches proper to the October account were left for late inclusion in that account.

The position was rather more difficult for post entries. It was clear that some documents received during the final week of the account had been considerably delayed, but only information on the average monthly lag for all such entries is available routinely. Possible methods of allocation would have to use the average lag, either by inspecting individual documents or by delaying the cut-off an appropriate amount. The former was considered not feasible because of the volume of documents which would need to be scrutinised and the short time scale available. The latter was considered feasible and likely to provide a broadly equivalent and acceptable result. It would of course lead to some documents proper to the October account being included in September, but these should be offset by September documents which had still not been received by the extended close-down and would therefore be included in October.

The approach adopted was to calculate estimates of the average lag for post entries received on a number of days during the post strike period. These indicated that by normal closedown there was still a delay of around 2-3 days beyond the normal average lag and it was therefore decided to extend the closedown by 2 days. [Chart 1 shows these estimates; the extent to which the closedown should be delayed is determined by the intersection of the curve of recorded lags and a 45 degree line originating from the value of the normal average lag at the originally scheduled date of closedown. This is equivalent to saying that documents received one day after the originally scheduled date of closedown would be included if the daily estimate of the lag was one or more days above average, at two days if the lag was two or more days above average etc.]

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Confirmatory evidence of the residual effect of the strike was provided by high document receipts around the originally scheduled closedown. Chart 2 shows a smoothed series for post entry daily receipts of documents, and it is evident that receipts peaked at this point and then rapidly returned to normal levels.

Effect of delayed closedown

It is not possible to obtain directly the actual value of post-entry trade which fell into the two days after the originally scheduled closedown. An estimate can be obtained by using document counts for those two days which must be converted to items; a value estimate can then be produced by using estimates of value per item available for different procedures. Using this approach it is estimated that the value of trade over these two days was £225 million, within a range of £200 million to £250 million.

It is also possible to estimate the trade that would be recorded per day in a normal month. Table 2 shows the monthly averages for the two components of post-entry which were affected by the delayed closedown. We assess from this that a two day extension would mean the inclusion of around 11,000 items of trade amounting to £150 million; within a range of £125 million to £175 million.

This suggests that the September account has been inflated by £225 million (3%) as a result of the two day extension. It is reasonable to attribute £75 million (the difference between the actual figure and what would be expected over a normal two days) to clearance of the September backlog. The remaining £150 million (2%) inflation of the September account may be trade appropriate to the account, and represents the maximum distortion of the September export account. Any abnormally delayed September documents which were not caught by the extension will be included in the October account and would further reduce this figure.

September Export Results

The OTS total export value figure for September is high, only exceeded by the March figure; although relatively high in item terms the September figure is also lower than June and is little up on the September 1987 figure (these figures are of course not seasonally adjusted). There is no evidence that post entries within the month as recorded have increased as a share of total trade (see Table 1). This might have been the effect if the delayed closedown had inflated exports under SCP.

However, an analysis of the normal monthly export figures by month of shipment does show an anomaly in September. In item terms the 'percentage of trade shipped and recorded in September' is higher than any other month since January 1986, the 'value of trade shipped and recorded in September' is also high but over the same period two higher months have occurred. There is a regular pattern for a high September figure to follow a comparatively low August. This is thought to be a holiday effect, which would be removed by seasonal adjustment. However, any change in seasonality can only be tracked slowly, and the Department of

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Trade and Industry only revise factors at the end of the calendar year.

A possible explanation of the unusually high figures on this occasion is that additional September trade, which would have been recorded in October, could have been included in the September figure. However this analysis is not stable and until the October figures are available, which would need to show a corresponding drop in the proportion of September trade, it is not possible to be certain that the delayed closedown has overcompensated for distortion caused by the postal dispute.

Secondary Effects

In view of the special arrangements made for large SCP traders (see introduction) it is possible that they may have been spurred into submitting entries to local Customs and Excise offices more quickly than they would have posted same. However, the onward transmission from local offices, which in many cases had been set up specially, appears to have been slower than the postal service and was erratic particularly at the beginning and end of the special arrangements. Average lags discussed earlier provide our only measure of the net effect of these different factors. Assessment of their relative effects, which in any case would be unlikely to have a significant bearing on the amount of net distortions, would be highly speculative.

Past experience is that it is impossible to make a reliable assessment of such effects by looking at one month in isolation. At the very minimum October figures, which will enable the analysis of goods shipped in September to be completed, is needed before conclusions are drawn.

Conclusion

The Press Notice on the September account should refer to the effect of the postal strike as follows: 'The postal strike delayed the receipt of export documents by Customs and Excise Statistical Office; action was taken to minimise the distorting effect of these delays. Any distortion which may have occurred will be compensated in the October account'. Internal briefings may draw more fully on the contents of this note.

TABLE 1

EXPORTS BY CUSTOMS PROCEDURE

Percentages

	Value					Items				
	Pre- entry	Period entry	Post entry			Pre- entry	Period entry	Post entry		
			Computer	Documents	Schedules			Computer	Documents	Schedules
April	65	6	6	15	8	60	4	11	13	12
May	65	5	6	15	8	61	4	10	13	12
June	65	5	6	14	9	61	4	10	13	12
July	64	6	6	15	9	61	4	10	13	12
August	65	5	7	14	9	59	4	12	13	12
September	66	5	6	15	8	61	4	10	12	12

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TABLE 2

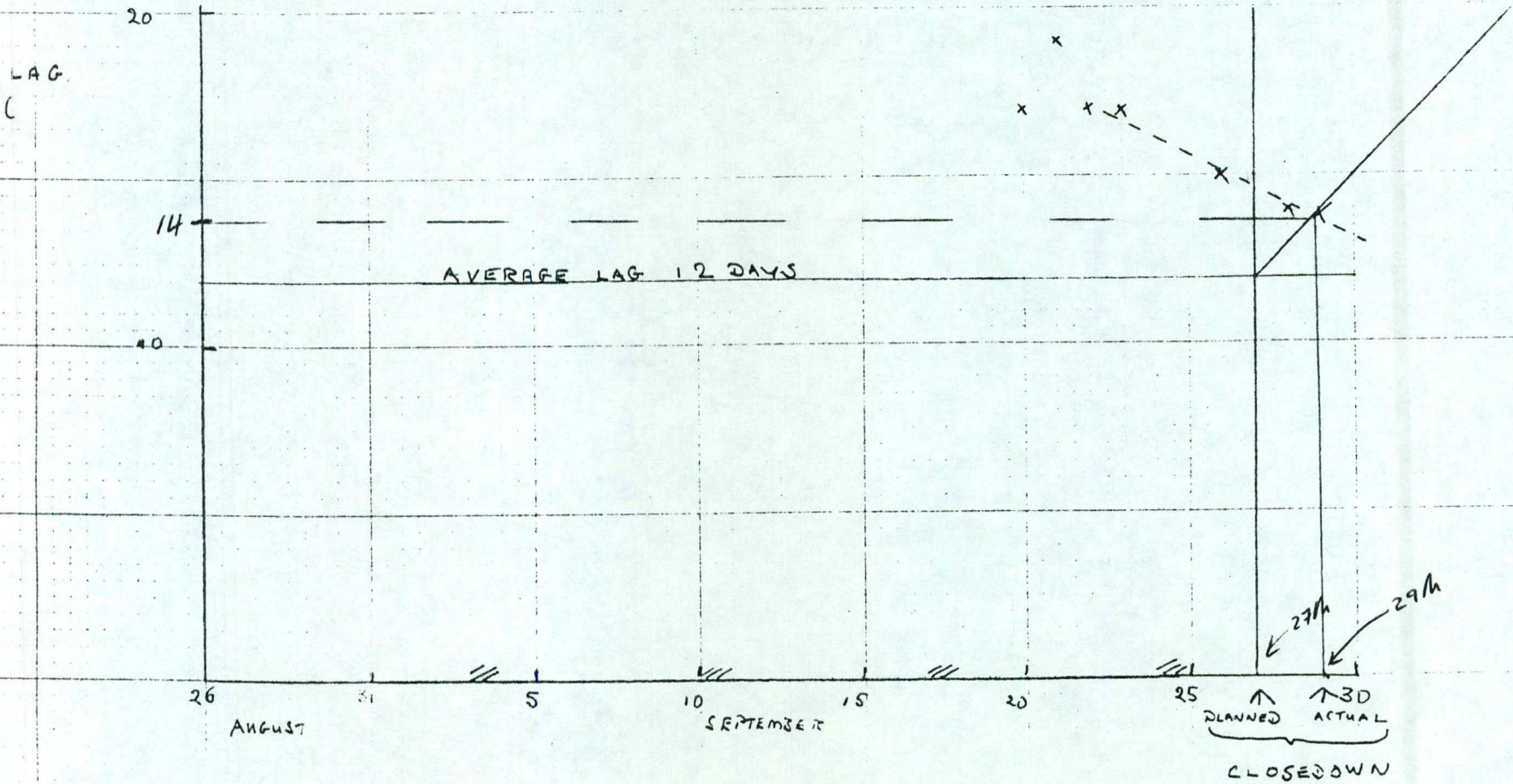
POST-ENTRY EXPORTS EXCLUDING HMC80 -
AVERAGE DAILY RECEIPTS BY STATISTICAL OFFICE

	No of items (000's)	Value (£'s million)
APRIL	6.16	82.0
MAY	5.75	75.3
JUNE	5.87	77.1
JULY	5.56	75.0
AUGUST	5.18	64.2

POST ENTRY DOCUMENTS & SCHEDULES -

SPOT ESTIMATES OF LAGS DURING SEPTEMBER 1988

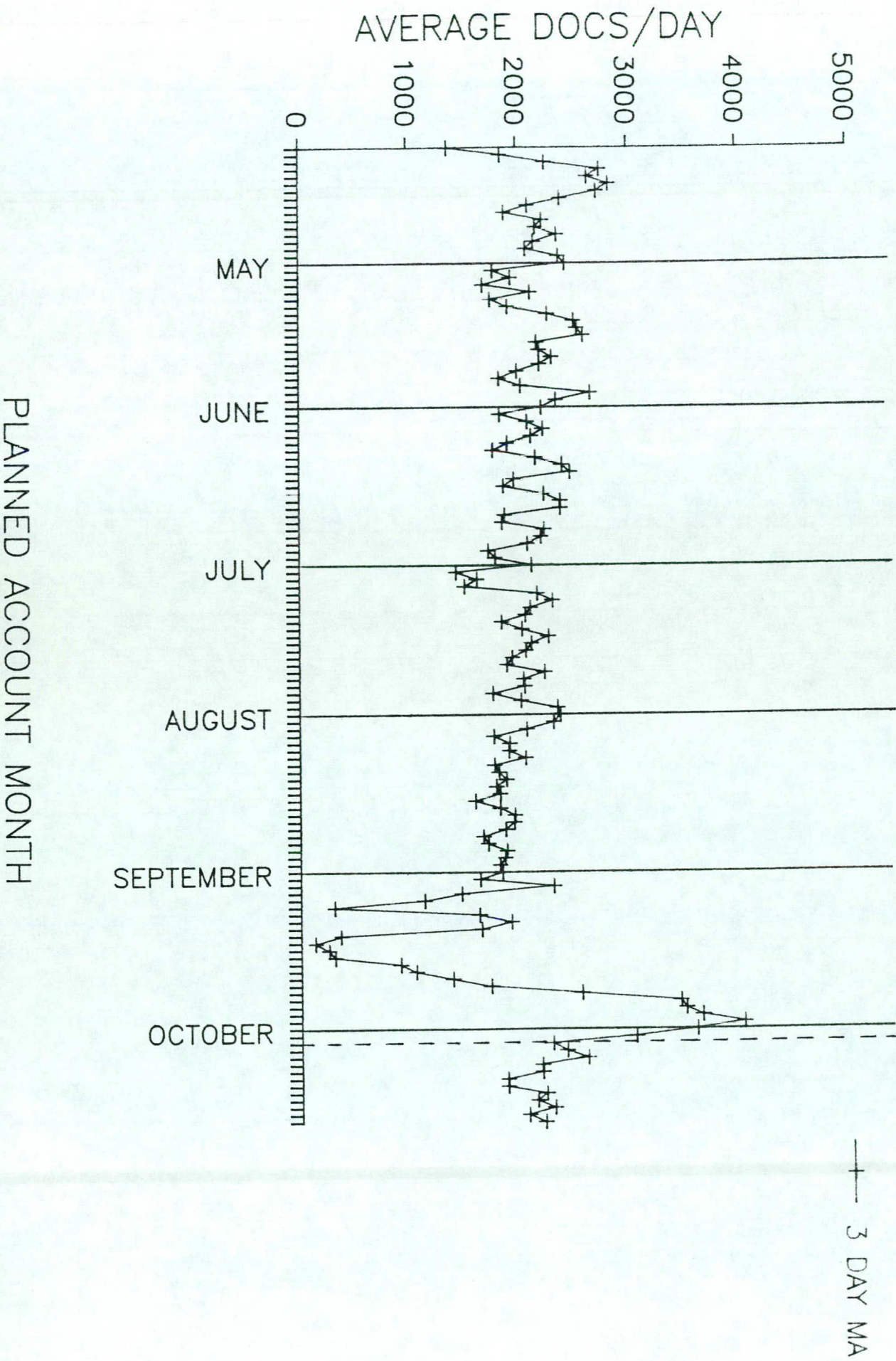
x SPOT ESTIMATE
- - - ASSUMED RE-ADJUSTMENT



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CHART 1

POST-ENTRY DOCUMENTS(SADS)
AVERAGE DOCS/DAY---3 DAY MA(NOT CENTRED)



FORM

FROM: GUS O'DONNELL

DATE: 24 OCTOBER 1988

SIR P MIDDLETON

a
OTC to X? yes -
(may not be worth pressing overordenat)
but I'd definitely omit X. I agree! The word is sufficient on this topic.
I don't think it is.

cc PS/Chancellor
 Sir T Burns
 Mr Sedgwick
 Mr Gieve
 Mr Bush
 Ms Turk
 Mr Curwen

simple
don't have

EFFECT OF THE POSTAL STRIKE ON THE SEPTEMBER TRADE FIGURES

Caroline Turk, Peter Curwen and I attended a meeting at DTI to discuss the draft press notice for the September trade figures.

2. They agreed with our suggestion that a warning should be added to the first paragraph referring readers to the explanation of the postal strike effect contained in the notes to editors.

3. DTI agreed to drop their proposed press line on the postal strike effect and insert our draft subject to some minor modifications. The relevant paragraph now reads:

About half of export documents are normally sent to Customs Statistical Office via the postal services, and the postal dispute disrupted the supply of these documents during the September period of account. To allow time for the backlog of post to clear, some of the documents received in the two days after the normal closing date were included in the September account. It is estimated that this may have resulted in the export figure being £200-250 million higher than if no action had been taken. Some of the documents received in the 2-day period would normally have been included in the October period of account. But this has to be set against any 'September' trade not captured even after extending the closedown date, which will be included in the October account.

may have been partially offset by some

Import figures are not affected by postal disputes as the information is sent almost entirely by electronic means."

4. The new version is slightly longer than you had suggested but DTI were reluctant to agree to quote the £200-250 million number without adding a little further explanation. We judged this to be acceptable as our main concern was that the press notice should include the £200-250 million figure.

5. DTI have already received numerous enquiries, mainly from market analysts, about the effect of the strike. A number of brokers circulars have also commented on the strike, with most of them arguing that exports will be understated. (The markets currently expect the September deficit to be in the range £1.2-1.8 billion.) DTI have been trying to correct this impression by explaining to callers that they have made allowances for the effect of the strike.

6. We pointed out that it would make sense to have an agreed inter-departmental response to enquiries made before publication of the figures. DTI have suggested the following, which we are inclined to accept:

About half of export documents are normally sent to Customs Statistical Office via the postal services, and the postal dispute disrupted the supply of these documents during the September period of account. Customs took action to compensate for the disruption.

[IF PRESSED: The main measures were:

- (i) use of alternative carriers;
- (ii) contacting SCP traders to arrange delivery of documents to local Customs Offices;
- (iii) including some documents received after the normal closing date which were thought to belong to the September account.]

Y
OMIT

As far as we can tell, it is unlikely that the September export figure is significantly distorted by the effect of the postal strike.

Import figures are not affected by postal disputes as the information is sent almost entirely by electronic means."

A O'Donnell

A O'DONNELL

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

**Department of
Trade and Industry**

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 12 November 1988

CHIEF SECRETARY	
REC.	10 DEC 88
ACTION	Miss Swift
TO	CX, PMG, Mr Anson, Mr Monk, Mr Moore, Mr Seaman, Mr Brown, Mr Tarkenton, Mrs Chaplin

McCall

POST OFFICE BOARD BONUS SCHEME 1988/89

When I wrote to you on 3 October with details of the bonus scheme for the current year, I undertook to let you have proposals for the Chairman's own personal objectives.

These are now attached and I hope you can accept them.

TONY NEWTON

IN STRICTEST CONFIDENCE

Bonus Scheme for Chairman 1988/89

Performance related bonus to be payable up to a maximum of 25% of salary.

Corporate Element
(max 18%)

Based on the average percentage bonus earned by other executive board members

Personal Objectives

1. Secure Board approval by the end of the financial year 1988-89 of an Information Strategy Plan for the Post Office and each of the postal Businesses. (4%)
2. Ensure the overall implementation of the planned savings from the Milne Review (achieving gross savings of 1,051 posts and £6.99m in 1988-89) and specifically introducing the recommendations relating to the Departments under the Chairman's control, achieving gross savings of 87 posts and £0.74m in 1988-89. (3%)
(see attached schedule)

Note 1 Bonus will be payable as a lump sum in arrears and will be agreed with the Department following publication of the Report and Accounts.

Note 2 Bonus will not be pensionable.

IN STRICTEST CONFIDENCE

	<u>Posts</u>	<u>Bodies</u>	<u>88/89 Saving</u>
BMPCR	84	42	475,000
BMCFFP	20	10	75,000
MDL	600	500	4,000,000
MDC	222	185	2,000,000
MDP	38	12	200,000
TOTAL	<u>964</u>	<u>749</u>	<u>£6,750,000</u>
+ Chairman	87	80	742,000
TOTAL	<u>1051</u>		<u>£7,492,000</u>



the department for Enterprise

SECRET

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

000651

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
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SW1P 3AG

Department of
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1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

CHIEF SECRETARY	
REC.	- 9 DEC 1988
ACTION	Mrs Brown
TO	CHRISTIE, SIR AMOORETON

Direct line
Our ref
Your ref
Date

215 5147

9 December 1988

Mr Anderson, Mr Mack, Mr Phillips
Mr Burgess, Mr Cuckery, Mr Moore
Mr Turnbull, Ms Seaman, Mr Goy
Miss Swift, Mr Galt

Dear John,

FUTURE STRATEGY FOR THE POST OFFICE

We had been due to discuss our future strategy towards the Post Office at E(A) on 1 December. In the event, other priority business meant that this was put back until 20 December. In the meantime the industrial relations position in the Post Office businesses remains volatile. In Royal Mail Letters (RML), negotiations on a successor to Difficult Recruitment Area Supplements - the immediate cause of the September strike - are continuing. However, the union's mandate for industrial action from their August ballot remains valid and while I believe it is unlikely they will take widespread action in the run-up to Christmas we must be prepared to make a robust response, possibly at short notice. In Counters there has been continuing area action over proposals to re-grade Crown Offices as Sub-Post Offices and a national strike is planned for 12 December, although Counters management do not expect this to receive more than about 50-60% support. Away from the industrial relations scene, difficulties have arisen over the Girobank sale. For these reasons I would very much like to secure colleagues' agreement to my proposed course of action on the main issues before the date now scheduled for the next E(A).

EM6AAM

NEWTON
TO
COT
9 DEC

Letter Monopoly

2. The monopoly was last considered by colleagues at E(A)(88) 1st meeting. The main conclusion was that more work was needed before decisions could be taken or any consultations held with outside interests. Some further work was indeed undertaken within my Department but attention then focused on privatisation plans for Girobank. The industrial action in September followed by the regional pay proposals led me to reconsider the options for the future of the monopoly.

3. I am not in a position to give a detailed response to all of the points raised previously by E(A). This is simply not possible without consulting outside interests. I have, however, considered the two principal options: abandoning the monopoly or reducing its present £1 lower limit. The first option is the one that raises particularly the need for outside consultation. In my view it also raises the most difficulties. There are several possible variations, the principal ones being: a duopoly along the lines of BT/Mercury; a "regional duopoly" with several non-overlapping regional bodies competing with RML; a system of licensed competition; and a completely open system with no licensing.

4. Each of these alternatives raises a number of complex issues. The main one is that of universal delivery. I believe this is widely perceived as a major attraction of the present system. If we were to adopt an alternative that were to put it at risk then I think we would need to be able to demonstrate that the advantages of that alternative were very clear. Conversely, however, E(A)(88) 1st meeting rightly expressed concern over the possibility of requiring any licensee to deliver universally. Another possibility might be to require the Post Office to deliver letters from rural centres to outlying places, but the practical effect of this might merely be to transfer the RML monopoly to the regions where it would be difficult to ensure, far more so than in the BT/Mercury case, that the licensee, let alone the individual mail user, was receiving fair treatment. Other major issues raised by some or all of the above alternatives are how to ensure quality of service, the ending of the universal tariff, possible regulation of charges, "creaming off" of RML's more lucrative business and the consequences this would have for the long term financing of the Post Office.

5. The legal advice I have received is that all of the above alternatives would almost certainly require primary legislation. A Bill would be contentious with our own backbenchers, particularly those with rural constituencies. At the earliest it could not be introduced until 1989/90 and more likely, subject to John Wakeham's views, 1990/91. We should also bear

in mind that we said during the 1987 election campaign that we would not privatise the Royal Mail. If we are to consider thoroughly all the long term options then I think this one should probably be included as well.

6. The second main option is to reduce the level of the monopoly from its present £1 limit. I believe there is a strong case for this. E(A) was attracted by this option earlier in the year and in particular by a reduction to 50p. This change might not have an immediate impact on the competitive situation. Competitors in the short term would probably limit themselves, as at present, to competing in the area of premium, time-sensitive traffic. But in the longer term, as Post Office tariffs rose and the 50p minimum tariff for competitors declined in real terms, an increase in competition for standard mail could be expected. Potential competitors would also have an incentive to invest, knowing that the 50p limit would remain in place for some time. They may or may not choose to do so but at least we would be letting the market make up its own mind.

7. Arguably the main drawback of a reduction in the £1 limit compared to abandoning the monopoly is that it would do little to tackle the fundamental problem of the power of the Post Office unions. Introducing new competitors would, however, take time. They would need to invest heavily and, depending on the precise alternative we chose, their coverage even then would be fairly limited. Conversely, a reduction in the limit to 50p would, over time, make alternative carriers more competitive and would give them the confidence and timescale to plan and invest.

8. My conclusion is that we should proceed with a reduction in the level of the monopoly from £1 to 50p. This would not require primary legislation, merely an order under the British Telecommunications Act 1981. It would be similar to the Statutory Instrument made in 1981 which allowed competitors to provide an alternative letter service for a minimum charge of £1 per item for a duration of 25 years. I have in mind imposing a time limit of 18 years to make the expiry date coincide with that in the 1981 Order, ie 2006.

9. The other option - abandoning the monopoly - requires further consideration. It would not necessarily be precluded by a decision to reduce the level of the monopoly although the case for making a more fundamental change would be diminished. On balance, however, I recommend that we should give this option further consideration. It does raise important issues, eg competition and union power, and we must tackle them in this as in other nationalised industries. I would also like to look at the scope for privatisation, where it might be possible for us



the department for Enterprise

to take some action after the next General Election. I have in mind setting up an internal study to cover these points with a view to reporting to colleagues by the beginning of June. I would not envisage making any public announcement of the study at this stage although I would intend to consult outside interests.

10. As regards the reduction in the £1 limit, I would propose to announce this in the New Year. At the same time I would again point out that the monopoly is a privilege and not a right and that the Government was keeping options under review. With the latter in mind I would write to those companies which might see themselves as potential competitors with RML in the longer term, inviting them to submit their views on the various options.

11. I am statutorily required to consult the Post Office Board in advance of any announcement. I have informally discussed the position with Sir Bryan Nicholson. His initial reaction was that his Board would not be too concerned since he thought it would not be for some time that the reduction would have a significant impact on their core business. There is, however, a risk that the Board would be opposed in which case I may need to reconsider how to proceed.

12. Finally, the prospect of widespread industrial action in RML, either before or after Christmas, cannot be totally ruled out. In that event I should welcome colleagues' agreement to my being able to announce an immediate suspension of the monopoly for at least 6 months. I would at the same time announce that in any event the monopoly would henceforth be limited to 50p. If appropriate I would also confirm that we were looking carefully at longer term options and had invited comments from companies.

Girobank, Counters and Parcels

13. In addition to considering the letter monopoly, I have been looking at the prospects for privatisation of other parts of the Post Office businesses. In my view this has become overshadowed by the difficulties which have arisen with the sale of Girobank. Unless good prospects emerge soon that Girobank can be sold, I consider that it should be withdrawn from the market, possibly before Christmas. The continuing uncertainty is affecting the perceived value of Girobank and management of the bank. I am also concerned that lack of progress may be a dampener on the rest of our privatisation programme.

14. If we postpone the sale of Girobank, I do not think there is any mileage in pressing ahead with separate proposals for the early sale of Parcels and Counters, which raise considerably greater difficulties. Its withdrawal from the market would give us the opportunity to consider further options, notably that of privatising Counters together with Girobank. I have always felt that a possible difficulty in privatising Girobank as it stands is that it is arguably a business without premises in that it is entirely dependent on Counters for its presence in the High Street. A combination of the two might prove more attractive to potential purchasers, although they would probably both need to undertake new types of business and increase their investment first.

15. The main practical obstacles to Parcels privatisation are the close operational links between the Parcels and Letters businesses, and the fact that Parcels accounts are not currently separable to auditable standards from those of the Letters business. A necessary first step, which would not prejudice future decisions, would be to introduce separable accounts. When I have previously discussed this with Sir Bryan Nicholson, he has suggested such separation might cost up to £20m. We will obviously need to consider this in context of their future financing. I therefore propose, with your agreement, to ask Sir Bryan to reflect this in the 1989 Corporate Plan.

16. If the current set of negotiations on Girobank bears fruit and promising buyers are identified, it may be possible to proceed more actively towards Parcels and Counters privatisation. In this case I would put proposals to colleagues in the New Year.

Conclusion

17. I should be grateful for early consent from you and colleagues to my:

- i. formally consulting the Post Office Board on the level of the monopoly being reduced from £1 to 50p;
- ii. being able to announce publicly both a reduction in the monopoly and, if appropriate, its suspension;
- iii. timing of this announcement to depend on the level of any industrial action, particularly in the run-up to Christmas;



the department for Enterprise

- iv. setting up an internal study of longer term options for the letter monopoly and possible RML privatisation, including consultations with outside interests;
- v. reporting again shortly the position on Girobank, at which time I may wish to seek agreement to its being withdrawn from the market; and
- vi. asking Sir Bryan Nicholson to work up proposals for the 1989 Corporate Plan on separating Parcels from RML.

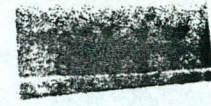
18. I am copying this letter to the Prime Minister, Douglas Hurd, Peter Walker, Malcolm Rifkind, John Wakeham, John Moore and Sir Robin Butler.

TONY NEWTON

REC.	12 DEC 1988
SECTION	Mrs Brown,
COPIES	10
	Mr Anson, Mr Mance, Mr Phillips
	Mr Bryner, Mr Chikelly
	From the Private Secretary



Handwritten signature/initials



000663

10 DOWNING STREET

LONDON SW1A 2AA

12 December 1988

*Mr Moore, Mr Tombs, Ms Seaman,
Mr Gray, Miss Swift, Mr Call.*

Dear Peter

FUTURE STRATEGY FOR THE POST OFFICE

The Prime Minister has seen the Chancellor of the Duchy's letter of 9 December to the Chief Secretary.

I should be grateful if you and copy recipients will ensure that this letter is shown only to those with a strict need to know.

The Prime Minister agrees that the level of the letter monopoly should be reduced from £1 to 50p. She also agrees that an announcement of that change should be made, coupled with an immediate suspension of the monopoly for at least six months, if that was judged appropriate in the context of widespread industrial action in the run up to Christmas. But the Prime Minister feels it would be helpful for the other issues raised in the Chancellor of the Duchy's letter to be considered at the meeting of E(A) scheduled for 20 December. She would therefore be grateful if the Chancellor of the Duchy could prepare a paper for E(A) for this purpose.

I am sending a copy of this letter to Carys Evans (Chief Secretary's Office), Philip Mawer (Home Office), Stephen Williams (Welsh Office), Uriel Jamieson (Scottish Office), Alison Smith (Lord President's Office), Rod Clark (Department of Social Security) and Trevor Woolley (Cabinet Office).

*Yours,
Paul*

(PAUL GRAY)

GRAY
TO
SMITH
12 DEC

Peter Smith, Esq.,
Office of the Chancellor of the Duchy of Lancaster.

SECRET

BF 19/12
(for E(A) files)

pe2.bk/meb/15.12.4

1. MR MOORE *Note at end*
2. CHANCELLOR *DW 15/12,*

FROM: MRS M E BROWN
DATE: 15 DECEMBER 1988

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Miss Peirson
Mr Judge
Miss Swift
Mr P Morgan
Mr Call

FUTURE STRATEGY FOR THE POST OFFICE: E(A) MEETING ON 20 DECEMBER

1. Mr Newton's paper (E(A)(88)54) proposes
 - a study of the options for ending the letter monopoly, including possible privatisation of the Royal Mail;
 - continuing the efforts to sell Girobank;
 - asking the Post Office Chairman to work up proposals for separating Parcels and Letters accounts;
 - coming back to colleagues with more detailed proposals for Counters, and Parcels;
2. The Prime Minister (Paul Gray's letter of 12 December) has already agreed that the letter monopoly should be reduced to 50p and that there should be an immediate suspension of the monopoly for at least six months if there were widespread industrial action before Christmas. She asked for the other issues originally raised in Mr Newton's letter of 9 December to be discussed by E(A). We have not been able to get any steer from No. 10 or the Cabinet Office on the views she may take. In particular, it is unclear whether her statement during the 1987 election campaign that the Royal Mail would not be privatised holds only until the next election, or beyond.

BROWN
TO
C X
BRIEF
15 DEC

3. We recommend you to

- strongly support a further Letters study, but clarify the nature of this work;
- agree that efforts to sell Giro should continue;
- secure firm agreement to a study of the future of Counters and Parcels, (and Giro if it were not sold), and insist that this should involve outside advice.
- agree to the separation of Parcels and Letters accounts, but note that this work should be closely co-ordinated with the study of Parcels and Counters.

The Letters Monopoly

4. We agree that reducing the monopoly is the only practicable short-term option. Abolishing it would require legislation, and we are precluded from early action on privatisation anyway by the Prime Minister's election pledge. But it is essential that a start is made in examining more radical options, probably for implementation after the Election. You may wish to say that while it is necessary to set a formal time limit for the new 50p limit - and Mr Newton is thinking of 2006 as for the £1 limit - there must be no suggestion that the Government rules out further change in that period.

5. Mr Newton describes (para 5) the alternatives to the present monopoly, ranging from a BT/Mercury-type duopoly to completely free competition. A number of fundamental issues would need to be addressed, including whether to insist on the retention of universal delivery; how else to safeguard deliveries in rural areas; and whether the Royal Mail should be privatised. Mr Newton proposes a study, consulting Treasury and other departments and

possibly ^{involving} outside consultants, which would report back in June. He would not announce it publicly. But he considers it essential to consult outside interests, and he therefore proposes, when he announces the reduction in the monopoly, to write to Royal Mail's main competitors to ask how they might best compete for an increased share of letter traffic in the future.

6. The question of such a study becoming public is clearly sensitive, but it would be a pity if this were allowed to stand in its way. We recommend you strongly to support the proposed study (including Treasury involvement), and to say that you favour bringing in outside consultants once the main issues have been identified.

Girobank, Counters and Parcels

7. The meeting need not spend time on Girobank. Mr Newton has dropped his idea of withdrawing it from the market before Christmas, and reports that the prospects of a sale look more promising. You can agree to review the position in February.

8. Mr Newton says that he gives priority to privatising Parcels. We agree that this is the most readily saleable business, and that separating its accounts from those of Letters is a necessary first step. But it is disappointing that Mr Newton makes no further proposals for progressing a sale. We believe that a proper study of the business by outside consultants is needed, which would assess its present financial position, and make recommendations on how the business should be developed to fit ~~it~~ for sale. We are not sure that in its present state it could stand up in what is now a quite strongly competitive market sector.

9. We agree that Counters presents greater difficulties. There is heavy cross-subsidisation between the rural and urban offices, and any privatisation plan would have to face up to decisions about the level of rural services, and whether any restrictions would be placed on resale of property assets (Crown offices etc.). Mr Newton favours a franchising solution, and proposes to put specific proposals to colleagues in due course. He would include

Giro in this work if it were not sold. He makes no mention of outside consultants.

10. We do not think this goes far enough. We recommend you to propose that:

(i) a proper business study of the options for both Parcels and Counters, probably by management consultants, should be agreed in principle now. *The Parcels work could start immediately;*

(ii) Mr Newton should return to E(A) as soon as Giro's fate is known with a paper setting out terms of reference for the Counters study. This would include any special criteria - eg. a requirement to maintain a rural network, areas, or whether restrictions should be placed on the re-sale of Crown Office property. But the aim of the study should be to identify a range of options, including full transfer to the private sector. The study should not be limited to franchising, even though that may prove an attractive approach, at least in rural areas;;

(iii) the separation of Parcels from Counters should go ahead, but this work should be closely coordinated with that of the general study; and

(iv) DTI should also maintain read-across between any Letters study and the work on Counters and Parcels

Public Sector options

11. If colleagues decided firmly on Tuesday to retain some or all parts of the Post Office in the public sector indefinitely, some major issues would still need to be addressed. Counters' traditional business as an agent for Government departments is expected to decline - for instance as automated credit transfer of pensions and other benefits increases. The Post Office wish to build up new business (eg. selling insurance and other financial services) to compensate, although they accept that some change in the Counters network will be needed. The alternative strategy is

to contract Counters to a much more basic service, probably accelerating the conversion of Crown into sub-offices. Similarly, if Giro were not sold, there would need to be decisions on whether or not to pump in more money with a view to an eventual sale. Mr Newton should if necessary be asked to return with a paper for E(A) on these issues.

Mary Brown

MRS M E BROWN

I think it is very important to go ahead with these studies on the Post Office, in their own right and to help with our longer term planning.

Of the major industries which will remain after the next Election, the privatisation of Coal has been announced; a major study of the options for Rail is underway; London Underground needs to settle down post-Fennell, though London Buses are being broken into separate groups preparatory to deregulation and privatisation; the CAA is partly regulatory and the opportunities for privatisation are limited. But we so far lack a commitment to look radically at the options for the Post Office. If it were decided that the Royal Mail might be privatised post-Election, we could then start to consider how it might be implemented, how it fitted in with Coal and Rail, and what should be the order for legislation and sales. If some other option were preferred, we would at least have a basis for planning.

It would be disappointing if worries over publicity stood in the way of this work on the options. It is worth remembering that the Economist leak, last summer, of the Rail studies was received remarkably calmly. As you have said, the question over these remaining industries is not why privatise, but why not? But rather than risk having to respond defensively to leaks, you may think it safer to give cover, when the 50p limit is announced, by some low key reference to a look at longer term options.

For Parcels and Counters there is no slot for flotations, as distinct from trade sales, this side of the Election.

DJL

D J L M

SECRET

BF 19/12
FROM: MARK CALL
DATE: 16 DECEMBER 1988
(for E(A) plan)

CHANCELLOR

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Phillips
Mr Burgner
Mrs Lomax
Mr C W Kelly
Mr Moore
Mrs Brown
Ms Seammen
Mr Guy
Miss Swift
Mrs Chaplin

FUTURE STRATEGY FOR THE POST OFFICE

In his EA paper Mr Newton is seeking authority to examine a number of options, but I wonder if he isn't biting off too much vis à vis the Prime Minister in pushing for the privatisation of the Royal Mail. The introduction of competition into postal services is the main thing: privatisation of the Royal Mail is a secondary, although important, issue. I would have thought it would be more productive to go for a complete removal of the monopoly.

2. The reduction from £1 to 50p will stimulate courier services, but will not be enough to encourage the development of more widespread services. In this I agree with Mr Newton's fourth paragraph that until the limit approaches the price of a first class stamp we will not see the development of services which in any way effectively compete with the Post Office. At the Party Conference I met David Allen, Chairman of DHL, who said that even in the absence of a limit, they would be reluctant to provide universal delivery given the enormity of the investment required.

CALL
TO
CX
16 DEC

SECRET

3. Requiring would-be competitors to provide universal delivery would I think inhibit the development of competition. However in the long term we would have to either require universal delivery, or end the universal tariff (so ending one of the subsidies to those living in the country). This would be economically right, since the cost of delivering in an area of a certain addressee density would be reflected in the price. It would, however, be politically difficult (although nothing to the squeals of anguish from the Shires if road pricing were to see the light of day). As a result, I think it would be necessary to offer the possibility of cherry-picking profitable business from the Post Office (à la BT/Mercury) in order to provide a kick-start to the development of competition.

4. If it was not judged possible to end the cross-subsidy between town and country dwellers, we may have to require universal delivery after a certain number of years (either through the company's own distribution network or via interconnect with the Post Office or another company's network).

5. I have some reservations about the proposals for Parcels. As Mr Newton points out in paragraph 9, there are very close operational links between parcels and letters. Thus the separation of the two into separate business units is largely artificial, and I would not press for an auditable separation between the two. I'm sure customers don't distinguish clearly between letters, packages and parcels. Against this, one could mount a tactical argument, in that a privatised parcels company might in the future provide competition to the Post Office in letter delivery.

6. The idea of separate stamps for parcels and letters seems an unnecessary complication. Stamps are simply a record of payment, and there must be a way the parcel operation could register the stamp value handled and claim this payment from those who collect the money. That is why separating counters from delivery systems makes sense. The counters business is primarily a transaction business, rather than a delivery business. So it could indeed make sense to put PCL with Giro in the event of a delay in the Girobank sale.

SECRET

7. In conclusion, while I think an examination of all the options is highly desirable, I think it is worth pressing immediately for a suspension of the monopoly altogether. Privatisation of Royal Mail may be too much of a red rag. It would be a pity to have it ruled out as an option.

Mc

MARK CALL

CONFIDENTIAL

- ABent 25/1*
1. MR BENT
 2. CHIEF SECRETARY

PS

FROM: MISS J M SWIFT
DATE: 25 JANUARY 1989
cc: PPS ✓
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr D J L Moore
Mr Judge
Mr P Morgan
Mrs Chaplin
Mr Call

REDUCTION IN THE LEVEL OF THE POST OFFICE MONOPOLY

E(A) agreed on 20 December that the Post Office letter monopoly should be reduced from £1 to 50p in the near future and asked Mr Newton to consider further when this might be announced. Mr Newton proposes (letter 23 January) that the announcement be delayed until Post Office have completed difficult negotiations with the unions on regional pay and overtime. This would currently mean that the reduction would take effect in late April. We recommend you agree.

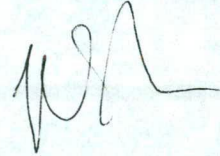
2. Mr Newton has told the Post Office Chairman of E(A)'s decision. Legislation however requires him formally to consult the Post Office before the decision takes effect. The Chairman is concerned that it may not be possible to keep this consultation procedure confidential and that news of a planned reduction in the monopoly could, at this stage, jeopardise negotiations on regional pay proposals (which have already been a subject of a national strike). Mr Newton proposes therefore to delay formal consultation until the outcome of the final union ballot is known, probably in early March.

3. We think this is sensible. The reduction in the monopoly will affect letters competition only in the long term and little will be lost by this small delay in implementation. The Post Office

CONFIDENTIAL

Chairman is clear that Mr Newton intends to suspend the monopoly altogether in the event of widespread industrial action which seriously affects service.

4. A draft is attached agreeing to Mr Newton's proposal.

A handwritten signature in black ink, appearing to be 'JMS', written in a cursive style.

MISS J M SWIFT

CONFIDENTIAL

A DRAFT LETTER TO:

The Rt Hon Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster
Department of Trade and Industry
1-19 Victoria Street
LONDON

25 January 1989

REDUCTION IN THE LEVEL OF THE POST OFFICE LETTER MONOPOLY

Thank you for your letter of 23 January.

You propose that formal consultation with the Post Office on the planned reduction in the letter monopoly should be delayed until we know the result of the union ballot on current regional pay negotiations. I am content with this. I note that you will write again if it seems necessary to change this approach and, in the meantime, I hope your officials will keep mine in touch with developments.

JOHN MAJOR