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Dear Harry,

Thank you for your letter of 21 September 1999 to Stephen Byers, enclosing a letter from Mr. Hodgson the CWU General Secretary, concerning the future plans for the Post Office, as set out in the recent White Paper, "Post Office Reform: A World Class Service for the 21st Century". I am replying, as the Minister responsible for the Post Office.

As you know, the Government is planning primary legislation to convert the Post Office to a public limited company (plc), which will remain wholly owned by the Government. This will bring it within the scope of the Companies Act and underpins the idea of commercialisation within the public sector. For the first time the Post Office will have real commercial freedoms to use to its benefit in the global marketplace and will be able to keep a far higher fraction of its profits to use for investment. We regard this increased freedom as key to the successful future of the Post Office.

Balanced with this greater commercial freedom, the Post Office will have a more formal and regulated commitment to quality and affordability of universal service. To help put this formal commitment into practice and to further distance the Government's role as owner, an independent regulator, known as the Postal Services Commission (PSC), will be set up to oversee and license the postal sector. In addition, the role of the Post Office users national council will be strengthened.

Mr Hodgson seeks a guarantee that the Government will not sell any shares in the Post Office. I am happy to re-state the commitment that Mr Byers has already made, namely that the Government intends to keep the Post Office within public ownership, and in any case, that a disposal of shares would require further primary legislation.

Mr Hodgson criticises the planned decrease in the Post Office's monopoly, from its current £1 limit, down to 50p, with a corresponding weight limit of 150 grams. Our view is that greater competition is an essential component in ensuring that the new Post Office is a success. Together with better regulation and new commercial freedoms, greater competition through



liberalisation is needed to ensure that the Post Office is sufficiently challenged to turn itself into a world class company. And greater competition in postal markets will be a spur for efficiency which should bring benefits for consumers in terms of choice, price and quality. We also believe that the current monopoly is higher than is justified by the need to fund the universal service obligation; and we continue to favour a reduction of the monopoly to 50p which we believe will pose no risk at all to the ability of the Post Office to provide profitably the universal service at a uniform tariff.

However, we are considering the Trade and Industry Select Committee's report on the White Paper reforms published on 21 September. This included a recommendation that the Government should invite the new PSC to consider and recommend to the Government an appropriate monopoly threshold. The Government has accepted this recommendation. The effect of this is that the proposed reduction in the monopoly to 50p will be delayed in order to allow the new regulator to consider the effect of a reduction in the monopoly and make recommendations to the Government on an appropriate threshold. We will be remitting this to the PSC as soon as possible.

I hope this is helpful. If you have any more questions about the future of the Post Office then please get in touch.

Yours sincerely

GRO

Alan Johnson