

Part 2.

SECRET

Confidential filing

Finance - the Post Office. Finances. Industrial Relations
Postal Monopoly. Telecommunications monopoly.

POST AND
TELECOMMUNICATIONS

Part 1 May 1979

Part 2 July 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
8-7-80		10.12.80					
14.7.80		11.12.80					
15.7.80		22.12.80					
16.7.80		16.1.81					
21.7.80		30.1.81.					
24.7.80		17.2.81					
28.7.80		27.2.81					
28.8.80.		5.3.81					
1.9.80		6.3.81					
6.10.80		12.3.81					
17.10.80		27.2.81					
21.10.80		- ends -					
24.10.80							
27.10.80							
30.10.80							
7.11.80							
11.11.80.							
12.11.80							
28.11.80							

PREM 19/562

● PART 2 ends:-

27.2.87

PART 3 begins:-

4.3.87

Post + Telecoms. 2

PA (CF file)

cc Mr Whitmore (O/A)

MS

PRIME MINISTER

More difficulties on interception, this time on letters.

BRITISH TELECOMMUNICATIONS BILL : COMMITTEE STAGE
NEW CLAUSE 8 : INTERCEPTION OF MAIL

Mr Weetch and Mr Mikardo tabled a new clause on the interception of mail (copy attached) which was identical in all important respects to NC6 on the interception of telecommunications. The clause was discussed on 26 February.

The Home Secretary might mention this on Monday. MS 27/2

Mr Gorst, who had on 12 February voted for NC6, abstained on the vote on NC8.

There was then a tie (7 all). Following precedent the chairman of the committee voted for the second reading of the clause but against 'stand part'. NC8 is not therefore part of the Bill. In explaining his abstention Mr Gorst said that he agreed with the principle behind the new clause but considered many of its detailed provisions would be damaging in practice. He also said that at the Report Stage he would table amendments to NC6 and his own new clause on the interception of mail.

ms

Home Office

27 February 1981

Interception of mail

Mr Ian Mikardo
Mr Ken Weetch

NC8

To move the following Clause:—

'(1) It shall be an offence deliberately to intercept the content of mail carried by the Post Office unless such interception is carried by any individual or agency acting on the authority of a warrant issued by the Secretary of State for Home Affairs in accordance with the terms of subsections (2), (3) or (4) of this section.

- 5 (2) The Secretary of State for Home Affairs may issue a warrant to a Chief Constable or the Commissioner of the Metropolis for the interception of mail provided that:
- (a) the offence being investigated is of such severity that a person with no previous record could reasonably be expected to be sentenced to three years imprisonment for it; and
- 10 (b) normal methods of investigation have been tried and failed or are deemed to be unlikely to succeed if tried; and
- (c) there is good reason to believe that an interception would result in a conviction.
- (3) The Secretary of State for Home Affairs may issue a warrant to the Customs and Excise for the interception of mail provided that:
- 15 (a) the case involves a substantial and continuing fraud which would seriously damage the revenue or economy of the country if it went unchecked; and
- (b) normal methods of investigation have been tried and failed or are deemed to be unlikely to succeed if tried; and
- (c) there is good reason to think that an interception would result in a conviction.
- 20 (4) The Secretary of State for Home Affairs may issue a warrant to the Security Service for the interception of mail provided that:
- (a) the interception relates to a major terrorist or espionage activity that is likely to injure the national interest; and
- 25 (b) the material likely to be obtained by interception would be of direct use in compiling the information that is necessary to the Security Service in carrying out the tasks laid down upon it by the Directive given to its Director General; and
- (c) normal methods of investigation have been tried and failed or, are deemed to be unlikely to succeed if tried.
- 30 (5) The Secretary of State for Home Affairs shall be required to notify a person whose mail has been intercepted on the authority of a warrant once he is reasonably satisfied that such notification would not assist the criminal activity or the threat to national security which was the reason for issuing the warrant.
- (6) Upon application to him by an individual, the Secretary of State for Home Affairs shall be required to inform that individual whether or not the individual's mail has been
- 35 intercepted on the authority of a warrant once he is reasonably satisfied that the transmission of such information to the individual would not assist the criminal activity or threat to national security which was the reason for issuing the warrant.
- (7) The decisions of the Secretary of State for Home Affairs referred to in subsections (2), (3), (4), (5) and (6) shall be subject to review by an independent panel of three persons
- 40 appointed by the Prime Minister and approved by the House of Commons Select Committee on Home Affairs and, in the event of the views of the Secretary of State and the panel diverging, those of the panel shall prevail.
- (8) The Secretary of State for Home Affairs shall place before each House of Parliament each year a report setting out the number of warrants issued under each of sub-
- 45 sections (2), (3) and (4) of this section and commenting on the effectiveness of those interceptions and any changes in policy or procedure.
- (9) Any person carrying out the deliberate interception of mail other than those authorised by subsections (2), (3) and (4) of this section shall be guilty of an offence and liable on conviction on indictment to a fine not exceeding £5,000 and/or to imprison-
- 50 ment for a period not exceeding three years.
- (10) All prosecutions for offences under this section shall require the authorisation of the Attorney General.'



WITH
THE COMPLIMENTS OF THE
PRIVATE SECRETARY

HOME OFFICE
50 QUEEN ANNE'S GATE
LONDON SW1H 9AT

P+T 7

KWJ
18i

SECRET



QUEEN ANNE'S GATE LONDON SW1H 9AT

14 February 1981

Dear Keith

BRITISH TELECOMMUNICATIONS BILL:
PABX MAINTENANCE

Thank you for your letter of 13 February.

I have asked my officials to look into this matter urgently in consultation with all those concerned.

John
Walker

The Rt. Hon. Sir Keith Joseph, BT., MP.

SECRET

S E C R E T

6



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

MS.

13 February 1981

Rt Hon William Whitelaw MP
Secretary of State for the
Home Department
Home Office
50 Queen Anne's Gate
London SW1H 9AT

Prime Minister.

*There is no need for you to
intervene at this stage.*

*PHW
13i*

Jim Willie.

BRITISH TELECOMMUNICATIONS BILL: PABX MAINTENANCE

Kenneth Baker and I are becoming increasingly concerned about the position that is developing with regard to the maintenance of private automatic branch exchanges (PABXs) which, for the reasons you know, we have decided should remain the responsibility of British Telecommunications (BT) under the new arrangements that will come into effect following enactment of the BT Bill.

2 Three aspects cause us particular concern. First, we have real doubts about the practicalities. As we have heard more about the working of the present system, under which the Post Office has a monopoly of supply of PABXs up to 100 extensions and a monopoly of the installation and maintenance of all PABXs and internal wiring, we have been struck by the frequency with which irregular connections and repairs are said to be made by non-BT staff. Under the proposed new arrangements private contractors will be able to supply and install all types of PABXs and internal wiring to extensions; to supply, install and maintain extension telephones and other terminals and to change the siting of extensions. Although maintenance of PABXs will remain with BT, private contractors will thus in many instances have good reason to spend considerable time working on subscribers' premises. The temptation to ask them to undertake unauthorised repair and maintenance work on internal wiring and PABXs will be greatly increased.

3 Secondly, we are concerned about the effect of our policy on PABX maintenance on the development and use of advanced designs of PABXs using computer control. It is strongly argued by opponents of our policy on PABX maintenance that, if BT retains sole responsibility, it will be able to cope with the wide diversity of equipment types that will seek to gain entry to the UK market only by imposing strict design requirements to simplify maintenance operations and that this will have the effect of inhibiting technical development. It is further argued that the trend of

/development ...

S E C R E T



development in PABXs is towards the extension of computer power until the switching of telephone calls becomes only one of several functions carried out by what would in effect be a small business computer; but that users will not be willing for BT to be responsible for the maintenance of their central business system; and that this development would therefore be largely frustrated in the UK. The UK could therefore be paying a high price for BT's continued PABX maintenance responsibility in terms of failure to develop or adopt new designs in one of the most important areas of information technology. This is a disadvantage that our main overseas competitors, whose telephone administrations do not retain responsibility for PABX maintenance, will not share.

4 Thirdly, we are apprehensive about the weight of political opposition that is building up to the policy. It is strongly opposed on technical and practical grounds by almost all users' and manufacturers' organisations and their members and has become the main subject of contention on our telecommunications proposals. Virtually the only supporters of the policy are those within BT, particularly the Post Office Engineering Union, to whom we are widely seen as having given way. The arguments we can publicly deploy in support of the policy are comparatively weak. Conservative backbenchers in the Commons Standing Committee on the BT Bill, although hitherto forebearing to the expressed wishes of the Government, are almost all personally opposed to the policy and have made this clear to Kenneth Baker if not in the Committee. An Early Day Motion on the maintenance of telecommunications equipment under the new arrangements, which is clearly aimed at our PABX maintenance policy, has now attracted well over a hundred signatures from the Conservative side. Michael Jopling has told Kenneth Baker that if the motion's supporters were to force a vote on this issue, for example on an amendment or new clause to the BT Bill on Report, he is doubtful whether there would be adequate support for the Government line.

5 I recognise the vital importance of your interest in BT retaining responsibility for PABX maintenance and I have no wish to weaken the instruments available to you. But in view of the difficulties I have mentioned I do wonder whether some modification of the proposed arrangements could be explored. One possibility that has been suggested in discussion within the Department, but on which you will appreciate that we are unable to seek expert technical advice, is that your interests might be met if stored programme control (spc - i.e. computer controlled) PABXs were subject to special arrangements under which BT was fully informed of the control software being used in such PABXs and was therefore able to carry out any necessary functions by remote means, subject to a

/right ...



right of inspection of the equipment, but left routine physical maintenance to private - if necessary, approved - contractors in competition with BT. Maintenance responsibility for non-spec PABXs, which are now becoming obsolescent, would remain with BT.

6 If an arrangement, which was satisfactory to your interests, could be devised along these lines it would, I think, meet the most important objections to our policy on PABX maintenance, ensure that new technological developments did not in practice invalidate that policy, and, by drawing the teeth of the opposition to our proposals, greatly assist in the smooth passage of the BT Bill. I hope that you will be able to agree that our respective officials should explore this possibility urgently in the light of the expert advice available to you.

7 I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Concise
Ken



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4

PS/ *Secretary of State for Industry*

30 January 1981

Nick Sanders Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

① MR LANKESTER to see

② PRIME MINISTER

You were interested in the post office unofficial disputes. Here is a further report. Industry emphasise the need not to make too much noise at this stage

Dear Nick

INDUSTRIAL DISPUTES IN THE POST OFFICE

... The Prime Minister asked for further information about progress in settling the unofficial industrial disputes affecting the mails in London and Manchester. I enclose a short note prepared by officials here.

2 I understand that Mr Dearing is anxious to ensure that the disputes are settled by the local managements concerned. He is, of course, taking a close personal interest in the disputes but he considers that the eradication of restrictive labour practices (and of their converse, management deficiencies which have allowed the practices to persist) should be handled by those directly concerned. He believes that any public comment by the Government might entrench the attitudes of those taking unofficial action (and of those whose restrictive practices management intends to deal with next) which could prolong disputes, delay the mails and damage the Post Office's finances.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

MS
30/1



POST OFFICE : UNOFFICIAL DISPUTE AT LONDON RAILWAY STATIONS

The dispute was settled overnight with a full return to normal working at 6 a.m. today (Friday 30th) on management's terms. The Post Office insisted that overtime (whether for Readers' Digest or anything else) should only be worked and paid for if the traffic justified it. The workforce has accepted this; the settlement is permanent.

The Chairman is concerned, however, not to publicise his success at this stage since resolution of this dispute on his terms is only part of a much wider and determined effort to eradicate a range of costly restrictive practices in the postal service (either by the workers entering a productivity scheme or, if they refuse, by removing the practices anyway.)

The Manchester dispute continues, since management is standing firm, and Mr Dearing feels that to emphasize to the public the success in London would worsen the chances of the Manchester workforce (who are, apparently firmly and militantly led at local level) being brought to see reason. To win at Manchester is vital for the wider strategy, since similar efforts to remove restrictive practices are to be made in other difficult offices.

DEPARTMENT OF INDUSTRY

PT1

30 January 1981

(for information only)

PRIME MINISTER

The London postal workers have walked out tonight.

This is part of a continuing war of attrition, as Mr. Dearing tries to rein back perks and abuses in the system. The last time they came out, in November, the protest was short lived. The Union of Communications Workers is not backing this stoppage. But it will interfere with about one-third of national postal traffic.

We will get an up-date in the morning.

ms

MAD

28 January 1981

cc: Mr. Ingham
Mr. Sanders

Post office 2.



You remember the
overhaul - that some
of 1 million was being
spent - advertising
Prestel - but
not having much
effect.

DEPARTMENT OF INDUSTRY
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From the
Parliamentary Under Secretary of State's office

M Pattison Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON

SW1

16 January 1981

Prime Minister

You were interested in Dr Davison's
allegations that Prestel accounts were
"hidden from the general public".

Dear Mike,

MAD
19/1

You wrote to Jonathan Hudson on 23 December asking to be sent a copy of the reply we made to Dr Davison about Prestel, and asking on behalf of the Prime Minister whether Dr Davison had a case in his comments about Prestel accounts.

... I attach a copy of the letter Mr Marshall has sent to Dr Davison. We believe Dr Davison's comments about the subsidy going to Prestel stem largely from misunderstandings, deliberate or otherwise, of what constitutes a subsidy in this case. His reasons for demanding separate accounts for Prestel do not therefore seem valid.

At present the Post Office does not include in its published accounts a level of financial detail which would justify separate financial information on services the size of Prestel, which is a small element of British Telecom (BT) compared with, eg telex or telephony. There would be strong opposition within BT to a proposal for separate accounts, on the ground that at the present delicate stage of the viewdata market, BT would be put at disadvantage compared with its foreign competitors if it had to reveal financial details on Prestel.



After the passage of the British Telecommunications Bill later this year, it is possible that Prestel will be set up as a self-accounting subsidiary of BT, either as a first step towards a sale to the private sector or to ensure that following liberalisation of the network Prestel did not compete on unfair terms with rival viewdata services by taking advantage of monopoly profits made by other parts of BT. The Department does not however have plans to press BT towards separate accounts for Prestel before the passage of the Bill.

yours sincerely,

Frances Nieduszynska

MRS FRANCES NIEDUSZYNSKA
Private Secretary



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From the
Parliamentary Under Secretary of State

Dr P S Davison PhD BSc
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Scientific Documentation
Centre Limited
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Copies to:-

PS/Mr Baker
PS/Mr MacGregor
Dr Davies
Mr Wigglesworth 14 January 1981
Mr Cooper
Mr Franklin
Mr Moulson
Mr Birch IT
Mr Cannon CCTA
Mr Alty - ON FILE
PS/PRIME MINISTER
Mr Richard Hooper
Director
Prestel

Dear Dr. Davison,

Thank you for your letter of 14 December to David Mitchell, which he has passed to me as Government interest in Prestel falls within my responsibilities. I have also been asked to reply to the points you make about Prestel in your letter of 16 December to Mr Ryder. As the two letters seem to put forward similar arguments, I should like to take them together in my reply.

As I understand it, your central argument is that funds being put into Prestel from public bodies, including the Post Office, are forming a hidden subsidy to the users of Prestel.

I must say that I am not persuaded that, because British Telecom has not yet recovered its development costs on Prestel, public funds are therefore being used to subsidise Prestel users. The Prestel service has after all been operational for a very short period - less than a year and a half - and I would not have thought it normal on a project of that type for all development costs to be recovered so soon.

Nor do I agree that use of a service by public bodies constitutes a subsidy to that service, as you appear to maintain. Public bodies are entitled to use Prestel's



services if they judge it to be to their advantage, in the same way as private bodies do. They naturally pay for the service in the same way as the ordinary user.

It is true that the Department is giving some limited assistance with the promotion of viewdata, of which Prestel is one example; this is because we believe that viewdata is an important means of communicating and presenting information, and one in which the UK's present world leadership should be maintained. Other Governments are putting substantial resources into the development of similar systems. Any proposal for assistance is rigorously analysed by the Department.

I cannot therefore agree that "ring subsidy" is taking place in the way you mention, and we have no plans at present to press British Telecom (BT) to introduce separate accounts for Prestel, as you suggest.

You may however be interested to know that the British Telecommunications Bill, which is currently before Parliament, provides for the establishment of self-accounting subsidiaries in British Telecom. It is envisaged that this would occur where for instance, there were competition from the private sector in an area of BT's activity. Following the passage of the Bill, all BT's activities, including Prestel, will of course be subject to consideration in this context.

I hope this information helps to clarify for you our present policy on the Prestel service. I am sending a copy of your letter to Mr Richard Hooper, Director of Prestel, in case he wishes to comment upon it.

Yours sincerely,

Michael Marshall

MICHAEL MARSHALL



10 15

Dr. DAVISON

13/11

10 DOWNING STREET

From the Private Secretary

23 December 1980

Chase?

They spoke to me some time ago.
Chase 16/11 MAF

I enclose a letter to the Prime Minister from Dr. P.S. Davison.

Your Department will be aware of him as a persistent, although plausible, correspondent. I attach a note about a long series of exchanges between Dr. Davison and Departments on science information. The Prime Minister wrote briefly to him on that subject last summer.

In this case, the Prime Minister would like an Industry Minister to reply on her behalf. She has asked whether Dr. Davison has a case in his comments about Prestel accounts. If this is not made clear in the reply, perhaps you could deal with it in a covering letter when forwarding a copy of the reply to us.

MAF

J.C. Hudson, Esq.,
Department of Industry.



10 DOWNING STREET

PRIME MINISTER

We have more correspondence from Dr. P.S. Davison. This time, he challenges expenditure on Prestel.

His letter is below. May I remind you of the previous correspondence, through your letter at Flag C, and the background material at Flags A and B. I doubt very much whether there is anything to gain from entering into detailed correspondence with Dr. Davison. I suggest that we should ask an Industry Minister to reply on your behalf. Content?

*Is he really about Prestel accounts?
Yes, please
MJD*

22 December 1980



Post + Tele.
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Secretary of State for Industry

John Hoskyns Esq
10 Downing Street
LONDON SW1

22 December 1980

Dear Sir,

BT
22/12

Thank you for your letter of 28 November with which you enclosed a note by Des Pitcher of Plessey about the Government's proposals for relaxation of the telecommunications monopoly, with particular reference to maintenance.

His letter was written before the introduction of the British Telecommunications Bill. Since its introduction, Michael Clark has written to the Department in a rather different vein warning against the dangers of too rapid liberalisation.

As you know, the Bill in fact provides powers for me and my successors to introduce competition into any area of the telecommunications monopoly and to require BT to modify its structure and activities accordingly. This is a radical change in the status quo and is already having an impact on BT and others.

On the other hand, I am proposing that BT should retain responsibility for maintenance of private branch exchanges and associated wiring. I know this proposal has disappointed manufacturers and users organisations but the Department is in the process of consulting manufacturers and BT on ways in which this policy can be implemented to the mutual advantage of all interests. I anticipate, for example, that in many cases much of the maintenance work on PABXs, such as software support, will in practice be delegated by BT to manufacturers.

Since BT will only retain maintenance responsibility for the prime instrument and the PABX it is not correct to refer to a continuance of the present maintenance monopoly which will in fact be greatly reduced.

In the implementation of the proposed arrangements under the Bill I will be concerned to see that BT's requirements for attachment to the network are not operated restrictively. Under the Bill as drafted, I will have power to intervene if necessary to ensure this.

There are two further areas where our thinking is moving along radical lines. First, with regard to the provision of services using the network ('value added services'), I have commissioned

/Professor Beesley ...



Professor Beesley of the London Business School to carry out a study on the full economic implications of complete liberalisation of use of the network. Secondly, I am exploring the possibility of the private sector providing transmission services in competition with BT. Under the Bill, I will have full powers to allow this. BT would then not be the sole common carrier of value added services, as Des Pitcher suggests.

Bearing these points in mind, I believe the propositions propounded in the note attached to your letter are based on a fundamental misunderstanding of the scope of the changes I intend to carry out. As we come to implement these changes I believe I may, if anything, be accused of going too far towards introducing competition.

I am copying this letter to the Prime Minister.

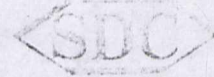
Eun

Kear

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Director of Research, P. S. Davison, Ph.D., B.Sc., A.R.I.C., M.I.Inf.Sc.

HALBEATH HOUSE,
DUNFERMLINE, FIFE, KY12 0TZ,
UNITED KINGDOM.



Telephone: Dunfermline 23535

Reference: PSD/GW

Mr. Richard Ryder,
Political Office,
10 Downing Street,
LONDON.

16th December, 1980.

Dear Mr. Ryder,

Prestel Expenditure

Thank you for your letter of 27th October 1980, from which I understood you were glad to see my reply to David Mitchell showing the high cost of Prestel. I have since had further letters from him and Prestel officials giving more information and allowing me to validate opinions expressed in our Easter report. The attached copy of a second letter to David Mitchell is self-explanatory and may be helpful. Prestel's own figures now show that each of the present 6,000 Prestel users enjoys a Post Office investment of £3,333; the annual interest charges alone on this should amount to about £500 per user per year — about ten times the rent charged by Prestel even to business users (though they make substantial usage charges as well). From Prestel's own figures, at the present rate of sale, after 2–3 years research/development/operation, it will take from 600 to 1,500 years (!) to reach their 3 million user target. Prestel has achieved about ½% of their user target, after over £1½ million of public money has been spent on promotion.

I would hope that Mrs. Thatcher might agree that:—

1. David Mitchell should stop Prestel unless valid assurance of viability in the near future is available.
2. I now learn that Prestel has funds from the Department of Industry and the British Library, as well as from the Post Office, and I hold the view that a very large part of its sales are also paid from public funds by local authority and DES funded subscribers (please bear in mind the official assessment of Prestel by Aston University advising that it was of very limited benefit in that environment). The real public cost of Prestel is therefore even higher than the Post Office figures suggest. Government will have the greatest difficulty cutting public expenditure unless it can stop this ring funding/subsidy of pet Civil Service projects.
3. It is intolerable that Prestel accounts should be hidden from the general public. Prestel's accounts should be published fully with the Post Office accounts.

British Library Building £100,000,000 Too Costly?

We have now completed our second report on the British Library, dealing particularly with the needs behind the expensive St. Pancras building the British Library proposes; a copy of the report is enclosed. We have taken the study as far as our resources allow and it seems to offer substantial advantages to Government, including saving perhaps £100,000,000. With the present tension in Poland I would have thought that the possibility of a substantial nuclear shelter programme out of money already allocated for the British Library must have strong attractions. I am anxious that our proposal is evaluated by Government experts and have asked Mr. St. John Stevas for this. With this in mind, I wonder if you might agree that it would be worth showing the attached diagram to Mrs. Thatcher with the points:—

1. By saving the whole St. Pancras project and its expensive reading room, user and book handling facilities, it should save perhaps £100,000,000 of the £300,000,000 the British Library's whole project must presumably cost at 1981 prices.
2. The building project would supply substantial nuclear shelter facilities.
3. By eliminating the potential, large administration facilities the British Library wish to build at St. Pancras, it would make it very difficult for the British Library to become a British VINITI opening the way to state control of all information under a left-wing Government.
4. The proposed building would be largely built of iron: at a time when British Steel Corp's losses tend to be funded by public funds, this would reduce such public costs. The sale of the St. Pancras site could also raise £5,000,000 to £6,000,000 for Government against its cost.
5. There have been repeated serious accusations against the British Library of near corruption and of excessive expenditure; if cancellation of the St. Pancras building were to lead to the resignation of the British Library Chairman, this could, in my view, be of considerable advantage to Conservative Government.

Because of our long conflict with British Library, we believe the concept might have a better chance if its source is not known, and we are therefore issuing the attached internal report to government prior to publication. The copy without covers does not identify source.

Yours sincerely,

Pete S. Davison

P.S. Davison.



PRIME MINISTER

POST OFFICE MANAGEMENT

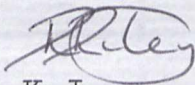
1 In my minute of 24 October on the Post Office's proposals for a tariff increase I mentioned that we now have a Chairman who can devote his full attention to the postal business and give a firm lead from the top in tackling bad labour practices which have developed over many years.

2 I thought that in the light of this you would be interested ... to see the attached letter from Mr Dearing to Adam Butler as an example of this new attitude of realism and firmness in Post Office management. We have yet to see tangible results from Mr Dearing's strategy and the general public cannot be expected to put up for too long a period with reductions in quality of service caused by industrial action in response to firm management. However, I believe that Mr Dearing's strategy is right in present circumstances and that we should be prepared to give him our support over the coming months. Adam Butler will be replying to Mr Dearing in that sense.

3 When the Telecommunications Bill becomes law I shall, of course, have the power to make derogations from the postal monopoly if the Post Office is not by then serving its customers satisfactorily.



4 I am copying this minute to Geoffrey Howe, Jim Prior, John Nott, and to Sir Robert Armstrong.


for K J
11 December 1980

Department of Industry
Ashdown House
123 Victoria Street

(approved by the Secretary
of State and signed in his
absence)



CHAIRMAN
 Posts and National Girobank
 R E DEARING CB
 Post Office Headquarters
 St Martins le Grand
 LONDON
 ECIA IPG

RECEIVED IN
 28 NOV 1980
 OFFICE OF THE
 MINISTER OF STATE

Telephone 01-432 1515

The Hon Adam Butler MP
 Minister of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 LONDON
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 | M/S/O
 | M/S/O
 27 November 1980

Dear Mr. Mantle

THE COST OF REFORM

You know that our policy is one of securing progressive reform of working practices in the Post Office.

Our hope is to secure this by agreement with unions through the Improved Working Methods productivity deal on which experiments are now taking place throughout the country, and particularly in London. But there is still a lot of resistance to improving working methods through a productivity deal, and where co-operation is not forthcoming we are not prepared to do nothing until the union takes a decision on a national productivity experiment next May. As occasion requires therefore we are insisting on reform in particular situations even though this means industrial action.

I reported one such major incident last month to the Secretary of State on the London stations where we sent 200 staff home without pay. We have another similar current situation in Manchester.

There have been others, and I have to tell you that we are determined to press ahead even though this may mean serious disruptions to the mail in some areas.

So far our policy has succeeded in that our determination has been seen by the workers to be real and when the crisis has come after a time, they have yielded ground.

But this has had and is likely to continue to have a cost in terms of our quality of service figures. For example although the workers accepted our terms of duty on the London stations within 24 hours of the suspension, there was a resultant state of aggravation and as so often in these cases the workers look for overtime on enhanced rates of pay to clear the thousands of bags of mail that have been delayed. This we were not prepared to concede since to do so only strengthens the hand of those who resist reform. In consequence there were significant and continuing arrears in the London stations for about 2 weeks after the event and this pulled down the quality of service result for October by about one percentage point.

Now we have the same kind of situation in Manchester and last week we had 1m items of mail in arrears. This is about twice the whole national figure on a normal day and it will effect the quality figures for the current month.

The Post Office has been criticised in the past for a seeming unwillingness to risk delays to the mail caused by labour disputes and these pressures have had their part over the years in leading to the malpractices which we are now seeking to correct. You will know of course that the Post Office Users National Council has said it will support the Post Office in facing up to the consequences of industrial action, and in its recent report on the London letter service the Monopolies and Mergers Commission encouraged us to be firm. I do not therefore feel in any lack of support for the line the Post Office is taking and the senior managers here are enthusiastic about the prospects before us as they progressively improve standards.

I would end by stressing that while we shall have problems on the Quality of Service front, the underlying situation is showing signs of continuing betterment. I have kept you informed about the intense activity that has been taking place since the late Summer in respect of identified areas of weakness; I now believe that we have some evidence of a 'flow through' from that carefully orchestrated effort. Despite the dangers of quoting Quality of Service for individual months - three-monthly or cumulative results over a longer period are a more reliable guide to performance - the October results at:

86.6% of first class mail delivered by Day B (target 90%)

93.3% of second class mail delivered by Day D (target 96%)

are against the background of the industrial action experienced during the month encouraging. They are more encouraging when analysed into their component parts; the very areas on which the greatest activity has been centred - Friday's first class postings, first class meter posted traffic and first class traffic for delivery within the same Head Office District - have all shown a small but positive improvement. Although far from complacent, we are moving in the right direction.

I thought it would be helpful to you to have this brief report about the background to our policies so that if you are questioned by Parliamentary colleagues you are in the picture.

Yours sincerely

h4-5

P. C.



Posts + Tels
PT2 - with CAW 8/12

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2 P1

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

Post +
Telecomm

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

8 December 1980

M 9/11

Dear Keith,

TELECOMMUNICATIONS

Thank you for your letter of 11 November. I have also seen the Prime Minister's views, recorded in Clive Whitmore's letter of the same date to John Nott's office.

On your question about the overall standard of Post Office service in relation to private circuits, the CCTA report a situation which is highly unsatisfactory. The CCTA carried out a survey in July 1979 which showed that the average length of time taken by the Post Office to install private circuits was well over 12 months. Although assurances were given at the time by the Post Office that internal organisational changes would improve matters, the situation has if anything got worse. It is now exceptional for any long distance private circuits to be installed in under 12 months, and short distance circuits in under 8 months. Don't you think this is very bad? Any chance of improvement?

So I was glad to know that your Department was examining the possibility of allowing private circuits to be supplied in competition with the Post Office. This is certainly something we would be interested in, and I understand that your officials and CCTA are already in touch about this.

I am copying this letter to the recipients of yours.

Yours ever
Chris Ish

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SOAMES

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From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

8. December 1980

Dear Keith,

SECTION 11, THE COMPETITION ACT 1980: FUTURE REFERENCES

In your letter to me of 24 October, you argued against an immediate reference of the telecommunications network to the MMC, in view of the burden which this would impose on management at a time when they have other important preoccupations. I have also seen the letter from Number 10 to my Private Secretary of 11 November, and your letter to Christopher Soames of the same date.

I understand your reasons for not wanting a reference of the telecommunications network at the present moment, and will not press you at this stage.

As you will appreciate, I am anxious that we should continue to send to the MMC a series of worth-while investigations into the efficiency and costs of nationalised industries, so that the commitments we made during the passage of the Competition Bill are seen to be real rather than illusory. As a reference of telecommunications is ruled out for the immediate future, perhaps you could therefore consider suggesting some alternative nationalised industry candidate within your own responsibilities. I am aiming to send about four Section 11 references to the Commission in any one year. The Commission

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From the Secretary of State

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will probably have the capacity to take on an additional inquiry in February of next year, after they have finished the CEGB reference. Thereafter, the next vacancy will be in April/May, when they have completed the Severn-Trent reference. I am particularly anxious to find a replacement for the first inquiry. Allowing for the necessary legal drafting and consultation with the body concerned, time is running short if there is not to be an awkward gap early next year in the reference programme. I should therefore be grateful for any suggestions you may have by Christmas.

I am copying this letter to the Prime Minister, to Members of the Cabinet, to Sir Robert Armstrong and to Mr Ibbs (CPRS).

*Yours ever
John*

JOHN NOTT

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2
PRIME MINISTER
MS
1/12
PCC(80)19

Post & Tel

BRITISH TELECOMMUNICATIONS BILL

It is hoped that Members will find the attached brief of use for the Debate on the Second Reading of the British Telecommunications Bill on
Tuesday 2nd December 1980

ms

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1. Background to the Bill

a) The Carter Report

The Labour Government of 1964-1970 turned the Post Office into a corporation similar to other nationalised industries by the Post Office Act 1969. Prior to this, the Post Office had been a Government Department for over 300 years. The Report of the Post Office Review Committee, chaired by Mr. Charles Carter, was published in July 1977. It recommended the splitting of the Post Office into two independent corporations, the creation of a council on Post Office and Telecommunications Affairs to advise the Secretary of State for Industry on their operation; the adoption of a flexible pricing policy for the mails; the close intergration of parcels with main letter traffic and the possible abandonment of heavy parcels and telegrams; the adoption of the most up-to-date telegram exchange systems; the adoption of international comparative efficiency indicators, to encourage management productivity; and the provision of better consumer services and information.

The last Labour Government published its reply to the Carter Committee in a White Paper on 21st July 1978. Its contents were in fact less complacent than the statement with which it was introduced by Mr. Gerald Kaufman, the Minister of State for Industry, who said:

"Our Post Office provides one of the best services to customers in the world. But we want to make it far better - to hold prices down, and where possible, reduce them in real terms" (DoI, 21st July 1978).

The main features of the White Paper were that it:

- reaffirmed that posts and telecommunications would remain statutory monopolies in public ownership and each business should earn a 'reasonable' return on assets employed.
- postponed any decision on a split between the two businesses
- rejected an advisory council
- put greater emphasis on indicators of economic efficiency
- set a performance aim for the Post Office postal service of five years involving the maintenance of real unit costs and for telecommunications a reduction of 5 per cent a year over five years.

b) Efficiency and Productivity

Because of the pursuit of a policy of commercial pricing, supported by the Conservatives in Opposition and then in Government, the Post Office has moved from large losses into profit, as the following shows:

	<u>Profit/Losses</u> <u>£ million</u>
1974-5	-306.7
1975-6	+147.9
1976-7	+392.3 (£101m. remitted to customers)
1977-8	+367.7
1978-9	+364.4
1979-80	+174.8

The sharp-drop in profitability in 1979-80 was ascribed in the Post Office's Annual Report and (heavily qualified) Accounts by the outgoing Chairman, Sir William Barlow to increased pay costs and the cost of industrial action. The Post Office's three main businesses met or surpassed the Government's targets, however.

These performance targets are:

For Posts: Real costs should not increase faster than the general level of prices in the economy over the five years to 1982-3; there should be a 2% return on turnover during that period.

For Telecommunications: There should be an average annual reduction of 5% for the five years to 1982-3 in real costs per unit of output. A target of a 5% real return on assets (i.e. profit after charging depreciation but before interest as a return on real net assets revalued at replacement cost) was set for 1979-80. A new target for 1980-81 and 1981-2 will have to be set in due course.

For Girobank: An annual average return of 13% on net assets before interest is to be obtained from 1979/80 to 1981/2 and a further £5 million is to be earned to reduce the Girobank's accumulated deficit.

In spite of meeting its targets, productivity, particularly in the postal business, is poor - both on historical and internationally comparable criteria. The following table shows that in 1979-80 it took 6,386 more personnel in the postal business than in 1973-4 to deal with over 817 million fewer letters and parcels.

See table overleaf

	<u>Letters (m)</u>	<u>Parcels (m)</u>	<u>Total postal employees (full time equivalents)</u>
1969-70	11,400	208	172,900
1970-71	10,500	181	173,100
1971-72	10,550	189	173,500
1972-73	10,790	194	123,700
1973-74	11,010	195	170,100
1974-75	10,878	201	177,600
1975-76	9,903	170	174,300
1976-77	9,383	163	171,000
1977-78	9,485	160	168,300
1978-79	9,965	172	172,100
1979-80	10,208	180	176,486

Sources: Hansard, WA, 10.7.79
Post Office Annual Report and Accounts and other information from the Post Office.

c) The Crisis of 1979 and the Monopolies (Commission Report)

Industrial action in both of its major businesses crystallised discontent with the structure and standards of service of the Post Office in 1979. Industrial action over pay and grade restructuring by Post Office members of the Society of Civil and Public Servants and Civil and Public Servants Association (representing the executive and clerical grades) brought computerised telephone billing to a complete halt between April and September 1979. Accounts outstanding reached a peak of almost £1,000 million. It was widely realised also that the rapidly growing information technology industries and the funding of massive investment in order to modernise the Post Office telecommunications network required a fresh look at the Post Office's telecommunications monopoly and the potential role of private enterprise.

Even more acute was the sudden crisis reached in the Summer of 1979 in the postal service. For the first time the latter broke down entirely. By 26th June 1979 a combination of staff shortages, industrial disputes and terror bomb explosions, against a background of very poor productivity, resulted in an unprecedented appeal by the Post Office for people to stop posting letters and parcels. As a result of this situation and of the earlier rejection by the Union of Post Office Workers of changes in work practices designed to increase productivity, the Secretary of State for Trade referred the London letter post to the Monopolies Commission and the latter produced a report in March 1980. Among the principal recommendations which the Commission made were:

- only minor modifications of the monopoly.
- the complaints about the deterioration in the London letter service were fully justified and that the quality of service should be published monthly by district.
- the sampling system should be upheld.
- better marketing policy was needed.
- development of mechanised package sorting.
- more effort in R & D, especially Optical Character Recognition.
- Re-introduction of remuneration related to postmen's length of service, in exchange for a reduction in privileges attributed to seniority.

- more use of casual labour
- improve recruitment
- improvement of productivity
- dealing with restrictive practices.

d) The Government's Response

The wider response of the Government to the crisis in the Post Office's fortunes which had clearly been reached was to announce that the monopoly powers of the Post Office over its mail service and the telecommunications business were under review.

On 2nd July 1979 Sir Keith Joseph said that he would be calling for reports of possible modifications to the Post Office's letter monopoly. On 16th July 1980 Sir Keith made a Parliamentary statement on his conclusions. He was able to report that the service had improved and that the Union of Communications Workers had agreed on changes of work practices which should improve productivity. However, in a number of areas he intended to alter the Post Office's letter monopoly. These were:

- Time sensitive/valuable mail. Private operators would be free to carry such mail provided they charged a minimum fee subject to review by the Secretary of State. It was agreed that this would be £1.00.
- Document Exchanges. The law would be amended in order to allow mail to be transported in bulk between document exchanges.
- Christmas Cards. Charitable organisations would be able to deliver Christmas cards.

It was also proposed to:

- define what is meant by a 'letter' to avoid confusion among those seeking to compete with the Post Office.
- allow part carriage of letters along part of their journey by private carriers if the letters were stamped.
- allow wholly owned subsidiary to deliver mail on behalf of their parent company or others in the group.
- monitor how the Post Office reacted to new market demands such as addressed advertising.

Finally, Sir Keith said:

"In addition, the Government will seek to amend the law relating to the Post Office letter monopoly in order to provide powers for the Secretary of State to make further relaxations in respect of certain categories of mail. Moreover, we shall seek powers to remove the monopoly either in a local area or nationally. These powers will rest in my hands. I would intend to use them in the event of industrial action within the Post Office which resulted in a cessation or serious decline in the quality of service. I would also use the powers if, after due warning, the Post Office failed for reasons within its control to satisfy me as to its performance in serving the public. In deciding whether to use my powers I shall take into consideration the Post Office's record in relation to productivity, unit costs, quality of service to the customer and its financial target. I am starting discussions with the Chairman of the Post Office on whether the targets for the quality of service of first and second class mail are sufficiently rigorous."

The structure of the Post Office was dealt with in a statement by Sir Keith Joseph on 12th September 1980. Sir Keith announced that the Post Office would be split into two separate corporations, one for posts and giro and the other for telecommunications - along the lines recommended by the Carter Committee (see above).

Sir Keith noted: "There is a broad measure of support for the proposed division, although half of the Trade Unions immediately concerned would prefer a single corporation to be retained."

Commercial and administrative logic was widely seen to be in favour of a split. The natures of the two businesses were very different. Posts is labour intensive and a vast, not very productive organisation employing over 176,000 people. Telecommunications is a highly capital intensive growth industry. British Telecom operates the fourth largest telephone system in the world. There is enormous scope for increasing the quality of the service as new technological developments occur.

Sir Keith also announced at the same time that he would begin consultations with a view to modifying the Post Office's (and the new corporation's) telecommunications monopoly.

The result of the Government's review of the telecommunications monopoly was to suggest a more extensive liberalisation than was considered feasible for the postal service. In his statement of 21st July 1980, Sir Keith Joseph announced the Government's conclusions. These were that the following changes should be made:

- There should be freedom to attach and maintain independently approved equipment meeting necessary technical standards. This freedom would be phased in over about three years. The only exceptions would be the supply, installation and maintenance * of private branch exchanges (PABXs) and associated wiring. This would remain the preserve of BT.
- There would be more freedom to use BT's circuits to cover services to third parties, not currently provided by BT, as in data-processing. A separate independent assessment of the implications of allowing complete liberalisation of 'value added network services' (such as data base services, electronic office facilities, facilities for interconnection of normally incompatible apparatus, monitoring and relay services, such as security alarm services etc.) was commissioned.
- Further investigation would be made of the scope for private sector provision of telecommunications transmission services such as satellite business systems.

The present Bill, whose contents are outlined below, makes provision for these alterations in the structure of the Post Office and in the mail and telecommunications monopolies to be put into effect.

* of the first telephone and associated wiring and the maintenance

2. Contents of the Bill

The British Telecommunications Bill has, essentially five purposes. First, it creates a new public corporation, British Telecommunications (BT), to run the telecommunications side of the Post Office's business.

Secondly, it modifies the old Post Office's (and now BT's) monopoly over telecommunications along the lines previously announced.

Thirdly, it modifies the Post Office's monopoly over letter services, again along the lines previously announced.

Fourthly, it strengthens the rights of the user of both BT's and the Post Office's services.

Finally, it allows the Treasury, if the Government decides to do so, to dispose of its shares in Cable and Wireless Ltd.

a) The New Structure

Clauses 1 to 5 set out the functions, duties and controls over BT and its subsidiaries. Clauses 6, 7 and 8 relate to the control to be exercised over BT and its subsidiaries in their operations in the market place. Clause 6, for instance, allows the Secretary of State to direct the Corporation not to discriminate unduly in the terms of its services. Clauses 7 and 8 provide for controls able to be exercised over the products BT may choose to manufacture and its purchasing activities.

The Post Office Users' Councils, by Clause 9 of the Bill, are to continue to monitor the activities of BT. But the Secretary of State may after consulting with BT and the POUNC make an order removing the services which are no longer within BT's monopoly from the Users Councils.

Clause 10 makes provision for the relevant transfer of property and liabilities from the Post Office to BT and Clause 11 transfers the statutory rights relating to telegraphs.

The Chairman designate of BT (now trading as British Telecom) has already taken up office as a Deputy Chairman of the Post Office. He is Mr. George Jefferson.

b) The Telecommunications Monopoly

The most important clauses of the Bill are arguably 12 to 16. These transfer to BT the monopoly powers of the Post Office over telecommunications and then specify a number of exceptions to them. Clause 15 then allows the Secretary of State to grant licences himself or direct BT to grant licences. In order to ensure that BT is not able itself to judge whether certain apparatus is suitable to be used on the BT network the standards applying are to be determined by the Secretary of State or an independent body after consultations with BT. These changes will open up whole areas of business in the telecommunications and data processing business from which private enterprise had been wholly or partly excluded.

c) The Postal Monoply

Clauses 63 to 66 grant the Post Office most of its previous monopoly privileges relating to the conveyance of mail. However, as with telecommunications, a number of exceptions are made and further are possible through the exercise of licensing powers here granted to the Secretary of State. The definition in Clause 63 of a "letter" will also in practice itself clarify those activities permitted in spite of the Post Office's monopoly powers. Most important is the power conveyed in Clause 66 for the Secretary of State to suspend the monopoly by order. He will be able to do so entirely or for a particular area or for a certain type of letter. This will avoid the recurrence of the crisis of the Summer of 1979 in the postal service and ensure that those responsible for the postal service - both management and unions - behave responsibly and efficiently.

d) Strengthening Accountability to the Customer

Clauses 18 and 19 deal with the nature of the relationship BT has with its customers. BT will be liable for apparatus it supplies to its customers. Similarly, Clause 67 alters the relations of the Post Office with those who use its services. The law of liability for the post is to be changed to allow the Post Office to accept liability for all postal packets, not just registered mail.

e) Cable and Wireless

The Government will be considering whether to dispose of its shares in Cable and Wireless Ltd, as part of its policy of privatisation and the widening of ownership. Clause 76 gives the Treasury power to do so. Cable and Wireless is totally publicly owned and has been since 1946. It provides telecommunications services in 30 countries and had in 1979/80 turnover of £250 million paying a dividend of £10.5 million.

In its provisions for both the Post Office and the new British Telecommunications Corporation (BT) the Bill significantly advances the purposes of the Government in several ways:

- i) It modifies public monopolies allowing private competition, particularly in information technology, to act as a commercial discipline on public corporations in the interests both of the tax-payer and the customer.
- ii) It provides the conditions for the development of one of the growth industries of the 1980's, while allowing the Secretary of State and BT to ensure that high standards of equipment and service are guaranteed.
- iii) It should allow quicker and better supply and installation of terminal and other equipment..
- iv) By allowing British industry access to the latest information technology it should increase its competitiveness.



Handwritten signature

Handwritten initials

10 DOWNING STREET

28 November 1980

R

2/12

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

Dear Keith,

I enclose a copy of a letter and note I have received from Des Pitcher of Plessey, following a recent dinner with him. I think it is self-explanatory.


I have copied this letter and note to the Prime Minister.

Yours etc

Handwritten signature

JOHN HOSKYNS

OFFICE OF THE MANAGING DIRECTOR
D. H. PITCHER



PLESSEY TELECOMMUNICATIONS
AND OFFICE SYSTEMS LIMITED
EDGE LANE LIVERPOOL L7 9NW

John Hoskyns Esq.,
10 Downing Street,
LONDON SW1.

19 November 1980

Dear Gohn

Post Office Monopoly

As promised, I enclose a short note with one or two observations about the continuance of the maintenance monopoly at British Telecom. You will see that at least one major consumer group considers that the promised liberalisation of the overall monopoly will be an illusion unless the legislative proposals are substantially redrafted.

Officials at the Department of Industry have established a consultative committee (including the Post Office, the trade unions and the suppliers) which is designed to pilot the drafting of the Bill. This committee met for the first time in October but my fear is that they will be more concerned with fine tuning of the existing proposals instead of grappling with the more fundamental issues.

If there is any further information which you feel might be useful then please get in touch with me.

Yours sincerely,

Des Pitcher

D.H. PITCHER

Liberalisation of P.O. Monopoly

The draft legislation, designed to increase competition and benefit the consumer, will have the opposite effect.

- the British Telecom franchise has been enlarged
- the maintenance monopoly is retained and strengthened
- British Telecom will be the common carrier for value added network services

The British Telecom Business Plan (1980 - 90) outlines the following marketing strategy:

"We must be seen by our suppliers as the preferred route to the market and by our customers as the natural source of advice, supply and maintenance".

The Plan goes on to state that the approach to the business market will be:

"to price individual products to reflect the degree of risk from the competition".

Also, the new value added markets* will be "milked" to enlarge the British Telecom network. Their plan states:

"To sustain the revenues needed to enhance the network, charges to value-added carriers and their customers will reflect the benefit of using the network".

* Value Added Network Services: lines are leased from British Telecom by a private operator who adds special terminal equipment and "delivers" a data service to the public e.g. high speed facsimile.

The maintenance monopoly lies at the core of the British Telecom strategy. If this provision is retained in the legislation then it is unlikely that the consumer will benefit from a theoretical relaxation of the rules governing the sale and installation of equipment.

Business users have been quick to spot this new threat and the Telecommunications Managers Association (a group representing 350 corporate telecommunications users, including some of the biggest companies in Britain) has come to the view that the promised liberalisation of the

monopoly will be an "illusion" unless the legislative proposals are substantially redrafted. In a circular to members, TMA has stated:

|| "almost every paragraph of the proposals can be interpreted as an opportunity for the Post Office to slow down connections of apparatus, increase charges and limit users control over their equipment".

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10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

I have shown the Prime Minister your minute AO3495 of 7 November 1980 about the Secretary of State for Trade's proposal that there should be a reference of the telecommunications network to the Monopolies and Mergers Commission.

She is concerned about the security implications of such a reference and she has therefore agreed that I should write to the Private Offices concerned in the terms of the draft attached to your minute. A copy of my letter is attached.

AWL.

11 November 1980

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10 DOWNING STREET

From the Principal Private Secretary

11 November 1980

Dear Stuart,

The Prime Minister has seen the exchange of Ministerial correspondence, beginning with your Secretary of State's letter of 17 October, about the proposal to refer the telecommunications network to the Monopolies and Mergers Commission.

She shares the view of the Secretary of State for Industry that such a reference would not be opportune at the time when the Government is about to introduce legislation to split the Post Office and to liberalise parts of the telecommunications service. The object of liberalisation is to introduce a degree of competition in this area, and thus to provide a spur to efficiency in the telecommunications side of the Post Office. We should see what the effect of that will be before considering a reference to the Monopolies and Mergers Commission.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Industry, the Chief Secretary and the Paymaster General. A copy also goes to David Wright (Cabinet Office), *Lord Privy Seal's Office.*

Yours ever,

John Major

Stuart Hampson, Esq.,
Department of Trade.

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Post + Telecom.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

11 November 1980

The Lord Soames
Lord President of the Council
Civil Service Department
Whitehall SW1A 2AZ

TL
12/11

Ian Christopher.

SECTION 11 OF THE COMPETITION ACT 1980: PROPOSED REFERENCE
OF THE TELECOMMUNICATIONS NETWORK

I have seen a copy of your letter of 27 October to John Nott. No doubt you will have seen my own reply to him in which I indicate why I do not think that a reference to the MMC should take place now.

2 I am, however, very interested in the concrete examples of bad service that you cite. The very size of official telecommunications requirements places the Government in a unique position to see these instances in context and to judge objectively the overall standard of service. Is this something the CCTA would perhaps take a look at? If this were to reveal, for example, a serious bottleneck in the installation of leased circuits, it could be very relevant to the work the Department of Industry is now doing on the scope for allowing competition in the provision of transmission circuits. The competitive supply of leased circuits, independent of British Telecommunications, is one of the principal options the Department is considering. Although it is not yet possible to see where the balance of advantage lies, a development along these lines could ease some of the CCTA's problems.

3 I am copying this letter to the recipients of yours.

Evan. / Kent

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Agreed
not

Prime Minister



Ref. A03495

MR. WHITMORE

You saw Mr Nott's original letter on this subject, but we have not bothered you with the subsequent exchanges. The correspondence is summarised in paragraph 2 below.

Are you ready, because of the security issues, for me to write as proposed below? If you have doubts, I think we shall have to have a meeting.
Able Txi

The Prime Minister will have seen the exchange of letters, beginning with the Secretary of State for Trade's letter of 17th October, proposing that there should be a reference of the telecommunications network to the Monopolies and Mergers Commission.

2. This recommendation has been strongly supported by the Paymaster General and by the Chief Secretary, who has recommended that the reference should be on the repair, installation and maintenance of the network. The Lord President thinks there should be an inquiry into the efficiency of the telecommunications business, but is not particularly wedded to using the Monopolies and Mergers Commission. The Secretary of State for Industry is opposed to a reference just at the time when the Government is about to legislate to split the Post Office and to liberalise parts of the telecommunications service, when there is a new top management with a very big job to do. The Home Secretary has drawn attention to the security implications in such a reference.

3. The Chief Secretary's suggestion that the reference should relate to repair, installation and maintenance very much reinforces the security worries. This is the area in which it is important to maintain the Post Office's present freedom to operate. The relaxation of the monopoly which has been agreed for the new Bill represents the limit to which we can go, agreed in discussion with the Department of Industry, without putting at risk special interests in the interception area. I should be particularly apprehensive that a reference to the Monopolies and Mergers Commission would create further opportunities for investigative journalists to dig around in this area.

4. I hope that for these reasons the Prime Minister will be prepared to agree that we should discourage the idea of a reference to the Monopolies and Mergers Commission.

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5. Obviously it is undesirable to deploy the security considerations in a correspondence which is liable to be copied widely in Whitehall. I suggest that, if the Prime Minister is content, we might seek to deal with this by means of a letter on the lines of the draft attached.

RA

ROBERT ARMSTRONG

7th November, 1980

Mr. W. P. has
a lot of other things to
do and we should not
overload him.

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DRAFT LETTER FROM THE PRIME MINISTER'S
PRIVATE SECRETARY TO THE PRIVATE
SECRETARY TO THE SECRETARY OF STATE FOR
TRADE

cc Private Secretaries to
Home Secretary
Chancellor of the Exchequer
Secretary of State for Industry
Chief Secretary, Treasury
Paymaster General

The Prime Minister has seen the exchange of Ministerial correspondence, beginning with your Secretary of State's letter of 17th October, about the proposal to refer the telecommunications network to the Monopolies and Mergers Commission.

She shares the view of the Secretary of State for Industry that such a reference would not be opportune, at the time when the Government is about to introduce legislation to split the Post Office and to liberalise parts of the telecommunications service. The object of the liberalisation is to introduce a degree of competition in this area, and thus to provide a spur to efficiency in the telecommunications side of the Post Office. We should see what the effect of that will be before considering a reference to the Monopolies and Mergers Commission.

I am sending copies of this letter to the Private Secretaries to the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Industry, the Chief Secretary and the Paymaster General. *A copy also goes to Daniel Keegan (Labour Office).*

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JH

Post +
Telecom



DEPARTMENT OF INDUSTRY
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SWITCHBOARD 01-212 7676

Secretary of State for Industry

30 October 1980

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

copies to
Prime Minister
Cabinet Ministers
Sir Robert Armstrong
Mr Ibbs
Mr Croft
Mr Solomon o/r
Mr Wigglesworth o/d
(on file)

John Biffen

SECTION 11 OF THE COMPETITION ACT 1980: PROPOSED
REFERENCE OF THE TELECOMMUNICATIONS NETWORK

Thank you for your letter of 23 October. I
expect that you will have seen my reply to
John Nott and will know that I do not think that
the enquiry should take place.

Kevin

Kevin

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Post +
Telecomm



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon John Nott, MP
Secretary of State for Trade
1 Victoria Street
LONDON SW1H 0ET

27 October 1980

Dear John.

M
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W

SECTION 11 OF THE COMPETITION ACT 1980:
PROPOSED REFERENCE TO THE TELECOMMUNICATIONS NETWORK

I have seen your letter of 17 October to Keith Joseph, and also Angus Maude's comments in his letter of the same date to you.

The experience of the Central Computer and Telecommunications Agency (CCTA) in their dealings with the Post Office bears out the observations made by Angus Maude about the quality of the service offered. Of particular concern are the delays in the provision of private telecommunications circuits. Not only are they an integral part of many computer installations, but large sums of public money can be saved through carrying volume telephone traffic between Government buildings on private circuits rather than the public network.

In fact, we often have to wait between 12 months and two years for private circuits to be installed. (A circuit installed earlier this month was ordered as far back as January 1978.) Similarly, there are recent cases of Federal extensions taking over 18 months to be installed. Yet in North America private circuits are supplied in a matter of weeks, or so we are assured by consultants retained by the CCTA who also work in the USA.

The Post Office often cite as the reasons for the delays of this kind such factors as problems arising from industrial disputes, supply difficulties or even lack of investment. However, the CCTA are able to see from their close involvement with the Post Office that out-moded work practices and sheer organisational ineffectiveness are equally to blame. These are perhaps well illustrated by the not uncommon occurrence that a new private circuit which has been found to have a minor fault on initial testing cannot be re-tested (nor, therefore, brought into service) for a period of up to 6 months because of the inability of the various engineers posted in the exchanges along the route of the circuit to agree on a single slot in their work schedules which suits them all, within that time-scale.

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Nor are delays the only inconveniences experienced from the Post Office's service. For instance, business customers such as the Government are now compelled to give up what might otherwise be good office accommodation to house new private branch exchanges (PABXs), rather than using basements etc. This has come about because of the Post Office Engineering Union's insistence that new PABXs should have access to natural light, no matter how infrequently the engineer needs to make maintenance visits.

In view of all this, it is quite clear to me that some form of inquiry into the Post Office Telecommunications Business's efficiency and practices is urgently required. Whether or not an MMC reference would be the quickest or most effective, I would not like to say, though I can certainly see the attractions of going down that route.

I am copying this letter to the Prime Minister, to members of the Cabinet, to Sir Robert Armstrong and to Mr Ibbs (CPRS).

Yours ever

Christopher

SOAMES

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CONFIDENTIAL



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

24 October 1980

The Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
London SW1

Handwritten signature

Handwritten initials

Handwritten initials

John Nott

SECTION 11 OF THE COMPETITION ACT 1980: PROPOSED REFERENCE OF THE TELECOMMUNICATIONS NETWORK

1 I entirely understand and sympathise with your purpose in proposing a Monopolies and Mergers Commission enquiry into the telecommunications network on the lines proposed in your letter of 17 October. Indeed such an enquiry would almost certainly strengthen the hands of those who seek to improve the service. But I ask that the enquiry should not take place now.

2 A new chairman designate of British Telecommunications (BT) has just taken office. We are about to legislate to split the Post Office and to liberalise parts of the telecommunications service. We have just launched an enquiry into freeing the use of the existing network for services competitive to those provided by BT and I am looking urgently into the scope for creating an alternative telecommunications network.

3 The new top management will have a huge task coping with the split and the liberalisation against the hostility of many of the staff. To distract them now - as a Monopolies and Mergers Commission enquiry would inevitably do - will overload them and risk a dilution of effectiveness at a crucial stage.

4 I am copying this letter to the recipients of yours.

John

Kair

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10 DOWNING STREET

From the Private Secretary

24 October 1980

Dear Ian,

As you know, the Prime Minister held a meeting this afternoon to discuss the proposed postal tariff increases. Your Secretary of State, the Chancellor of the Exchequer and David Wolfson were present. They had before them your Secretary of State's minutes of 2 October, 15 October and 21 October, and the Chancellor's minutes of 16 October and 21 October.

Sir Keith explained the latest situation as he saw it (and as summarised in his latest minute). After further discussions, Mr. Dearing had offered to cut the requested 2p/2p package to 2p/1½p. He was most reluctant to press the new Chairman any further than this. He was already showing himself prepared to fight for productivity increases, as evidenced for example by his determination to enforce tighter overtime rules. To press him any further would be taken as a mark of no confidence; and if he were to accept a smaller package, this would put the Chancellor's PSBR objectives further at risk. Either the Post Office would be unable to deliver the necessary productivity improvements, in which case they would continue in loss (rather than just breaking even); or, there would be a damaging stoppage as a result of trying to force the pace too fast. Quite apart from the disruption of the postal service, that would involve heavy costs to the Exchequer too - because most of the Post Office staff were salaried and would have to be paid even if only a few employees were on strike. Sir Keith said he proposed to give his approval to the 2p/1½p package; but he also had it in mind to announce that London business mail would be released from the Post Office monopoly - unless the Post Office provided an acceptable quality of service and kept its costs under tight control.

The Chancellor said he was unhappy with the proposed package. He would prefer to see a 2p/1p price increase and various other measures, as set out in paragraph 9 of his minute of 21 October. After years of mismanagement and inefficiency, radical improvements needed to be forced on the Post Office.

Summing up a short discussion, the Prime Minister said that the Government would reluctantly have to accept the 2p/1½p package. But Sir Keith should consider further with the Chancellor the other proposals in the Chancellor's minute. She understood that he would in any case be prepared to go along with proposal (iii) in the Chancellor's minute of 21 October - that the agreement not to review

/ progress

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- 2 -

progress under the MCC proposals for three years should be re-opened. In addition, Ministers should consider the possibility of ensuring that salaried workers in the Post Office could be laid off without pay; if this could not be achieved through collective bargaining, legislation might have to be considered.

I am sending a copy of this letter to Peter Jenkins (H.M. Treasury) and David Wright (Cabinet Office).

h. m.

Tim Laker.

Ian Ellison, Esq.,
Department of Industry,

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CONFIDENTIAL



QUEEN ANNE'S GATE LONDON SW1H 9AT

24 October 1980

f+T

MBM

R 24/10

COMPETITION ACT 1980: PROPOSED REFERENCE
OF THE TELECOMMUNICATIONS NETWORK

I have seen a copy of your letter of 17th October to Keith Joseph in which you ask for agreement in principle to the proposal that telecommunications should be referred to the Monopolies and Mergers Commission.

You will recall that when we discussed this suggestion in July I pointed out that there were security implications in such a reference. This is still true, and while I would not wish to stand on these considerations to oppose outright the idea of any reference of telecommunications, I would ask that the scope of the reference be kept fairly narrow. Furthermore it is essential that I or my officials be consulted at an early stage about the terms of any reference so that we can ensure that it will not encroach on sensitive or difficult areas.

I am copying this letter to the Prime Minister, Chancellor of the Exchequer, Secretary of State for Industry and to Sir Robert Armstrong.

W. Whitelaw

The Rt. Hon. John Nott, M.P.

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PRIME MINISTER

POST OFFICE TARRIFS

1 Geoffrey Howe's minute of 21 October commented on my minute of 15 October about the Post Office's proposals for tariff increases. We are meeting later today to discuss the issues and I think you would find it helpful to know that I saw Mr Dearing, the Chairman designate of the Post Office, again yesterday to press him on the scope for savings through more efficient working and for a reduced tariff increase.

2 I am convinced that in Mr Dearing we have at last a Chairman who is able to devote his full attention to the postal business and to give a firm lead from the top in tackling bad labour practices which have developed over many years. For example, the night before last 1000 men went out on unofficial strike at London railway stations as a result of Mr Dearing's plans to cut overtime working. Rather than give way Mr Dearing has said he is prepared to let the dispute increase to the extent of halting mail services in and out of London.

3 I regard it as essential that we should give Mr Dearing every possible backing, although at the same time pressing him hard on the possibility of improving efficiency and cutting costs. It would be tragic if, having appointed a Chairman who is prepared (as Geoffrey puts it) to act on the lines pioneered by Sir Michael Edwardes, we should be seen to undermine his credibility with his Board and the unions by attempting to overrule him on the

/tariff



tariff issue. We must also remember that we have no formal powers to block the tariff increase.

4 Mr Dearing offered to cut the requested 2p/2p package to 2p/1½p, which he feels is the absolute limit to which he could go, and indeed he regards it as a high risk strategy, bearing in mind that the view of the postal business management is that an increased 3p/2p is required. An increase of 2p/1½p, which would bring the overall increase down from 19% to 16%, should enable the Post Office, with the help of property disposals and cash management techniques, to meet its 1980/81 EFL despite the revenue loss we have caused by delaying the price increase by a month. The Post Office would only break even on trading, instead of making its target £42m profit.

5 I agree with Geoffrey Howe that there are potentially very high savings to be made in the postal business through increased efficiency, but we must accept that these savings can only be achieved gradually; the inefficiencies in the system are the result of years and years of toleration by management of totally unacceptable working practices; in Mr Dearing's words "because of my inheritance we have to negotiate with the unions if we want to change the colour of the wallpaper".

6 We must also recognise that on the whole Tom Jackson, the General Secretary of the Union of Communications Workers, the main union concerned, has accepted the need of improved working practices. But if Mr Dearing tries to push the UCW too far



too fast it could well engender such resistance as to allow the militants to gain control. Once that happens, and it is a genuine danger (Jackson has had trouble before in carrying his members with him), things could get much worse, as small numbers of people can cause a great deal of disruption.

7 I therefore recommend that we should accept Mr Dearing's offer to go to the Users Council with a 2p/1½p package, 16% overall. Such an increase would be broadly in line with the RPI increase over the last year.

8 I also have it in mind that, when the increase becomes public, I should let it be known that, once I have the necessary powers, probably in July 1981, I shall be disposed to release London business mail from the monopoly unless the Post Office provides acceptable quality of service and keeps its costs under tight control. But I shall want to be sure before making such a threat that its effect on the situation in the Post Office would be helpful rather than the reverse. In any event I shall certainly keep this possibility under review in the light of developments over the next few months. (A derogation in respect of London business mail is more practicable than Geoffrey's ideas about privatising sorting offices - I am, however, considering whether privatisation of the Post Office's Girobank and counter business would be practicable).

9 Officials from the Treasury and Departments of Industry and Trade are following up with the Post Office a number of matters related to performance objectives, including monitoring progress

/in ...



in implementing the recommendations in the MMC Report on the Inner London letter post.

10 I am sending copies of this minute to the Chancellor and to Sir Robert Armstrong.

KJ

24 K J
October 1980



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Keith Joseph MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

23 October 1980

Dear Keith,

SECTION 11 OF THE COMPETITION ACT 1980: PROPOSED REFERENCE
 OF THE TELECOMMUNICATIONS NETWORK

I received a copy of John Nott's letter to you of 17 October proposing a telecommunications reference to the Monopolies and Mergers Commission early in the New Year.

I agree that there is a strong case for making such a reference, and I think that we should agree to one in principle. The terms of reference can then be discussed at official level.

Without wishing to pre-empt the outcome of these discussions, perhaps I could record my view at this stage that the reference should not be too general, but should define an area where there is clear evidence of inadequate performance. I have in mind 'Repair, Installation and Maintenance', both because the performance indicators in the medium-term plan indicate a low level of efficiency in this area and because inadequacies in this field are very much in the public mind.

I am copying this letter to the Prime Minister, Members of the Cabinet, Sir Robert Armstrong and to Mr Ibbs.

JS
John Biffen

JOHN BIFFEN



10 DOWNING STREET

Price limits

The Chancellor proposes
no further increase in wage

costs in 1951/52. But

the Chief Secretary's paper

to E on the nationalised

industries assumed a

10% increase in the P.O. pay

bill!

The

22/10

Copy to N Hoskyns.

Post Office

Prime Minister

The Chancellor's views coincide very much with your own.

We are arranging a new time for you to see him and Sir Keith Joseph.



mt.

fah

21.x.80

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

In advance of our meeting about the Post Office's proposed tariff increases, I have been thinking hard about the problems posed, and it may help if I put on paper a brief record of the way my mind is moving.

2. I think the issues are very clearly pointed up by Keith Joseph's minute to you of 15 October. We can see in it clearly enough the dilemma facing Mr Dearing and, I think, the right way ahead. As Keith describes it, Mr Dearing has inherited a position in which his scope for action is severely circumscribed. The chief constraint is that the Post Office unions have been slow to accept the need for improved productivity, whatever their moderate image might suggest to the contrary. As Keith says, "An experimental scheme is getting under way after years of resistance, but it is only modest in scope and 70% (or possibly more) of the benefits go to the workforce." It seems to me axiomatic that, if nothing can be done to get the Post Office unions to move faster, or to keep less of the fruits of the productivity agreements for themselves, then there is absolutely no way left of removing the constraints on Mr Dearing. The central issue which faces us at our meeting must, therefore, be to decide how we approach this fundamental problem of productivity.

3. Keith's minute makes it absolutely clear that Mr Dearing and the Post Office management will say that a quicker or more

/urgent search for



No
No

urgent search for savings will put in jeopardy the current programme of changes in working practices. He will argue that short term economies are difficult to make in the postal business. Clearly there are delicate industrial relations considerations which determine the possible pace at which improvements in working practices can be introduced. But, not least because of the damning analysis in the Monopolies and Mergers Commission report, I am extremely sceptical, as to it being so difficult in any objective sense to find short term economies. Even allowing for some poetic exaggeration, can we honestly doubt the scope for major economies in an organisation which is so replete with such practices as manufactured overtime, absenteeism and a generalised absence of control over the labour force. Surely what is needed now is a fairly radical and urgent programme of change, as near as possible on the lines pioneered by Sir Michael Edwardes at British Leyland.

He would give in later than.

4. The proposal for such a campaign could reasonably be linked with the question of next year's pay settlement. The way to do this would be to insist that the Post Office should accept the 2p/1p increase in tariffs; and ensure? that productivity advances fast enough over the next 18 months to ensure that a 6 or 7% increase in wages in the next round is comfortably accommodated without further tariff increases.

/Clearly such a



5. Clearly such a programme would have to be monitored. This would mean, in effect, going back on the agreement reached recently that the Post Office's undertakings to improve productivity in the light of the MMC report (by 15% over three years after many years of absolute decline) should only be judged after that full three year period is over. However I have the impression that this would not be totally unacceptable to Keith. Apart from anything else, paragraph 10 of his minute records, "I shall seriously consider early use of the powers I am taking to make derogations from the postal monopoly ... I cannot use these powers until about July next year ..."
6. This brings me, then, to the question of what sanctions one should both prepare now and be willing to use in July if the Post Office's progress is unacceptable. My instinct is that Keith is right to suggest a serious and radical examination of the scope for privatisation - including such measures as the letting out of sorting offices to private enterprise.
7. In our discussion we should bear in mind the relationship between the issues before us and the wider question of the Post Office's performance objectives. What I am suggesting is clearly tantamount to a revision of the performance objective.
8. I should stress that these are only preliminary thoughts, and I am the last to pretend that I am sure they will bring the results we want. We would be asking the Post Office to find ways of absorbing £160 m of wage costs in 1981/82. What would happen if the results fall short is therefore impossible to foresee at this stage - we must cross that bridge when we come to it, if we do. What I am quite certain about is the vital importance of being firmer with the Post Office in the near future. Its charges may not be the most prominent element in anyone's expenditure or in any business's



costs. But it is significant throughout the economy, and a major source of irritation, particularly when price increases come as fast and furious as they look like doing for the time being.

Conclusion

9. In concrete terms, therefore, I am recommending the following:

- (i) Renegotiation of the industry's performance objective. -
- (ii) A 2p/1p price increase.
- (iii) Unilateral re-opening of the agreement not to review progress under the MMC proposals for three years. f
- (iv) An agreement with the Post Office management that they should approach the matter of productivity improvements afresh, with a view to a "British Leyland" scrapping of restrictive practices and increase in productivity.
- (v) No further increase in wage costs to be allowed for in the 1981/82 wage round; and an insistence that any wage increases to be negotiated then will be fully offset by productivity improvement.
- (vi) A threat that if the Post Office cannot adhere to such a programme, there will be immediate derogation of the monopoly.
- (vii) Contingency plans should be drawn up now to deal with both early privatisation and, conceivably, the risk of industrial action in response to Government pressure.

*Copied by the Chancellor's Office
to Sir Keith Joseph and
Sir Robert Armstrong.*

(G.H.)

21 October 1980

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RF

10 DOWNING STREET

From the Principal Private Secretary

20 October 1980

Dear Sir,

POSTAL TARIFF INCREASES

The Prime Minister has seen your Secretary of State's minute of 15 October about the proposed increases in postal tariffs. She has also seen the Chancellor of the Exchequer's minute of 16 October.

The Prime Minister is still very unhappy about the proposed increases. She has commented: "In private industry straitened financial circumstances require change. There is no possibility of increased prices for them. We should use the occasion to demand the requisite change (in the Post Office). We cannot just put the burden on the public." The Prime Minister would like to discuss the problem with your Secretary of State and the Chancellor of the Exchequer, and she proposes to raise the matter with them immediately after the meeting on Public Expenditure which has been arranged for 1500 hours on Tuesday 21 October.

I am sending copies of this letter to John Wiggins (Treasury), David Wright (Cabinet Office) and Robin Ibbs (CPRS).

Yours sincerely,

Alvin Whitman.

I.K.C. Ellison, Esq.,
Department of Industry.

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

17 October 1980

Rt Hon John Nott MP
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON SW1H 0ET

TL

429/10

Dear John,

I have seen your letter of 17 October to Keith Joseph.

In my view there is no question whatsoever that Post Office Telecommunications ought to be referred to the MMC - and the sooner the better.

Complaints are growing about a telephone service which is regarded on all sides as out-of-date, inefficient and deteriorating, to the increasing annoyance of the private subscribers and the business community.

So far, Ministerial utterances have appeared to condone or excuse this inefficiency, which has exacerbated the public further. A MMC reference would be the best presentational antidote available.

I am copying this letter to the Prime Minister, to members of the Cabinet, to Sir Robert Armstrong and to Mr Ibbs (CPRS).

Yours ever,
Angus

ANGUS MAUDE

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Prime Minister

Will discuss in March
industry's strengthened
financial circumstances
require change. There

We could use the occasion of these
increases to set up a study to look at
the changes in paragraph 2 below and, indeed,
others too; but I doubt whether we can use
the possibility of long-term changes to hold up
increases which are unavoidable because of
the postal service's unenviable financial position.

CONFIDENTIAL

Qa 05154

To: MR LANKESTER

From: J R IBBS

If you agree, the question remains as in
Tim's note below. Do the increases 2p/2p or
2p/1p now with a possible further increase in
mid-1987? There is disagreement between the
Chancellor and Sir Keith Joseph. Would you like
to discuss the matter with them next week
(Sir Keith is not now coming in on
Saturday)?

is no possibility of
increased prices for them.
We should use the occasion
to demand the requisite change.
We cannot just put the

Postal Tariff Increases

burden on
the public
not

1. The minute of 15 October from the Secretary of State for Industry
to the Prime Minister explains why so little can be done to reduce costs
and that increases of 2p. for both first and second class mail are necessary
to meet the financial objectives (though even these may not be sufficient).
The view of the CPRS is that concentrating on short term financial considera-
tions can, paradoxically, have the effect of ruling out radical solutions
which could yield longer term benefits. In this example, it has been
assumed that there should be no change in the postal service offered to
the public. The CPRS questions this assumption.

- 2. Three possible changes come to mind:
 - (a) the second delivery service could be abandoned and this, in
the course of about 18 months, should save costs of around £50 million
per annum;
 - (b) garden gate boxes could be introduced, if not universally, then at
least in those cases where significant delivery time would be saved
(one estimate is that this would save £15 million per annum though
it would be very much more if the Post Office did not pay for the
boxes);
 - (c) the productivity deal now being negotiated is not at all impressive:
we should expect a faster rate of change in removing restrictive
working practices (greater use of part-time staff, tightening on
hours actually worked, etc.).

3. The CPRS recognises the desire to introduce changes in a steady manner
with the objective of improving the quality of service and that precipitous
changes could prejudice industrial relations and might also require legislation.



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However, in a period of such severe financial constraint, economy of service might well be preferable to improved quality. Also, at a time when the private sector is under market pressures to face radical changes in working practices to increase productivity, other changes to reduce costs are recognised as necessary by the public. Changes in the standard of service although not welcomed may be more acceptable at this time, and in order not to miss this opportunity there may be a case for moving more quickly than would normally seem desirable.

4. I am sending a copy of this minute to Sir Robert Armstrong.

17 October 1980



CONFIDENTIAL

From the Secretary of State

The Rt Hon Sir Keith Joseph Bt MP
 Secretary of State for Industry
 Ashdown House
 123 Victoria Street
 SW1

Prime Minister

Mr Nott is once again
 proposing an MMC reference
 on Telecommunications. Keith
 Joseph will strongly resist,
 arguing that a reference will
 only delay the work in hand to
 break the monopoly.

17. October 1980

ms. MJP/1/x

Dear Keith

SECTION 11 OF THE COMPETITION ACT 1980:
 PROPOSED REFERENCE OF THE TELECOMMUNICATIONS NETWORK

You will recall that at the meeting under the Prime Minister's
 chairmanship on 24 July, we agreed to defer a decision on referring
 telecommunications to the Monopolies and Mergers Commission. I think
 that the time is now opportune to reconsider the matter.

As you know, it was my intention to use section 11 of the Competition
 Act to mount a series of speedy but thorough efficiency audits of the
 major nationalised industries, particularly those which enjoy monopoly
 privileges conferred by Parliament. The MMC will have scope to take on
 another reference early in the New Year, after they have completed
 the report on the CEGB (which is due to be delivered to me by
 2 December). I would like to reach agreement as soon as possible on
the next reference; Sir Anthony Meyer and Nigel Foreman both have oral
 questions for answer on 27 October, asking which will be the next
 section 11 reference.

contd/....



From the Secretary of State

The case for referring telecommunications remains strong. It is one of the largest of the nationalised industries; unlike many others, it escaped investigation by the Price Commission in the period 1977-79; and despite the proposals which you have announced for liberalising the monopoly in relation to attachments, there is I understand little short-term prospect of significant modifications to the monopoly over the network itself. Finally, I notice that in their report on the current round of tariff increases, POUNC have declared themselves unconvinced that British Telecommunications have done everything possible to increase efficiency and productivity.

In July there were two arguments in particular for deferring a reference. One was our worry that section 11 references were appearing to be made for overtly political purposes. At that time, the high wage demands of the POEU were very much in our minds, and an announcement might indeed have risked reinforcing that feeling. However, I do not believe such an argument is so valid now. The second argument was that following your recent statement about the relaxation of the telecommunications monopoly, an announcement of a reference to the MMC would have had little impact. Again, I think that the passage of time has reduced the validity of that argument. In any case, if it is desirable to play down the political motivation behind particular references, we should be concerned more with the Commission's findings at the end of the day and less with the impact of the initial announcement.

I am of course aware of the planned CPRS study of the financing of investments in the public telecommunications service. However, as was made clear in my Private Secretary's letter of 22 August to No 10, I do not regard that study as precluding an MMC investigation into the quite separate issue of the efficiency of the network.



From the Secretary of State

I am only concerned at this stage to reach agreement on the principle of a reference. Precise terms can be discussed by our officials together with those of the Treasury and Home Office. However, I would envisage that the inquiry would concentrate on those aspects of the telecommunications business which remained subject to statutory monopoly, and would include such matters as labour productivity, adequacy of forward planning and market research, and expenditure on repair and maintenance.

In view of the imminence of First Order Questions, I should be grateful for your response by 23 October.

I am copying this letter to the Prime Minister, to members of the Cabinet, to Sir Robert Armstrong and to Mr Ibbs (CPRS).

John Nott
JN.

JOHN NOTT



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

I have seen the Secretary of State for Industry's minute to you of 2 October and your note of 6 October giving your reaction to the 19% package of postal tariff increases for which the Deputy Chairman of the Post Office is seeking approval.

2. In my view, there is real cause for concern in the Post Office's proposals, not only because this rise would come less than 12 months after the last one and exceed the overall rate of inflation over that period, but because it would appear to be underpinning a lamentable productivity performance (as borne out by the recent MMC Report on the Inner London Letter Post) when every effort should be made to improve efficiency and cut costs. I share your view that we cannot accept whatever tariff increases industries claim to need to stay within their EFLs without being satisfied that these are predicated on substantial efforts to reduce costs.

3. On the other hand, we have to protect the public expenditure position and maintain effective control over borrowing. If in considering price increases we demand cost reductions which are unrealistic and in the event unattainable, the result will be breaches in EFLs, unplanned increases in borrowing and a rise in public expenditure. In order to protect the public expenditure position, it is important that in responding to proposed tariff packages the scale of cost savings demanded should be testing but ultimately attainable.

/In the Post Office's



4. In the Post Office's case, the proposed 19% rise (2p/2p) would enable them to meet this year's EFL, and in the absence of further tariff increases next autumn would require them to achieve some £90 million savings next year (against a total pay bill of some £1800m) if the 81-82 EFL was not to be breached. One possibility would therefore be to allow the proposed increases this January as the Secretary of State for Industry has suggested, but with the proviso that there should be no further tariff increases next year. A second course however, which seems to me preferable, would be to trim the proposal to 2p and 1p increases for first and second class mail respectively. This would require the Post Office to make some economies immediately, and much larger savings (over £150m) next year to stay within their EFL.

5. Given the size of the target for savings implied by this second course and the risks for public expenditure and borrowing totals should it not be met, we would need to leave open the possibility of a further tariff review next autumn. This possibility need not be displayed to the Post Office at present, but it will need to be available to safeguard the public expenditure position if the tariff package is restricted to 2p/1p.

(G.H.)

16th October 1980

cc. A. Duguid.



PRIME MINISTER

POSTAL TARIFF INCREASES

Prime Minister

A significant tariff increase seems inescapable. The question is whether to agree a 2p/2p increase (favoured by Sir Keith and the P.O. Chairman) or 2p/1p increase with the possibility/probability of a further increase in the late summer/autumn (favoured by the Chancellor see Page A). Notwithstanding Sir Keith's arguments,

1 Your Private Secretary wrote on 6 October recording your concern at the magnitude of the Post Office's proposed increases in postal tariffs set out in my minute of 2 October.

I imagine you will back the Chancellor.

2 In the light of your comments I have seen Mr Dearing and have gone over the ground again with him. He knows our deep concern, particularly at a time when the private sector has been obliged to cut its costs and moderate its price increases. I had already pressed him to make savings in a number of areas, including property disposals, improved productivity, lower manning levels, and a cut in overtime, in order to reduce the proposed tariff increases, but we once again reviewed the options.

Shall I say 2p/1p, or do you want to discuss with Sir Keith tomorrow (Saturday)?

*DL
17/10*

3 I think we must remember that we have no powers to prevent the Post Office increasing its charges. We have only just appointed Mr Dearing and he is making a vigorous start on reforming the postal service. He has inherited a position in which his scope for action is severely circumscribed. We require him to keep within a strict external financing limit and a financial target (2% on turnover). We also require him to hold prices steady in real terms and to meet delivery targets. There is strong pressure on the Post Office to avoid industrial action since this can prevent achievement of their targets and impose an added burden on the PSBR. On top of all this the

/Post Office ...



Post Office unions have, despite their "moderate" image, been slow to accept the need for improved productivity. An experimental scheme is getting under way after years of resistance but it is only modest in scope and 70% (or possibly more) of the benefits go to the workforce!

4 At our meeting Mr Dearing explained that he had examined all possible means of making further savings but that it would be misleading for him to give the impression that any significant extra economies could be made in the short term. Indeed, as I mentioned in my minute of 2 October, the proposed 2p/2p tariff increases represent a risk in that they are insufficient to meet the business' financial objectives without a considerable economy drive. I understand that the management of the postal business have argued strongly that a larger increase (3p/2p) is necessary to balance the books; but that the Board led by Mr Dearing decided to reject this advice and to propose lower increases. The Board's aim is to bring home to everyone working in the Post Office that inefficiency could no longer be paid for out of automatic tariff increases.

5 Increases of 2p/2p are as low as Mr Dearing believes he can go. Any reduction on this would, if the business were to stand any chance of meeting its financial objectives, require savings of a level which could reverse the improvements made so far in the quality of the postal service and would put in jeopardy the changes in working practices and productivity on which the Post Office has made a start. We must accept that short term economies are

/difficult ...



difficult to make in the postal business, which, by its very nature as a universal network service, carries a high level of fixed costs. Thus, if we seek to depress prices at this stage, we would risk piling up the need for much bigger increases in prices soon after.

6. Much of the present need for tariff increases stems from a large increase in the 1979/80 wage bill which was caused not so much by the last settlement with the Union of Communications Workers (UCW) - which at 17% with some improved working methods was not seriously out of line with other public sector settlements - but by 'flow through' increases agreed in the 1978/79 pay round. These in turn were a reflection of the effect on postal workers pay of our predecessors' incomes policies. Mr Dearing assures me that this catching up process is now complete; that the next pay settlement will be free from any such effects; and that he will do everything possible to contain the increase in wages in 1981 to well within single figures, adding that his chances of success will be greatly influenced by our success in containing civil service pay.

7. An alternative might be to persuade Mr Dearing to seek an increase calculated to cover only the additional costs of wage increases already in the pipeline, but with no allowance for any increase in wage costs in the pay settlement due on 1 April 1981. On this basis we could reduce the increase to 2p on first class and 1p on second class, overall about 15%. This would mean that any further tariff increase required to meet financial objectives in 1981/82 would be clearly shown to be the direct result of wage



increases and productivity performance.

8 I am initially attracted to this course but it would have two disadvantages. First, unless the Post Office can find some previously undiscovered savings, the postal business would fall some £20 million short of making its contribution to the Corporation's External Financing Limit and £35 million short of its financial target in 1980/81. Secondly, wage increases of 6 to 7% would necessitate either a further increase of 1p/1p in about July 1981, or a substantially larger increase before the end of calendar 1981, if the postal business is to meet its EFL and financial objectives.

9 I have, as I mentioned in my previous minute to you, asked Mr Dearing to tell me at an early date of his plans for making economies in the business without a decline in the service offered to the public. Moreover, I intend to make it clear beyond doubt that the Government will be watching progress closely, and in particular is determined to see that the Post Office meets the undertaking to improve productivity levels in Inner London by 15% over 3 years, which it gave in response to criticism by the Monopolies and Mergers Commission.

10 In addition I have already told Mr Dearing that, if satisfactory progress is not achieved, I shall seriously consider early use of the powers I am taking to make derogations from the

/postal ...



postal monopoly in such a way as to enable business customers in particular to avoid the impact of ever increasing postal charges. I cannot use these powers until about July next year when the relevant legislation should have received the Royal Assent. By that time we should know the outcome of the main wage settlements for 1981 and should be able to see in outline at least whether the Post Office is bringing their costs under control. The threat is two-edged; by making it we should influence the performance of management and unions but, if we put it into effect, it would risk putting the postal service into loss or causing higher prices still because of the impact of reduced volume on largely fixed costs.

11. With this in mind I take the view, albeit with the greatest reluctance, that we have no alternative to early and substantial postal tariff increases. Insofar as there is a choice - and Mr Dearing argues that he has none - the options are for 2p/1p in January 1981, followed by a further 1p/1p in July 1981, or for 2p/2p in January. Mr Dearing is firmly in favour of the second option. I believe that the constraints on him are too great at this stage to expect him to make significant further savings and that we should at all costs avoid pressing him into a situation in which he would need next year to propose higher increases even than those he has currently in mind in order to wipe out the effects of too low an adjustment at this stage..

12. Despite the attractions of 2p/1p, I think we must rely on



Mr Dearing's judgment. There is, alas, a need of speed in decision. The cost of delay is £5 million per week. I should like to authorise Mr Dearing to approach POUNC on the basis of a 2p/2p increase this week.

13. Copies of this minute go to Members of (E) Committee, the Secretary of State for Health and Social Services and to Sir Robert Armstrong.

KJ

K J

15 October 1980

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

CONFIDENTIAL



file
Post + Tel

10 DOWNING STREET

From the Private Secretary

6 October 1980

POSTAL TARIFF INCREASES

The Prime Minister has read your Secretary of State's minute of 2 October, and is very disturbed by the magnitude of the increases in postal tariff which the Post Office are planning to introduce in January. She suggests that Sir Keith should go back to Mr. Dearing, and insist that the Post Office should cut their costs, making it clear that this would be the only option open if the Post Office were in the private sector. She feels that price increases of the order proposed are simply not acceptable.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee, Don Brereton (Department of Health and Social Security) and David Wright (Cabinet Office).

J. P. LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.

file

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Prime Minister



of the Deputy

Keith - I think you must go back to the!

Reluctantly agree, subject to the Chairman's views?

PRIME MINISTER

POSTAL TARIFF INCREASES

'recognise' certain things he would not only have to "accept" - but also to survive. We cannot have

The Deputy Chairman of the Post Office is seeking approval to put to the Post Office Users National Council a package of

postal tariff increases. The increases, which would be

effective from 5 January 1981, would amount to some 19 per cent

overall, and would include increases on the basic letter rate

of 2p for both first and second class. The package would add

less than 0.1% to the RPI (including the effect of costs being

passed on by business users). Postal tariffs were last increased

(by 2p/2p on basic rates) on 4 February this year.

2 Having discussed these proposals with Mr Dearing I reluctantly accept that some increase is necessary in postal charges if the postal business is to meet its contribution to the Corporation's external financing limit for the current year, and indeed if it is to come within striking distance of meeting its financial target. Although savings have begun to emerge from the experimental productivity scheme agreed earlier this year with postal workers, the scope for these in the current year is not great, and it is only in later years that they are expected to build up to any significant extent. Nor does there appear to be any further scope this year for significant asset disposals.

Why not?

3 Large though it may be, even the 2p/2p package represents a calculated risk on the part of the Post Office. For whilst the Deputy Chairman is reasonably confident that it will be enough to meet the postal business's share of the Corporation EFL for

/the ...



the current year, it implies a shortfall on the financial target of some £17 million. Mr Dearing feels, nevertheless, that this is a risk which he must accept, and that to adopt what is essentially the lowest increase consistent with meeting this year's EFL could have a valuable psychological impact by imbuing a sense of further cost consciousness among Post Office management and could indeed strengthen their hand in negotiations with the unions (the next settlement is due on 1 April 1981).

4 I propose therefore to write to the Deputy Chairman setting out our grave concern that a further tariff increase - and one of this magnitude - has proved necessary within a year of the last, but stating that I would have no objection to the Post Office putting its proposals to the Users Council. I would make clear, however, that this was on the understanding that the postal business will be expected to meet both its external financing limit and financial target for the current year and 1981/82, that it should keep its financing requirements next year down to a level consistent with those envisaged in our discussion in E Committee on 17 September and that additionally it should so arrange its affairs as to avoid another increase before January 1982 at the earliest.

It isn't necessary.

5 I have told Mr Dearing that I cannot accept a situation under which the Post Office is only able to meet its EFL and financial target at the expense of substantial and repeated price increases. I have asked him to let me know before

/Christmas ...



Christmas his strategy for ensuring that this situation does not continue. I have emphasised particularly the desirability of nil increases in unit labour costs. There are, however, many, sometimes conflicting, constraints imposed on the Post Office Board including their EFL, financial target (2% on turnover), the performance aim (holding prices steady in real terms), delivery targets and the need to avoid adverse effects on the Post Office finances (and hence the PSBR) from disruption of the mail service. Mr Dearing has also inherited negotiating machinery which commits him morally, if not in law, to accept the results of arbitration which can be demanded by the unions. He accepts that the Post Office has fallen well behind its performance aim and recognises the generally undesirable effects, and the damage to the long term future of the business, which a continuing increase in real unit costs could cause.

6 The preparations needed within the Post Office for a tariff increase, and the need to consult the Users Council, result in a lead time of some 3 months. In order to meet their target date and avoid delays (which would cost in the region of £5 million per week) the Post Office are anxious to present their proposals to the Council as quickly as possible. I would therefore be grateful for colleagues' comments as a matter of some urgency. I should mention that we have no formal powers under the Post Office Act to block price increases.

/7 ...



7 Copies of this minute go to Members of (E) Committee, the Secretary of State for Health and Social Services and to Sir Robert Armstrong.

KJ

K J

2 October 1980

Department of Industry
Ashdown House
123 Victoria Street



10 DOWNING STREET

From the Private Secretary

1 September 1980

The Prime Minister has seen your letter of 19 August, proposing that the CPRS should study the financing of investment in the public telecommunications service.

In the light of comments from Mr. Ibbs, the Secretary of State for Trade, and the Treasury, the Prime Minister is content that the CPRS should be asked to undertake this study. She does not, however, see this as a high priority task, and is content that Mr. Ibbs should fit it into his work programme when convenient.

I am sending copies of this letter to Martin Hall (HM Treasury), Nicholas McInnes (Department of Trade) and Gerry Spence (CPRS).

M. A. PATTISON

Mrs. Catherine Bell,
Department of Industry.

↳

PRIME MINISTER

You asked whether Sir Keith Joseph's suggested CPRS study on telecommunications investment would overlap current Treasury work.

I attach a letter from the Treasury showing that the proposal is not intended to cover the same area (Flag A). We have also had a comment from Mr. Nott's office (Flag B) placing on record his view that the proposed study must not preclude a further MMC investigation into the efficiency of the telecommunications network. Robin Ibbs (Flag C) has said that CPRS would be happy to undertake this work. But he emphasises that the study could not be started until October. A report could be prepared before Christmas, but Mr. Ibbs would want to be reassured that this does not conflict with any other priorities you might have in mind for CPRS over the next few months.

In the light of these comments:

(1) Are you prepared to give the go-ahead for this study?

Yes - but not very enthusiastic

(2) Would you wish CPRS to give it high priority?

No.

MAD

mb

28 August 1980



CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa.05112

27 August 1980

Dear Nick,

Financing the Telecommunications
Investment Programme

Catherine Bell sent Mr Ibbs a copy of her letter of 19 August to you, which proposed that the CPRS study the financing of investment in the public telecommunications service.

2. Before he went on leave, Mr Ibbs asked me to let you know that he would be happy for the CPRS to undertake such a study and that the terms of reference were acceptable. Because of pressure of other commitments, we could not begin to study the problem in any detail before early October; but we would expect to be able to report back before Christmas. In view of the size of this project Mr Ibbs would like to be clear that the study would not conflict with any other priorities over the next few months that the Prime Minister might have in mind for the CPRS.

3. I am sending a copy of this letter to the Private Secretaries to members of E Committee and to David Wright here.

Yours ever

G B Spence
Private Secretary

N J Sanders Esq
Private Secretary
10 Downing Street
London SW1



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

27 August 1980

M. Pattison, Esq.,
Private Secretary,
10, Downing Street

Der Mike,

TELECOMMUNICATIONS INVESTMENT STUDY

The Prime Minister asked whether the CPRS study proposed in Catherine Bell's letter of 19 August would not overlap with the Treasury's existing studies on nationalised industries financing.

It is true that the study would, under its terms of reference, embrace the question of how the telecommunications investment programme should be financed. As the Treasury understands it, the CPRS here have it in mind to look primarily at the scope for privatisation, and for efficiency improvements, relating to this particular industry. To that extent there is no overlap with existing, wider Treasury studies. Insofar as the CPRS study threw up questions affecting other nationalised industries, such as sources of borrowing and their relationship to the PSBR, then these would need to be reviewed in depth in a separate wider study, effectively a continuation of the existing Treasury studies to which the Prime Minister referred. The Treasury's stipulation to this effect was in paragraph 6 of Catherine Bell's letter.

I am sending copies of this letter to Catherine Bell and to Robin Ibbs.

y - evr,

M.A.

M.A. HALL

Thanks
C.F. to [unclear] ADJ
29/8/80



10 DOWNING STREET

C

RA

C CA
CSD
SO
DOI

THE PRIME MINISTER

26 August 1980

Thank you for your letters and enclosures of 14 May and 9 June, and also for your report and the covering letter drawing attention to the main issues it contains.

I am sure that you will appreciate that in view of the scope and detailed nature of the report, it would not be practicable to attempt in the form of a letter to make specific responses to all the points you have raised. Perhaps, however, I could comment briefly on what I see as being the two principal subjects dealt with in the report. First, the role of the British Library in the field of computerised information services, and secondly, Government policy and practice generally relating to the computerisation of its services.

Your criticisms of the British Library are aimed partly at its Research and Development Department and partly at the information retrieval activities of the library as a whole. Responsibility for the management of the British Library is vested by statute in its Board. The members of the Board, (who, with the exception of one member appointed by Her Majesty The Queen, are appointed by the Chancellor of the Duchy of Lancaster), include men and women with substantial experience in industry and administration, as well as some from academic backgrounds. I understand that you have previously been invited to discuss some of your complaints about the Research and Development Department with the Chairman of the Board, but that you have not done so. You might like to consider taking up this invitation. As far as your wider criticisms of the Library are concerned, the Select Committee on Education, Science and Arts has

/been

↳

been conducting an enquiry into this very subject, and I expect that you have sent the Committee a copy of your report. The Government is now awaiting with interest the Committee's report.

You have also raised the wider issue of Government policy and practice in relation to computerisation of its services. I asked the Central Computer and Telecommunications Agency to look at some of the specific points in this field covered in Recommendation IX of your report. This they have done. I understand that current practice not only covers the points you make, but in some significant respects goes further.

(SGD) MARGARET THATCHER

Dr P S Davison



Post + Tel.
MAP has seen

From the Secretary of State

CONFIDENTIAL

Nick Sanders Esq
Private Secretary
10 Downing Street
London, SW1

22 August 1980

Dear Nick,

Please refer to Catherine Bell's letter of 19 August.

While my Minister has no objection to a CPRS study on the lines proposed, he would like to record that he does not regard the study as precluding a further investigation by the Monopolies and Mergers Commission into the efficiency of the national network. Ministers decided at their meeting on 24 July to defer the idea of such a reference for the time being, but this was without prejudice to later consideration of the issue.

The terms of reference proposed for the CPRS study would appear to cover quite separate issues from those likely to be referred to the Commission and there is therefore little risk of duplication between the two exercises.

Copies of this go to the Private Secretaries to the Members of E Committee and to Robin Ibbs at the CPRS.

Yours ever,

Nicholas McInnes

N McInnes
Private Secretary

CONFIDENTIAL

Post 8
Telecoms ?

B

PRIME MINISTER

Dr. P. S. Davison was Conservative candidate for Hamilton in the Election. On Teddy Taylor's advice, he wrote to Richard Ryder to ensure that matters which he wanted to raise came to your attention.

Dr. Davison operates a company called Scientific Documentation Centre Limited. He has for a long time been mobilising a campaign about Government computerised information services. In addition to his original letter to you covering documentary support for his case, he wrote a supplementary letter recording a number of specific questions on these issues which he had suggested to Dick Douglas MP. Mr. Douglas seems to have chosen not to follow this up.

I asked CSD and the Office of Arts and Libraries to take a look at this. They took a long time to consider the papers, and eventually produced a very negative reply - which I attach below. This was prepared for a Private Secretary to send, but I have had it typed up for you to sign in view of Dr. Davison's status as a former candidate.

I queried this negative response, and was then given the background note attached at Flag A beneath Davison's letters. You will see from this that he has been at odds with successive Governments in this field over a long period of time.

W The note suggests that Dr. Davison's case has been fairly considered, and it is perhaps reasonable to conclude that he will never be convinced and that there is no case for a more encouraging response. Are you prepared to write as proposed? (I have not submitted all the supporting documentation, but this is in the Office if you want to see it).

MAD

Yes not.

20 August 1980



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

I thought that a study of future was already kept undertaken in the Treasury and it was due to report in October.

19 August 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

There is no point in duplicating this work. PRIME MINISTER.

Content for CPRS to study Post Office telecommunications investment, with terms of reference at 'X'? MA 20/8

Dear Nick

I am writing with a proposal, which my Secretary of State supports, that the CPRS study the financing of investment in the public telecommunications service.

2 The Post Office's investment programme (which runs at about £1.5 billion a year) is concerned to support the increasing use of telephones by all sections of the community; to replace outdated Strowger exchanges by more efficient electronic switching systems; and provide the necessary support from the public telecommunications system for the development of the new information technologies which can do much to improve economic efficiency. There is difficulty finding the finance for all these investment needs; and, as members of E Committee will know, we have been faced this year with proposals for a £450 million increase in Government funding of the Post Office's telecommunications business over the year 1981/2 to 1983/4 notwithstanding an increase in the financial target set to the business.

3 The solution to these financing problems raises conflicting considerations. The Post Office management argue that they should be allowed to raise finance from the market place like a private sector firm, so as to avoid (as they see it) the need for their present customers to pay most of the cost of investing for the future. For his part, my Secretary of State is encouraging the introduction of private capital to fund some activities currently financed by the Post Office, through his proposals for legislation next session to relax the Post Office's monopoly in the provision of telecommunications services. He is also encouraging the Post Office to form subsidiary companies into which private capital could be introduced.

4 In this situation, it is agreed between my Secretary of State, the Chief Secretary, the Post Office, and the CPRS that a study by the CPRS of the options for future years would be useful, following the involvement of the CPRS in consideration of the Post Office's financial problems this year. The Post Office have proposed the following terms of reference for the study of the medium term:

/To ...



x/

'To examine Britain's needs for a public telecommunications service in the next 10 to 15 years and how the investment needed should be financed'.

5 These terms of reference embrace the financing of all the public telecommunications services currently provided by the Post Office, including those aspects of the service where private sector companies could in future have a role. They are acceptable to this Department, and, we understand, to the CPRS.

6 The Treasury are also content with them on the understanding that any new proposals for financing the telecommunications investment programme which call in question the financing arrangements for nationalised industries generally would be reviewed in a separate wider study.

7 Any advice which the CPRS can provide in time for decisions on telecommunications investment in this year's investment and financing review would be very welcome, though the completion of a full study might of course be outside that timescale.

8 We would accordingly be grateful for your agreement to the proposed study by the CPRS proceeding on a priority basis. Copies of this letter go to the private secretaries to members of E Committee, and to Robin Ibbot at the CPRS.

*Yours sincerely
Catherine Bell*

CATHERINE BELL
Private Secretary

CONFIDENTIAL

Ref. A02725

PRIME MINISTER

Post Office Pay, Financing and Prices

(E(80) 79)

BACKGROUND

This paper by the Secretary of State for Industry sets out the options for dealing with the overrun on the External Financing Limit for Post Office Telecommunications in 1980-81.

2. The key figures are, in £ million:-

470 excess

- 160 yield from 20 per cent tariff increase on 1 November 1980
- 100 from further economies

210

or 160 if further savings of £50 million are found.

3. A surcharge of £5 per line would raise £90-£100 million; and add 0.2 to the RPI. A surcharge of £8 would be necessary to raise £160 million; and would add 0.3 to the RPI.

4. The alternative, which the Post Office wish to pursue, is a special financing scheme for funding equipment supplies, or for factoring debts. This is unacceptable because, though it would not add to the PSBR, it would add to the money supply; its monetary effect would thus be little different from letting the Post Office overrun their EFL.

5. You agreed at your meeting on Wednesday that there should be no reference on Telecommunications to the Monopolies Commission.

HANDLING

6. After the Secretary of State for Industry has introduced his paper the Chancellor of the Exchequer will wish to comment on the options.

CONFIDENTIAL

7. Broadly there are three:-

- (i) To accept the Post Office's proposals for special financing arrangements - but this would add to the money supply.
- (ii) To let the EFL be exceeded - and place the full blame on the Post Office.
- (iii) To instruct the Post Office to impose the surcharge - and again to put the blame on them and on the 21 per cent pay settlement with the Post Office engineers.

8. If the Committee accepts that a surcharge is necessary, there is a strong case for keeping it to no more than £5 and to insist that the Post Office must find savings to bridge the remaining gap.

9. There will also be a difficult problem of public presentation. The Post Office will claim that a good deal of the excess results from falling demand at a time of economic recession and on assumptions for inflation when the EFL was set which have turned out to be unrealistic. They will also no doubt argue that they were willing to come forward with constructive ideas for private sector financing. As presented by them the surcharge could be seen as the price of the high theology of a rigid Treasury. The Government's task will be to explain, in simple terms, that the financing proposals were no more than a dodge, which would add to the money supply; and that the root of the trouble is the excessive pay claim allowed to the Post Office engineers, and the failure of the Post Office to control their costs generally.

10. If the surcharge is to go ahead, the question might be raised whether it should apply generally or whether, for example, pensioners and other disadvantaged groups might be exempted. This could lead to difficult administrative problems, which are hardly worth incurring for a once-for-all surcharge.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions on:-

- (1) Whether there should be a surcharge.
- (2) If so, whether it should be limited to £5 with the Post Office instructed to find the rest from other savings.

CONFIDENTIAL

- (3) Whether any groups should be exempted from the surcharge.
- (4) Any alternative solutions to the problem.

ROBERT ARMSTRONG

(Robert Armstrong)

25th July, 1980

cc Mr Duguid

Original on Posts & Tels.
April 1980, Pay Negotiations.

CONFIDENTIAL

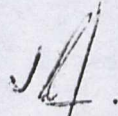
Qa 05087

To: MR LANKESTER

From: J R IBBS

Post Office Pay, Financing and Prices

1. The position revealed in E(80)79 is a bad one on which it is easy to comment but hard to offer constructive suggestions.
2. I understand that the difference between a 15 per cent pay increase and a 20 per cent increase is approximately £75 million per annum and that the full value of the 20 per cent increase is approximately £300 million per annum. The financing gap is stated to be £470 million. Something has therefore gone seriously wrong to the extent of £170 million, even if no pay increase at all had been required. The earlier discussion did not seem to me adequately to explain this so that one could be confident that the causes will not lead to similar difficulties in the future.
3. I am suspicious of the concept of using a surcharge to cover what must be a permanent cost increase. Unless from next April onwards there are to be other revenue savings (none has to my knowledge been specified) which will offset the high settlement, the cost of it will continue and will need to be recovered. I suspect therefore that a further tariff increase for next year may already in effect be built in and that the surcharge is merely a way of trying not to draw attention to the true magnitude of the permanent increase now needed. At the very least the use of a once-off surcharge to meet an ongoing expense invites difficult questions the answers to which need to be established in advance.
4. The paper provides no grounds for supposing that the possibility of further savings from the investment programme of £1½ bn. has been thoroughly examined. As you know, my one concern would be that such savings should not delay modernisation of the system but even so it is hard to believe that out of so large a total there are not some other items which could be deferred.
5. I am sending a copy of this minute to Sir Robert Armstrong.


25 July 1980

CONFIDENTIAL

Ports + Tel 10

CC Master Set 5



10 DOWNING STREET

From the Private Secretary

24 July, 1980.

The Prime Minister held a short meeting this morning to consider the possibility of a reference on telecommunications to the Monopolies Commission. The Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry, and Sir Robert Armstrong were present.

The Secretary of State for Trade and the Chancellor said that they were both in favour of a reference, and that this would be worth announcing now in view of the high pay settlement which had just been reached with the Post Office Engineering Union. But Mr. Nott explained that, because of the Commission's workload, a reference would not be possible until December. Moreover, Ministers ought to be aware that there was a growing feeling that references were being made to the Commission for political purposes. The Home Secretary said that there were certain security aspects which would have to be taken into account if there were to be a reference.

The Secretary of State for Industry argued along the lines of his minute of 23 July that, following his announcement about the relaxation of the telecommunications monopoly, an announcement of a reference to the Monopolies Commission would have very little impact. In view of this, and in view of the security aspect, the delay which would be involved, and the political factor mentioned by Mr. Nott, he was against the proposed reference.

Summing up a short discussion, the Prime Minister said that it would be best to defer the idea of a reference for the time being.

I am sending copies of this letter to Ian Ellison (Department of Industry), George Walden (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), John Wiggins (HM Treasury), and David Wright (Cabinet Office).

J.F. Halliday, Esq.,
Home Office.

J. P. LANKESTER

KRB

SIR KEITH JOSEPH FROM PETER STREDDER

POEU Pay Settlement

The following are the details of the POEU pay settlement. They supercede the details contained in your minute to the Prime Minister last night.

The settlement provides for an 18% increase in basic pay from 1 July, 1980. In addition, last year's productivity bonus of 2% is to be consolidated. This bonus was paid on top of last year's pay rates and is not new money. Finally, there is to be a new productivity bonus this year to be paid in return for co-operation by the work force in productivity measures. This will total 3% and be paid in two stages in December and April. This is new money.

The Post Office were fairly confident that the deal would be accepted by the work force and are now not certain that the deal even needs to go to a ballot.

If there is to be a surcharge on telephone bills, the decision to impose this will need to be taken quickly, i.e., within the next week or so.

24 July, 1980.



*Original on
Posts & Tels,
April 1980, Pay Negotiations.*

PRIME MINISTER

TELECOMMUNICATIONS PAY NEGOTIATIONS

1 Following our discussions at E Committee on 9 July, I undertook to report developments in the telecommunications pay situation.

2 On 22 July, the Post Office offered the Post Office Engineering Union (POEU) an 18% increase in basic pay plus 3% for (unspecified) productivity improvements. This has been accepted by the POEU National Executive Committee, subject to a ballot of members. This is clearly an unsatisfactory conclusion; there is, moreover, some reason to fear that the ballot may not result in acceptance, so there is the prospect of industrial action in August.

3 The pay settlement means that, on present forecasts, the Telecommunications business faces an EFL gap of £472 million in 1980/81. The Post Office Board have approved an overall tariff increase of about 20% on 1 November aimed to bring in £210 million in 1980/81. The Board find it impracticable to bring forward the increase to 1 October. In addition, the Board can find the £100 million savings which I described in my minute of 18 June. Sir William Barlow has explained that the bulk of these savings come from delays in receipts of stores, cutbacks in recruitment, overtime and advertising. Only £40 million of the savings are derived from deferred payments to equipment suppliers. The Board has also reluctantly acquiesced in a £50 million cutback in this year's investment programme. This leaves an external financing gap of £112 million.

/4 ...



4 I am convinced that we must close this gap. Sir William is fully aware of the need to keep within the EFL and has instructed his management to examine all the options. David Young and Department of Industry officials have been exploring with the Post Office the possibilities of property sales but these may not be practicable in the limited time available.

5 Sir William has written to tell me that, unless the Government allow the Post Office to cover the remaining gap through a scheme for financing equipment work in progress, the Post Office will impose a surcharge on all subscribers. He has suggested that he would need a direction before doing this but there is in fact no power for me to give him such a direction. A surcharge does have attractions if we can convince the public that it is the inevitable consequence of an excessive pay settlement with the POEU. On the other hand, the Post Office management and unions would try to pin the blame on the Government and invoke public displeasure against the whole EFL system. This is a complaint to which we have a full answer.

6 We are faced with a choice between a surcharge or the scheme for financing equipment work in progress. Geoffrey Howe knows that I am opposed to any scheme which would result in an increase in the money supply and I think the scheme will need to be rejected on money supply grounds. This means we must face the prospect of a surcharge. Officials are, however, re-examining the effects of the financing scheme; I hope to have their advice shortly and we can defer a decision until then.



7 Geoffrey Howe and John Nott have suggested that a reference to the Monopolies and Mergers Commission should be announced to coincide with the pay settlement. I am not sure that such an announcement will have any impact following my own announcement about the relaxation of the telecommunications monopoly and the studies for the liberalisation of value added network services and alternative networks. I am also concerned that an additional study would divert management at a time when it has to cope with the problems of reorganisation. Nor am I attracted by Geoffrey's suggestion for an enquiry into restrictive practices; the Post Office's deficiencies arise not only from restrictive practices but also from the inability of line management to respond to clear market needs. In my view we should let the new chairman have a chance to get to grips with these deficiencies, bearing in mind that management changes will take time to have effect. I fear that a ban on recruitment at the present time as suggested by Geoffrey would merely worsen the quality of service; in the City, for example, the Post Office is taking on extra labour in an effort to cope with the serious backlog of installations which is impairing business efficiency.

8 My conclusions are that we should leave on one side the idea of an MMC reference and should defer deciding on the proposed surcharge until officials have completed their re-examination

/of ...



of the financing scheme for equipment work in progress and until after I have seen Sir William Barlow which I am doing on Monday 28 July. In the meantime, I would welcome your agreement that, if, as expected, the financing scheme is unacceptable, we should accept the proposal for a specific surcharge.

9 I am copying this minute to Members of E Committee and to Sir Robert Armstrong.

I. Ellison

KEITH JOSEPH

(approved by the Secretary
of State and signed in his
absence)

23 July 1980

Department of Industry
Ashdown House
123 Victoria Street



4

SECRET

Ref. A02711

PRIME MINISTER

Telecommunications: Reference to the Monopolies Commission

At the meeting of E on 9th July, when the pay settlement for the Post Office engineers and the consequences for the External Financing Limit on Post Office telecommunications was discussed, you said that you would consider further with the Ministers directly concerned the possibility of a reference on telecommunications to the Monopolies Commission.

2. The October tariff increase of 20 per cent will be the second this year. This, together with Ministers' general dissatisfaction with the management of the telecommunications business, is a powerful reason for a reference. The Secretary of State for Trade will, however, wish to advise whether the Commission could cope with another reference now. You will also wish to discuss the terms of reference.

3. The Chancellor was anxious that at the same time the Post Office management should report on restrictive practices within the telecommunications business and on what could be done about them. The Secretary of State for Industry was to consult with the Secretary of State for Employment on this. You might ask what progress has been made and whether this work has any bearing on a reference to the Monopolies Commission.

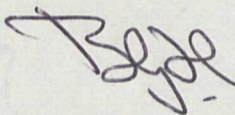
4. You also wish to discuss with the Ministers present the security aspects of a reference to the Monopolies Commission. My minute to you of 8th May explained the implications for interception of changes in the Post Office monopoly. In his own minute of 7th July, the Home Secretary explained the importance of maintaining the special services which the Post Office provide for our intelligence gathering capacity. If the telecommunications monopoly is referred to the Monopolies Commission there is a risk that the Commission may make recommendations which would jeopardise the special services currently provided by the Post Office. It would presumably not be possible to warn them of this risk.



SECRET

5. You will wish to ask the Home Secretary for his views on the likely risks of an investigation by the Monopolies Commission jeopardising these operations on their secrecy either through the recommendations they may make or through the enquiries they will have to undertake. The Secretaries of State for Trade and Industry should also be asked for their views on the work of the Monopolies Commission in such a case and on whether there is likely to be any way of limiting their enquiries. It is for consideration, for instance, whether the Chairman or a small number of the senior members of the Commission likely to be involved in such an inquiry should be given a similar sort of briefing to that which Sir Brian Cubbon and I gave to Mr. Adam Butler before his Department began their work on changes in the Post Office Monopoly. The objection to this is that it would put those who had been briefed in a very difficult position in relation to the colleagues who had not been briefed.

6. The only other possibility that I can see, short of not making a reference, would be to try to narrow the risk by restricting the Commission's terms of reference: say, to installation and supply of equipment, excluding them from maintenance. But I doubt whether that would be free from risk.


Jov (Robert Armstrong)

23rd July, 1980

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard,

16 July 1980, columns 1494 - 1508

"Postal Services"

2. House of Commons Hansard,

21 July 1980, columns 29 - 40

"Telecommunications"

Signed AWayland Date 14 July 2011

PREM Records Team

ms

PRIME MINISTERSir Keith Joseph's Statement

As I told you, Keith Joseph's Statement on the telecommunications monopoly passed off quietly (copy attached). There was no tension in the air, and the Opposition found it difficult to find an angle to attack from. They finally concluded that the most profitable lines were the risk to British industry from international competition and the effect on the ordinary telephone customer of the presumed reduction in telecommunications profitability.

In answer to these criticisms, Keith Joseph said that British industry would have a period of grace, and that we had no intention of allowing imports to this country from other countries unless they allowed corresponding exports by us; and that there was no prospect that these changes would erode the cash flow of British telecommunications so as to affect the ordinary customer in the way Mr. Silkin and others feared.

The proposals were opposed by the spokesmen for the Post Office Engineering Union (Roger Stott and John Golding). Keith Joseph said that he had had very helpful discussions with the P.O.E.U.. While not associating them with his conclusions, he hoped to have further useful consultations with them.

The general air was much more calm and unexcited than the Statement on the postal monopoly last week. I doubt that there is much that anybody can raise with you tomorrow.

MS

21 July 1980



STATEMENT ON THE TELECOMMUNICATIONS MONOPOLY

1 The present rapid growth of telecommunications and of information technology provides immense opportunities for the industries connected with telecommunications. Over the coming years the majority of British households will be affected. Whole new industries and sub-industries and many new jobs will be created.

2 These developments have been under way for a longer time in the United States and have gathered more momentum there than here. I am sure that one of the reasons for America's greater success has been the freedom available there to entrepreneurs to develop new services and a wide range of equipment associated with telecommunications. The opportunities and the market are too great to be encompassed by a single organisation, however skilled and however great its resources.

3 For these reasons I announced last September that the Government would be reviewing British Telecommunications' present monopolies over the supply of terminal equipment attached to the telecommunications network and over the provision of services to third parties using British Telecommunications circuits. Following widespread consultation with interested parties, the Government have reached the following conclusions.

4 First, we are going to make it very much easier for equipment supplied by the private sector, including all Private Branch Exchanges, to be attached to the network. Subject to a transitional period of about three years, there will be freedom to attach and maintain independently approved equipment which meets the necessary technical standards. The only exceptions will be the supply, installation and maintenance of the first telephone and associated wiring connected directly to the main network, and the maintenance of private branch exchanges and

/associated ...



associated wiring, for which British Telecommunications will remain responsible. This substantial change will give the business and domestic customer a wider range of equipment from which to choose and should remove many of the bottlenecks resulting from the Post Office's present exclusive privilege of supplying such equipment.

5 Secondly, we are going to allow people more freedom to use British telecommunications' circuits to offer services to third parties which are not currently provided by British Telecommunications, for example in the data processing field. I expect this change to lead to a significant growth in information, data transmission, educational and entertainment services provided over telephone circuits and to the emergence of new businesses. I have also decided to commission an independent economic assessment of the implications of allowing complete liberalisation for what are commonly referred to as value added network services.

6 Thirdly, I am exploring the scope for allowing the private sector to provide telecommunications transmission services such as satellite business systems.

7 Legislation will be introduced next session which will make provision for relaxing the monopoly. British Telecommunications will be free to compete with the private sector but to ensure fair competition the Government intends to take powers to require it, where appropriate, to create a separately accounting subsidiary or subsidiaries where it is in competition with the private sector. We shall welcome partnerships with private capital in these subsidiaries.

8 I hope that the first fruits of these changes will be manifest within a year or so from now and that they can be fully phased in over the next three years. I look forward to seeing at an



early stage approved extension telephones on sale in the shops, as well as greater competition in the installation and wiring of currently approved apparatus on business premises. The changes will bring new opportunities and challenges both for British Telecommunications and the telecommunications industry and I hope both will respond positively to this greater freedom. They will have the opportunity to expand their range of products to compete successfully both at home and in world markets, and I look forward to the associated development of new enterprises and industries.

9 I have today placed in the Libraries of both Houses a memorandum giving fuller details of these proposed changes.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

21 July 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Nick,

... I attach a copy of the statement my Secretary of State proposes to make this afternoon on the telecommunications monopoly.

2 I am copying this letter to the private secretaries to the Members of the Cabinet, the Minister of Transport and the Chief Whip.

Yours ever,
Pete

PETER STREDDER
Private Secretary



STATEMENT ON THE TELECOMMUNICATIONS MONOPOLY

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From: THE PRIVATE SECRETARY

CONFIDENTIAL

*Post. + Tele
com*



HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

16 July 1980

12/10/77

✓ The Home Secretary has seen Sir Keith Joseph's minute of 10th July to the Prime Minister about postal services.

He has no comments to make on the proposed statement but there are two points which he would be grateful if you would bear in mind. The first concerns the reference in the last paragraph on page 3 to a general power to make further relaxations. As he made clear in his minute of 26th June, the Home Secretary would like to be consulted if it is contemplated that this power should be used. You will have noted the Prime Minister's comments about the need for future consultation in the telecommunications field, where as far as the Home Secretary is concerned similar issues arise. Second, officials in the Home Office would be grateful for the opportunity of consultation with your officials in due course about the changes it is proposed to make on document exchanges - (b) on page 2 of the draft.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

A. P. JACKSON

I. K. C. Ellison Esq.

CONFIDENTIAL

010



DEPARTMENT OF INDUSTRY
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V
MS

PS/Secretary of State for Industry

16 July 1980

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Nick,

... I attach a copy of the statement my Secretary of State proposes to make this afternoon on the Post Office postal monopoly.

2 I am copying this letter to the private secretaries to other members of the Cabinet, the Minister of Transport and the Chief Whip.

Yours ever,
Pete

PETER STREDDER
Private Secretary



STATEMENT ON THE POSTAL MONOPOLY

With permission, Mr Speaker, I should like to make a statement about the postal monopoly.

The House will recall that on 2 July 1979 I stated that if co-operation to improve postal services were not manifest it would be necessary to review the Post Office's monopoly for the carriage of letters, and that I would be calling for reports of possible modifications to that monopoly, their practicability and implications, by the end of the year.

I have received a report from the Chairman of the Post Office and a report from officials in the Department who consulted widely with persons and organisations throughout the United Kingdom with an interest in the postal service. In addition My Rt Hon Friend the Secretary of State for Trade referred the Inner London Letter Post to the Monopolies and Mergers Commission. The Commission's report was laid before Parliament on 31 March, and published on 1 April. The Government has been discussing with the Post Office its response to this report, and I intend to lay before Parliament shortly the Post Office's programme of action to meet the Commission's recommendations.

Members of the House will be aware of the widespread criticism of the postal service, particularly in the summer of 1979. I am glad to say that recently the quality of service to the customer as measured by the statistics furnished by the Post Office has shown a marked improvement, particularly in April and May this year. The service is now close to the Post Office's own target. It has moreover been encouraging to hear of the decision of the Union of Communications Workers to discuss with the Post Office measures to improve productivity and to bring about more efficient working.



However, it has for some time been clear that the monopoly is more extensive than is sensible and that there are uncertainties in some of the key definitions in the Post Office Acts of 1953 and 1969. I have therefore decided that some changes are desirable. In coming to that decision I have taken into account the views expressed by those whom we consulted in the course of our review, the Post Office's own report on the monopoly, the views expressed by the Monopolies and Mergers Commission, and the quality of service received by the customer.

There are certain categories of mail which it would be beneficial to remove from the monopoly. When the necessary legislation has been enacted I intend to relax the monopoly with respect to:

- a Time sensitive/valuable mail. Private operators will be free to carry such mail provided they charge a minimum fee subject to review by the Secretary of State. I propose that this minimum fee should initially be £1.00p.
- b Document Exchanges. At present the document exchanges established in a number of the larger cities are able only to operate an exchange of mail at a common centre, and may not transport mail in bulk between those centres. It is intended to amend the law so as to enable them to do this.
- c Christmas Cards. The Government proposes to amend the law so as to allow charitable organisations to deliver Christmas cards.

In addition the Government proposes to amend the law relating to the monopoly in a number of other fields:-

- i The Definition of a Letter. It is intended with the help of the Post Office to specify that a number of items are excluded from the definition of a letter so that those wishing to compete with the Post Office will not be deterred by confusion about the precise

/extent ...



extent of its exclusive privilege.

ii Part Carriage by Private Operators. It is intended to amend the law to allow that where a letter at some stage goes through the Post Office network it may be carried for part of its journey by private carriers provided that it is first stamped. This will enable the large customer some freedom to avoid his mail being handled in those parts of the Post Office network known to give rise to delays.

iii Delivery by Wholly Owned Subsidiary. At present there is no obstacle to individuals or companies delivering mail on their own account, but it appears that a wholly owned subsidiary cannot deliver mail on behalf of its parent, or of other companies in the same group. It is intended to amend the law to rectify this anomaly.

iv Addressed Advertising and other new market demands. The Government will watch how the Post Office reacts to such market demands and will, if justified, make appropriate relaxations of the monopoly.

In addition, the Government will seek to amend the law relating to the Post Office letter monopoly in order to provide powers for the Secretary of State to make further relaxations in respect of certain categories of mail. Moreover we shall seek powers to remove the monopoly either in a local area or nationally. These powers will rest in my hands. I would intend to use them in the event of industrial action within the Post Office which resulted in a cessation or serious decline in the quality of service. I would also use the powers if, after due warning, the Post Office failed for reasons within its control to satisfy me as to its

/performance ...



performance in serving the public. In deciding whether to use my powers I shall take into consideration the Post Office's record in relation to productivity, unit costs, quality of service to the customer and its financial target. I am starting discussions with the Chairman of the Post Office on whether the targets for the quality of service of first and second class mail are sufficiently rigorous.

I believe these measures will stimulate greater efficiency within the postal service. Taken together, they clarify the law, open up to competition some parts of the postal monopoly and safeguard the general interest of the customer by making it clear that the letter monopoly is a privilege which the Post Office needs continually to justify through the quality of the service it provides.

These changes will require legislation and the Government will bring proposals before the House in due course.

K J



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

16 July 1980

Dear Secretary of State

2 16/7

POSTAL MONOPOLY

Thank you for your letter of 15 July.

I am prepared to accept the modified statement set out in your letter since it makes specific reference to the Post Office's record in relation to productivity, unit costs and quality of service. I continue to attach importance of course to the elimination of restrictive labour practices and this subject will presumably be fully covered in the current discussions to set the Post Office revised performance aims.

I am copying this letter to the Prime Minister and to other recipients of our previous correspondence.

Yours sincerely

R. W. H.

by JOHN BIFFEN
[Approved by the Chief Secretary
and signed in his absence]



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
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LONDON SW1E 6RB

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Secretary of State for Industry

15 July 1980

The Rt Hon John Biffen MP
Chief Secretary
HM Treasury
Whitehall
LONDON
SW1

PS/MR Butler
PS/MR Marshall
PS-Sec
MR Croft
MR Solomon
MR Lunn
MR Woodrow
MR Martle (with papers)

1677

John Biffen

POSTAL MONOPOLY

Thank you for your letter 15 July.

2. I entirely share your view that we must ensure that the Post Office's performance is improved. The threats which I have already made to the Post Office's exclusive privilege have had a beneficial impact on this summer's pay and productivity negotiations. We must build on this for the future; the threat to the monopoly must be a continuing one.
3. I think, however, we need to be clear that our freedom to make further substantial derogations from the postal monopoly is constrained. As I made clear in my minute to the Prime Minister of 20 June there is no readily available alternative to the universal postal service provided by the Post Office. Any derogations we might make would tend to result in "cream skimming" of profitable traffic; and there would almost certainly be no takers for the rural postal services. Any attempt to remove the monopoly before alternative carriers were prepared to step in would in practice be doomed to failure; we would bluff and our bluff might well be called.
4. Against this background I think it essential not to surrender the initiative by publicly linking the threat of further derogations from the monopoly to failure to achieve precise targets whether these are the elimination of specified restrictive labour practices or particular improvements in quality of service or real unit costs. We must keep up the pressure on the Post Office management and the unions but should make further derogations only when we judge it right to do so.
5. I hope I could meet your point if I amended the final sentence at the foot of page 3 of the draft statement to read as follows:

.../"These



"These powers will rest in my hands. I would intend to use them in the event of industrial action within the Post Office which resulted in a cessation or serious decline in the quality of service. I would also use the powers if, after due warning, the Post Office failed for reasons within its control to satisfy me as to its performance in serving the public. In deciding whether to use my powers I shall take into consideration the Post Office's record in relation to productivity, unit costs, quality of service to the customer and its financial target. I am starting discussions with the Chairman of the Post Office on whether the targets for the quality of service of first and second class mail are sufficiently rigorous".

As a consequential I would need to delete the penultimate sentence of the penultimate paragraph.

6. It will take some time for us to set any revised performance targets. During my discussions with the Post Office I intend to continue to exert pressure on them to eliminate any restrictive labour practices which remain following this summer's pay negotiations and to improve their unit costs.
7. I am copying this letter to the Prime Minister and to the other recipients of my earlier minute.

Emerson

Kear



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

15 July 1980

Dear Secretary of State

R. W. J.

POSTAL MONOPOLY

Thank you for copying to me your minute to the Prime Minister of 10 July.

I note that the draft statement retains the general formulation that future derogations from the monopoly will be dependent on "unsatisfactory performance" rather than the more specific criteria urged in the Secretary of State for Trade's letter of 7 July and mine of 10 July. In view of the need to bring effective pressure to bear on the Post Office to improve its efficiency, I think we need to make it quite clear that the monopoly is under continuing review and that achievement of the enhanced performance aims we hope to be setting in the near future will be a crucial test of the Post Office's fitness to retain its monopoly.

The Chancellor has indicated that in his view the proposed statement does not go far enough to meet the points in my letter of July 10. My strong preference remains for the statement to make future derogations contingent on failure to achieve an agreed programme to eliminate restrictive labour practices or to improve quality of service and real unit costs to targeted levels. If you are still opposed to including a specific reference to their performance criteria, I am reluctant to agree to the statement in its present form except on the understanding that "unsatisfactory performance" is clearly understood to cover the specific criteria which the Secretary of State for Trade and I have in mind.

I am copying this letter to the Prime Minister and the other recipients of your minute.

*Yours sincerely
R. W. J.*

By JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]

Post +

Telecomms
JS



10 DOWNING STREET

From the Private Secretary

14 July 1980

The Prime Minister has considered the draft statement on the telecommunications monopoly enclosed with your letter of 10 July, and also the draft statement on the postal monopoly which your Secretary of State circulated under his minute of 10 July. She is content with both of the drafts.

I am sending copies of this letter to Private Secretaries to members of the Cabinet, Tony Mayer (Department of Transport), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

L. P. LANKESTER

Peter Stredder, Esq.,
Department of Industry.

JS



DEPARTMENT OF INDUSTRY
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PS/ Secretary of State for Industry

10 July 1980

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

✓ Molyneux

1. Mr. Safar's MS

2. Prime Minister

Dear Tim,

You have approved the substance of Sir Keith's proposals. Are you content with the attached draft statement?

Yes

TELECOMMUNICATIONS MONOPOLY

Thank you for your letter of 9 July to Ian Ellison, conveying the Prime Minister's agreement to the proposals set out in my Secretary of State's minute to her of 1 July.

P.

Subject to the Prime Minister's agreement and the Chancellor of the Duchy's views on timing, my Secretary of State proposes to make the attached statement.

11/7

...

I am copying this letter to the private secretaries to other Members of the Cabinet, the Minister for Transport, the Chief Whip and Sir Robert Armstrong.

*Yours ever,
Pete.*

PETER STREDDER
Private Secretary



STATEMENT ON THE TELECOMMUNICATIONS MONOPOLY

1 The present rapid growth of telecommunications and of information technology provides immense opportunities for the industries connected with telecommunications. Over the coming years the majority of British households will be affected. Whole new industries and sub-industries and many new jobs will be created.

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6 Thirdly, I am exploring the scope for allowing the private sector to provide telecommunications transmission services such as satellite business systems.

7 Legislation will be introduced next session which will make provision for relaxing the monopoly. British Telecommunications will be free to compete with the private sector but to ensure fair competition the Government intends to take powers to require it, where appropriate, to create a separately accounting subsidiary or subsidiaries where it is in competition with the private sector. We shall welcome partnerships with private capital in these subsidiaries.

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/early ...



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early stage a range of approved extension telephones on sale in the shops, as well as private branch exchanges, teleprinters and modern equipment, which are currently supplied for attachment solely through the Post Office, being available directly from private suppliers. The changes will bring new opportunities and challenges both for British Telecommunications and the telecommunications industry and I hope both will respond positively to this greater freedom. They will have the opportunity to expand their range of products to compete successfully both at home and in world markets, and I look forward to the associated development of new enterprises and industries.

9 I have today placed in the Libraries of both Houses a memorandum giving fuller details of these proposed changes.

CONFIDENTIAL

cc AD.



PRIME MINISTER
POSTAL SERVICES

at the by hand

Speed me

Ann Amstutz

*Sir Keith's response to
colleagues' comments - in
particular, he intends to
widen two derogations
slightly. Content but he
should make an oral statement
(draft at Flag 4) next*

1 I have been reflecting on comments made by colleagues on my *note?*
minute to you of 20 June 1980. As a result I intend to remove
the requirement that charities delivering Christmas cards
should make a charge of up to a maximum of half the second
class postage rate. In addition, I do not intend to require
private express couriers to register with my Department.

2 I recognise that in any attempt to clarify the definition
of a letter care will have to be taken to avoid making
matters more restrictive. I believe that the removal of
doubt which such clarification has as its objective will be
beneficial to those wishing to establish competing services
in certain areas. I would see as the most likely means of
making this clarification an indication of what would not be
included in the Post Office's exclusive privilege, rather
than an attempt to reach an all-embracing and precise
definition of a letter.

3 In my letter to John Biffen on 4 July I proposed to widen
the scope of the criteria against which the Post Office's
performance might be assessed with a view to making further
derogations. My suggested formulation of looking at Post
Office performance as a whole would I am sure be preferable
to committing ourselves too closely to particular aspects of
performance such as quality of service.



4 John Nott links the question of criteria for derogation with the Post Office's response to the MMC report. I understand that work is well advanced between officials and the Post Office, that the Post Office has accepted the large majority of the recommendations, and has made a constructive and positive response throughout. In addition work has already been put in hand on the review of targets and objectives that I mentioned as desirable in my letter to John Biffen. With this in mind, and in view of the pressures of the parliamentary timetable at this time of year, I would prefer not to defer my statement on the monopoly as a whole until this work is finally completed, but refer to an early publication of the response to the MMC report.

... 5 Unless colleagues have any views to the contrary I propose to make a statement on the lines of the attached redraft early in the week of 14 July.

6 I am copying this minute to Cabinet Colleagues, Minister of Transport and Sir Robert Armstrong.

Department of Industry
Ashdown House
123 Victoria Street

10

K J
10 July 1980



DRAFT ANNOUNCEMENT ON THE POSTAL MONOPOLY

With permission, Mr Speaker, I should like to make a statement about the postal monopoly.

The House will recall that on 2 July 1979 I stated that if cooperation to improve postal services were not manifest it would be necessary to review the Post Office's monopoly for the carriage of letters, and that I would be calling for reports of possible modifications to that monopoly, their practicability and implications, by the end of the year.

I have received a report from the Chairman of the Post Office and a report from officials in the Department who consulted widely with persons and organisations throughout the United Kingdom with an interest in the postal service. In addition My Rt Hon Friend the Secretary of State for Trade referred the Inner London Letter Post to the Monopolies and Mergers Commission. The Commission's report was laid before Parliament on 31 March, and published on 1 April. The Government has been discussing with the Post Office its response to this report, and I intend to lay before Parliament shortly the Post Office's programme of action to meet the Commission's recommendations.

Members of the House will be aware of the widespread criticism of the postal service, particularly in the summer of 1979. I am glad to say that recently the quality of service to the customer as measured by the statistics furnished by the Post Office has shown a marked improvement, particularly in April and May this year. The service is now close to the Post Office's own target. It has moreover been encouraging to hear of the decision of the Union of Communications Workers to discuss with the Post Office measures to improve productivity and to bring about more efficient working.



However it has for some time been clear that the monopoly is more extensive than is sensible and that there are uncertainties in some of the key definitions in the Post Office Acts of 1953 and 1969. I have therefore decided that some changes are desirable. In coming to that decision I have taken into account the views expressed by those whom we consulted in the course of our review, the Post Office's own report on the monopoly, the views expressed by the Monopolies and Mergers Commission, and the quality of service received by the customer.

There are certain categories of mail which it would be beneficial to remove from the monopoly. When the necessary legislation has been enacted I intend to relax the monopoly with respect to:

a Time sensitive/valuable mail. Private operators will be free to carry such mail provided they charge a minimum fee of £1.00, subject to review by the Secretary of State.

b Document Exchanges. At present the document exchanges established in a number of the larger cities are able only to operate an exchange of mail at a common centre, and may not transport mail in bulk between those centres. It is intended to amend the law so as to enable them to do this.

c Christmas Cards. The Government proposes to amend the law so as to allow charitable organisations to deliver Christmas cards. In addition the Government proposes to amend the law relating to the monopoly in a number of other fields:-

i The Definition of a Letter. It is intended with the help of the Post Office to specify that a number of items are excluded from the definition of a letter so that those wishing to compete with the Post Office will not be deterred by confusion about the precise



extent of its exclusive privilege.

ii Part Carriage by Private Operators. It is intended to amend the law to allow that where a letter at some stage goes through the Post Office network it may be carried for part of its journey by private carriers provided that it is first stamped. This will enable the large customer some freedom to avoid his mail being handled in those parts of the Post Office network known to give rise to delays.

iii Delivery by Wholly Owned Subsidiary. At present there is no obstacle to individuals or companies delivering mail on their own account, but it appears that a wholly owned subsidiary cannot deliver mail on behalf of its parent, or of other companies in the same group. It is intended to amend the law to rectify this anomaly.

iv Addressed Advertising and other new market demands. The Government will watch how the Post Office reacts to such market demands and will, if justified, make appropriate relaxations of the monopoly.

Finally, the Government will seek to amend the law relating to the Post Office letter monopoly in order to provide powers for the Secretary of State to make further relaxations in respect of certain categories of mail. In addition we shall seek powers to remove the monopoly either in a local area or nationally. Such powers would apply in the event of industrial action within the Post Office resulting in a cessation or serious decline in the quality of service, or, after due warning, in the event of unsatisfactory performance for other reasons within the Post Office's control.

/Taken ...



Taken together these measures clarify the law, open up to competition some parts of the postal monopoly where it has been represented to me that alternative services would be of benefit to the customer, and safeguard the general interest of the customer by making it clear that the letter monopoly is a privilege which the Post Office needs continually to justify through the quality of the service it provides. I have in addition initiated a review of whether the Post Office's targets for the quality of service for first and second class mail are sufficiently rigorous. I have discussed these changes with the Post Office and believe the measures will stimulate greater efficiency within the postal service.

These changes will require legislation and the Government will bring proposals before the House in due course.

Post + Tels



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

10 July 1980

R
177

Dear Keith,

POSTAL MONOPOLY

Thank you for your letter of 4 July 1980.

I accept, with some reluctance, the derogations from the Post Office's monopoly should be confined to those set out in your minute to the Prime Minister of 20 June. However, this means that we should make it clear beyond a shadow of a doubt to the Post Office that this really is the Post Office's last chance to put its house in order. I think we will more effectively do this if we tie future derogations not to a general shortfall in performance but to rather more specific failings. For this reason I tend to agree with John Nott's view - slightly modified - that future derogations should be contingent on failure to achieve an agreed programme to eliminate restrictive labour practices, or to improve quality of service and real unit costs to targeted levels. To do this effectively we shall need to ensure that there is an appropriate monitoring of the Post Office's plan to give effect to the MMC recommendations and that stretching new performance aims are set. I understand that our officials have already begun discussions with the Post Office on the latter and no doubt you will be making proposals for the monitoring of the Post Office's progress in implementing the MMC report.

I am copying this letter to the Prime Minister and other recipients of yours.

Jus
John Biffen

JOHN BIFFEN



JS
B/F 23-7-80

10 DOWNING STREET

From the Private Secretary

9 July 1980

The Prime Minister would like to have a short meeting to discuss a possible reference of the telecommunications business of the Post Office to the Monopolies Commission. She would like this to follow Cabinet on Thursday, 24 July, and would like your Secretary of State, the Chancellor of the Exchequer and the Secretaries of State for Trade and Industry to be present.

I am copying this letter to John Wiggins (HM Treasury), Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry) and David Wright (Cabinet Office). I would be grateful to hear if any Minister is not able to attend.

CAROLINE STEPHENS

John Halliday, Esq.,
Home Office.

NW



10 DOWNING STREET

CAROLINE

Please can you arrange
a meeting for the Prime
Minister with the Home
Secretary, the Chancellor,
the Secretary^{ies} of State for
Trade ^{and Industry} and Sir Robert Armstrong
to discuss a possible
reference of the telecommunica-
tions business to the Monopolies
Commission.

12

9 July 1980



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

From the Private Secretary

9 July 1980

Ian Ellison Esq
Private Secretary to the Secretary of State
for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

M 9/7

Dear Ian,

POSTAL MONOPOLY

Pt 1

Your Secretary of State's minute of 20 June to the Prime Minister about the future of the postal monopoly was copied to us. There is only one minor reservation on your proposed announcement, about the definition of a letter.

At present Departments make extensive use of government and commercial van services for the economical movement of bulk domestic mail between regular delivery points particularly in Central London. They can do this because the current definition of what constitutes 'a letter' is imprecise. The advantage might be lost if a definition were to be so tightly drawn that we could no longer operate such services.

I am copying this letter to the Private Secretaries to the Prime Minister, members of Cabinet ~~colleagues~~, including the Minister of Transport and to David Wright in Sir Robert Armstrong's office.

Yours sincerely,

Jim Buckley.

J BUCKLEY

SECRET



10 DOWNING STREET

From the Private Secretary

9 July 1980

Telecommunications Monopoly

You will have seen my letter of today's date to Ian Ellison on the above subject.

The Prime Minister also read the Home Secretary's minute of 7 July concerning the telephone interception aspects of this issue; and although she is disappointed on industrial grounds that it has not proved possible to go for a greater measure of relaxation of the monopoly, she agrees with the Home Secretary that he will need to be consulted before any further action is taken either in respect of British Telecommunications setting up privately funded subsidiaries or regionalising its activities, or of further liberalisation of the monopoly.

The Prime Minister has also noted the suggestion put forward by both the Chancellor and the Secretary of State for Trade that there should be a reference to the Monopolies and Mergers Commission. In view of the possible security aspects of such a reference, the Prime Minister intends to discuss the matter with the Home Secretary, the Chancellor and the Secretaries of State for Trade and Industry. We will be in touch to arrange a meeting.

I am sending copies of this letter to Ian Ellison (Department of Industry), George Walden (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

T. P. LANKESTER

John Halliday, Esq.,
Home Office.

SECRET

no 18
3

NM

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VLB



BE Hockings
Wilson

10 DOWNING STREET

From the Private Secretary

9 July 1980

Telecommunications Monopoly

The Prime Minister has now considered your Secretary of State's minute of 1 July on the above subject. She has also seen the Secretary of State for Trade's letter of 7 July.

The Prime Minister is prepared to accept your Secretary of State's proposals, though she is disappointed that it has not proved possible to go for a more substantial relaxation of the monopoly.

I am sending copies of this letter to the Private Secretaries to members of Cabinet, the Minister of Transport, the Chief Whip and Sir Robert Armstrong.

T. P. LANKESTER

I. K. C. Ellison, Esq.,
Department of Industry.

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A handwritten mark, possibly initials or a signature, located in the bottom right corner of the page.

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Ref. A02581

MR. WHITMORE

Posts & Telecomms
Apr. 80

I attach a brief for the discussion in E tomorrow of telecommunications pay negotiations.

2. The Chancellor of the Exchequer has suggested a reference to the Monopolies Commission on "installation, repair and maintenance" of telephone systems. The Prime Minister will, I am sure, remember the strong security interest in retaining the Post Office monopoly at least in the maintenance of telecommunications equipment and lines, including PBX systems in such places as hotels. The Home Secretary is aware of this interest, and the Secretary of State for Industry should be; the Chancellor of the Exchequer is not. It is not a matter which can be easily discussed in a Committee as large as this. I suggest that, if Ministers are minded to pursue the idea of a reference to the Monopolies Commission, the Prime Minister should say that this is something which she would like to discuss separately with the Ministers directly concerned. It is desirable to avoid, if possible, any decision on whether to refer this to the Monopolies Commission, and certainly to avoid any discussion of the remit of such a reference.

REA

ROBERT ARMSTRONG

8th July, 1980

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SECRET

2

*Very disappointing
than meeting
-20-6-80 (A1)*

but better

PRIME MINISTER

cc. Mr. Whitmore

Sir Keith's minute (flag A) proposed a relatively modest relaxation of the P.O. monopoly in telecommunications. The objections to going further are part technical (e.g. the P.O. must provide the first telephone and associated wiring from the exchange line to ensure a basic service - or so it is argued); partly due to difficulties with the union; partly financial (e.g. privatising long distance service would cost the P.O. a lot of money); and partly industrial (too sudden a move would lead to an influx of imported equipment).

-7-7-80.

The Home Secretary (flag B) is a little worried about the implications for telephone interception; but he is prepared to go along with the proposals provided he is consulted before any further action is taken on liberalisation or on organisational changes.

-7-7-80.

Mr. Nott (flag C) reluctantly accepts Sir Keith's proposals, but suggests that there should be an early reference to the Monopolies Commission.

Are you content with Sir Keith's minute? If so, you will presumably agree that the Home Secretary should be consulted as he requests. And I can say that you hope Sir Keith will seriously consider Mr. Nott's idea of a reference to M.M.C.

*Yes but
have not yet
decided.*

*E decided that PM
shall chair small meeting*

8 July 1980

SECRET

*TL
9/7*



Post & Telecommunications MS

cc Master set.

10 DOWNING STREET

From the Principal Private Secretary

8 July 1980

Postal Monopoly

20/7/80
The Prime Minister had a brief word this morning with your Secretary of State about his minute of 20 June about the postal monopoly. The Chancellor of the Exchequer and the Chief Secretary were also present.

The Prime Minister said that her main concern about the proposals set out in the minute were that the derogations from the monopoly were too limited and the conditions attached to them too severe.

Your Secretary of State said that all the enquiries that had been made showed that no businessman was prepared to step in and take over the run of the postal services. If the Government took away the Post Office's monopoly, the resulting vacuum would be immediately obvious and the Government's credibility called into question. He was, however, very ready to have a further look at the detailed conditions attached to the derogations.

Following a short discussion, the Prime Minister said that she accepted that the total abolition of the Post Office's monopoly was out of the question. She agreed that your Secretary of State should proceed as he proposed with regard to the derogations.

I am sending copies of this letter to the Private Secretaries to all other members of the Cabinet, to the Minister of Transport and to David Wright (Cabinet Office).

C. A. WHITMORE

I. K. C. Ellison, Esq.,
Department of Industry.

MS



CONFIDENTIAL

cc Post + Telecoms April 80
Pay Negotiations in Post
Office

Qa 05072

To: MR LANKESTER

From: J R IBBS

Telecommunications: Investment and Pay Negotiations

1. E Committee is due to consider tomorrow the related questions of telecommunications investment and pay negotiations.

2. I believe that the situation on telecommunications is one where clarity of objectives is all important. Against the background of the Government's main strategies I suggest that the three principal priorities are as follows:

(a) that the pay settlements should be the very lowest possible without incurring major disruption of the telephone service;

(b) that the EFL should not be exceeded;

(c) that the strategic part of the investment programme should be retained because on this depends the nation's chance to benefit from the development of information technology and the commercial opportunities this will bring.

These priorities imply that, although regrettable, some increase in the telephone tariff and some reduction in the least strategic part of the investment programme may well be unavoidable.

3. The level to be aimed at in the pay settlement is a matter of practical judgement and I am too far removed from the situation to be able to say what this is. Obviously 17 per cent would be preferable to 20 per cent. Pressure needs to be put on the management to settle as low as possible. If they concede a higher settlement this must not be recouped by relaxation of the EFL because in present circumstances this would be a dangerous precedent likely to encourage high wage claims elsewhere. It would therefore be necessary to obtain the money by increased internal efficiency, cutting non-strategic investment, and greater increase in tariffs. I also find it hard to believe the contention, recorded in the Secretary of State for Industry's minute to the Prime Minister dated 18 June, that there is little scope for a self-

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financing productivity scheme. It is possible that with a reduction in the Post Office monopoly, competition for the supply and installation of terminal equipment will stimulate higher productivity.

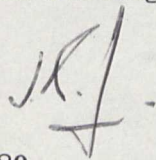
4. On the investment programme it is necessary to distinguish between that part which is of strategic importance and that part which although possibly very profitable is not crucial to the nation's ability to participate in the broad development of information technology.

5. Some three-quarters of our telephone equipment is still electro-mechanical and obsolete. Rapid conversion to electronic equipment, in particular the installation of System X, will aid industrial efficiency, give more reliable service, encourage the development of new information and service businesses, and help the City to retain its place as a leading centre of financial and other services. System X also has export potential and this needs to develop from a strong base of domestic installations.

6. There must be some parts of the investment programme which are of less strategic priority. For example, even if there is an attractive financial return and a good case for reducing waiting lists, the fundamental importance of increasing residential penetration to $87\frac{1}{2}$ per cent by 1985 is less.

7. A further way that might be considered for the Post Office to increase cash flow would be for them to sell rather than rent telephone equipment and other attachments, or at least offer this as an attractive option to subscribers.

8. I am sending a copy of this minute to Sir Robert Armstrong.



8 July 1980



Ref: A02576

PRIME MINISTER

Investment and Financing Review: Telecommunications
(E(80) 65)

BACKGROUND

The Secretary of State for Industry discusses the case for implementing cuts on the investment programme proposed by the Post Office and also the level of the telecommunications' financial target.

2. Telecommunications have put in additional bids for finance totalling nearly £500 million over the three years. These result from an expected reduction in the contribution from internal resources (due to changes in their depreciation provision) and additional bids for capital investment. Under their proposals total capital expenditure on fixed assets would be:-

£ million 1980 prices

<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
1545	1500	1578

The Chief Secretary in his table of option cuts in his paper E(80) 64 (which will have been discussed generally under Item 2 of the Agenda) proposes that these totals should be cut by

a.	-	50	100
b.	100	100	100

a. would come from allowing for some privatisation and for a lower share of the non-monopoly market;

b. would result from a general squeeze on investment including delayed completion of Strowger replacement from 1992 to 1995.

3. The Secretary of State for Industry offers only £100 million cuts in 1983-84. He points out that telecommunications investment shows a good return; that it is necessary to maintain standards; and that the Post Office has "a pivotal role to play in the development and promotion of the nation's information technology hardware and software". This latter point is of central concern to the CPRS who are, as you know, deeply worried



that we may be losing out, especially as against the French, in this important growth area of economic activity. Cuts in new exchange equipment orders would affect the cash flow to manufacturing industry, and employment in it - see the figures in paragraphs 9 and 10 of his paper. There may be some scope for privatising some of the new services such as Prestel or Radiopaging. But this is uncertain and is unlikely to be practicable before 1983-84.

4. The present borrowing forecasts already assume that the financial target in real terms will be a return on net assets of $6\frac{1}{2}$ per cent in each year. This is arguably high but if it were to be reduced to $5\frac{1}{2}$ per cent, as the Post Office would wish, the bids for extra finance would go up by £160 million in 1981-82 rising to £200 million in 1983-84. The Department of Industry, the Treasury, and Post Office appear willing to accept $6\frac{1}{2}$ per cent subject to reviewing it after 1982-83. But last year the Secretary of State for Trade was opposed to anything higher than 6 per cent.

5. After the Secretary of State for Industry has introduced his paper, the Chief Secretary will wish to reply. The Secretary of State for Employment will want to comment on the employment consequences of cutting investment. Mr Tebbit will wish to speak on the financial targets.

6. In discussion you will wish to deal with the two main questions -

i. How far should investment be cut?

Ministers may well feel that there is a strong case for not making large cuts which would have unwelcome repercussions on private sector manufacturing industry. But with an investment programme of $\pounds 1\frac{1}{2}$ billion a year there must be scope for cuts in relatively non-sensitive areas and from improvements in efficiency. The Committee may wish to press the Secretary of State for Industry to explore further possibilities for something more than the $\pounds 100$ million he has offered in 1983-84.

ii. Should the financial target be $6\frac{1}{2}$ per cent?

Discussion of this is highly relevant to the next item on the agenda - pay and the EFL in the current year. Ministers may well feel bound to accept the $6\frac{1}{2}$ per cent proposal on the grounds that



anything less would substantially increase the overall problem of financing the nationalised industries. Moreover, telecommunications charges are not among the more sensitive prices so far as the consumer is concerned. If Trade Ministers were to persist in arguing against it, you might ask what they can offer from their programmes by way of offset. (The answer is of course nothing.) The Committee may wish to consider accompanying the decision, and the decisions they will be taking on the current year, with a reference of telecommunications to the Monopolies and Mergers Commission.

CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions -
- i. On the investment cuts to be made, and in particular on whether there should be exploration of the possibilities of anything beyond the £100 million in 1983-84 offered by the Secretary of State for Industry;
 - ii. endorsing the financial target of $6\frac{1}{2}$ per cent; and
 - iii. possibly, on a reference to the Monopolies Commission.

RIA

ROBERT ARMSTRONG

8 July 1980

SECRET

COPY No 1 OF 8

1



PRIME MINISTER

TELECOMMUNICATIONS MONOPOLY

My interest in the Secretary of State for Industry's proposals, set out in his minute to you of 1 July, stems from my concern with telephone interception at present carried out by the Post Office on behalf of the police, Customs and Excise and the Security Service and certain electronic surveillance. I fully accept the overriding political and economic case for opening up the telecommunications monopoly to private competition, and I recognise that some degradation in and risk to our intelligence gathering capacity must be accepted; but I am anxious to ensure that the essential features of the system are retained.

From an organisational point of view splitting the Post Office does not present problems; but if BT were to set up privately-funded subsidiaries or regionalise its activities there could be difficulties in maintaining the special services we require and I should be grateful if I could be consulted before any further action is taken in that direction.

As regards the liberalisation of the monopoly, I think that the Secretary of State for Industry's proposals, which have been discussed in detail between our officials, meet most of our essential minimum requirements. It will, however, be necessary for these requirements to be reflected in the wording of the Parliamentary statement and officials are in touch on this.

Otherwise my main concern is for the future. In discussion with the Department of Industry we have reduced our demands to a minimum, accepting a limitation on intelligence-gathering activity and an increased risk. I do not think we can go further without seriously impairing our security needs. I am, therefore, apprehensive about the reference in the Secretary of State for Industry's minute to possible further liberalisation in the future

SECRET

2.

and I should like to be consulted before any such steps are considered.

I am sending copies of this minute to the Secretary of State for Industry, the Secretary of State for Foreign and Commonwealth Affairs and the Secretary to the Cabinet only.

Wolfe

7

July 1980

SECRET



From the Secretary of State

*App with PM
in Whitehall
Sini*

NBPM

7th July 1980

CONFIDENTIAL

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

Dear Keith

POSTAL MONOPOLY

Thank you for a copy of your minute of 20 June to the Prime Minister.

Given the deterioration in quality of services which occurred in recent years, one must inevitably regret that more radical changes in the letter post monopoly are not proposed at the moment. However, I accept that total abolition would present serious problems, particularly in rural areas, and that it is reasonable to give the Post Office a final chance to put its house in order. This reprieve naturally reinforces the need to secure a satisfactory response from the Post Office to the recommendations of the Monopolies and Mergers Commission and a firm timetable for implementing whatever action is agreed.

I agree with John Biffen's sentiment that the threat of future derogations should be linked not merely to industrial action or to a decline in the standard of service, but to failure to achieve an agreed programme to eliminate restrictive labour practices, or to improve quality of service and productivity to targeted levels. In this connection, you might like to consider deferring your announcement on the future of the postal monopoly until the Post Office have produced a satisfactory plan for implementing the MMC's recommendations, so as to give them the maximum incentive to

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From the Secretary of State

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produce something which is as quickly as possible really worthwhile.

As far as your detailed proposals are concerned, I would endorse John Biffen's caveat about the definition of a letter. The new definition should not inhibit private operators who currently manage to keep within the law.

Finally, I totally agree with John Biffen's view that the postal service needs to be subjected to independent review at regular intervals - preferably by the Monopolies and Mergers Commission.

I am copying this letter to the Prime Minister and to recipients of yours.

John Nott
John

JOHN NOTT

- 8 JUL 1960



CONFIDENTIAL



From the Secretary of State

CONFIDENTIAL

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London, SW1E 6RB

ppos with Am
7th July 1980

Dear Keith

TELECOMMUNICATIONS MONOPOLY

Thank you for a copy of your minute of 1 July. I have also seen your correspondence on the question of the telecommunications pay negotiations, which are relevant.

While I accept the force of the arguments in your minute, I must confess to frustration that it is not possible to make more substantial modifications to the monopoly in the immediate future. While the Post Office's difficulties with EFLs are not exclusively the fault of the POEU, the stranglehold which the union holds on the network is clearly relevant and operates to the detriment of the business and private consumer, as well as being a threat to national security. I thus attach great importance to developing the technology which will enable the network to be bypassed and real competition introduced. I do not see why some general reference to future developments of this kind might not be included in your statement.

On the detail of your proposals, I understand that while it will be possible to supply and install branch exchanges privately, the installation will be subject to inspection by the Post Office before it can be connected to the network. It will be important to ensure that this vetting does not become a means of discrimination against independently supplied equipment and that the benefits of speedy private installation are not frustrated by delays in inspection.



From the Secretary of State

CONFIDENTIAL

Your attempts to obtain reciprocity from other countries before liberalising specific product groups are, of course, to be commended. But I understand that there are Treaty obstacles to any attempt to impose this requirement unilaterally on EC Member States. This matter will require further consideration among officials.

Finally, I should like to suggest that the Post Office's telecommunications business be subject to an early reference to the Monopolies and Mergers Commission under section 11 of the Competition Act. Allowing for the fact that management will be under strain in the next few months, I think we must nevertheless do something positive to show our concern at a time when there is likely to be public outcry over the scale of the next tariff increases - you will already have seen the press speculation on this subject. The MMC will have the capacity to take on an additional reference towards the end of the year and it would seem appropriate if the efficiency of investment, installation, maintenance and repair of the network (or some aspect of these subjects) were referred, as this will concentrate on an area which will remain subject to the monopoly.

I am copying this letter to other Members of the Cabinet, the Minister of Transport, the Chief Whip and to Sir Robert Armstrong.

John Nott

John

- 8 JUL 1980

JOHN NOTT

