

CHECK AGAINST DELIVERY

MONDAY 7 DECEMBER 1998

STATEMENT BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY**THE POST OFFICE**

Madam Speaker I wish to make a statement on the future of the Post Office.

It has long been recognised that the postal sector world-wide has entered a new and turbulent age. Competition for business will be fierce. With greater uncertainty will come opportunities for expansion. Change is absolutely necessary if the Post Office is not to fall behind.

Globalisation of postal services, the growth of electronic-mail and the internet, changing customer demands and greater liberalisation of markets are the key drivers of change world-wide. The main uncertainty is not whether markets will become more competitive, but how far and how fast.

Others' post offices are gearing up for this revolution, seeking greater commercial freedom to do so. Within Europe, for example, the Dutch and German post offices have been investing in substantial acquisitions, Sweden and Finland are free to acquire and invest in other companies and Denmark has already entered a number of strategic alliances. France also enjoys considerable commercial freedom and has a wide spread of joint ventures and acquisitions. In Australia, New Zealand and the Nordic countries, their post offices have become independent PLCs. Germany has announced its intention to privatise and the Netherlands and Singapore have moved to partial privatisation.

Not surprisingly, the British post office has been demanding changes to its own organisation for years but without anyone in Government, until now, prepared to act. In the face of market pressures from other public post offices, from private postal operators outside the monopoly area, other communications media and distribution organisations, the Post Office wants to be in a position to deliver a wider range of faster, more reliable postal services, differentiated products and prices which meet individual customers' requirements.

Madam Speaker, notwithstanding its successful attempts to adapt and its current profitability, the Post Office cannot meet these challenging times in its present condition. It must change or find, increasingly, it is confined to a diminishing high volume, low mark-up sector of the postal market with all the consequences of falling value, and shrinking profits and employment base that this would involve.

The Government is not prepared to sit back and allow this to happen. The Post Office plays too important a part in our national life - contributing vitally to our economic prosperity and social cohesion - and we have therefore decided to embark on the most radical set of reforms since the modern Post Office was created in 1969. In future, the Post Office will be driven by a combination of effective market disciplines and commercial freedoms which will transform its performance and its ability to do business.

Our starting point is that the relationship between the Post Office and Government has to change.

I should make it clear that we certainly do not rule out the possibility of introducing private shareholding into the Post Office - for example through the sale of a minority stake in it - at a later stage.

CROSSING DELIVERY

But at present wholesale privatisation - favoured by the Conservative Opposition - would not be a realistic option. It would cause massive uncertainty, and diminish the chance of immediate reform now, which would be the worst outcome of all - as the management have made clear to me,

Instead, a radical, new form of public sector enterprise, operating at arms length from Government, needs to be created. This new framework will contain the following features:

- the Government's role in the Post Office will be restricted to the strategic level, both on matters of commercial direction and on setting social objectives. The Post Office Board will become clearly accountable for its success or failure in running the business;
- an independent regulator will be established to protect consumer interests including standards of service; to regulate prices; to ensure the Post Office is able to meet its universal service obligations; and to ensure fair competition;
- once adequate regulatory provisions are in place to oversee fair competition the Post Office will be able to form joint ventures, enter into partnerships and make acquisitions within the UK beyond the present limit of £20m pa;
- the Regulator will have a duty to promote competition by a careful and phased liberalisation of the monopoly postal area, whilst maintaining the universal service obligation;
- we will require the Post Office to present a rolling five year strategic plan each year for approval by Government. This is essential to protect taxpayers' interests.
- On the basis of that plan, the Government will agree a profit target for the Post Office and the equivalent of a dividend to Government, as shareholder, in line with normal commercial dividend practice. This will mean, in effect, more than halving the rate at which profits are removed from the business.
- the external financing limit (EFL) for the Post Office for the next year (1999/2000) will immediately be reduced to £207m from the provisional figure of £335m; in future years the EFL will be on a more commercial footing. The Government will expect a dividend of 40% in contrast to the recent average of 80%;
- this increase in retained profits will enable the Post Office to finance an increased level of investment in the maintenance of its existing business;
- however, the Government recognises that larger growth investment including acquisitions and joint ventures may require prudent borrowing if the Post Office is to grow successfully with new products, partners and markets. The Government will approve normal Post Office requests for borrowing for investment cases which are commercially robust. Separate fast track arrangements will be put in place for considering the largest strategic investments;
- it will now be possible for the internal boundaries, for example, between the Royal Mail and Parcelforce to be rationalised, if the Post Office Board so decides, while ensuring that undue cross-subsidy does not occur from monopoly to non-monopoly areas - approved and transparent accounting structures must therefore be put in place;
- the Post Office Users National Council will be given a more central role and its powers increased;

still unclear about this? And will there be a Regulator 2
— not necessarily — it could be the DTI.

CHECK AGAINST DELIVERY

- a uniform public tariff will be maintained for those activities which fall within the obligation on the Post Office to provide a universal service. The Post Office will, however, be given the freedom to price flexibly for volume users and, within the monopoly area, the Regulator will restrict prices to make sure the Post Office is not making excess monopoly profits. This will be a real spur to efficiency and ensure the general public is paying no more than it should for normal postal deliveries.

Madam Speaker, we intend to provide statutorily for the newly appointed independent Regulator carrying out these duties as part of the implementation of the European Union Postal Office Directive next year. I will therefore be bringing forward measures under section 2.2 of the European Communities Act to put this framework in place.

The Government remains firmly committed to a network of post-offices across the country. The sub post office in particular plays a valuable role in local communities and offers real service, particularly to the less mobile. We will set a social objective for the Post Office and for the Regulator of maintaining an effective network.

The individual businessmen and women who run the Post Office cum village shop often have to be very enterprising to keep them afloat. With the best will in the world, the Post Office cannot sustain a network if it is not used, nor can Government.

But we intend to ensure reasonable access nation-wide to those who need post office service on an electronic basis or face to face with the sub postmaster or mistress.

Because the Post Office will be at a strategic arms length from Government, we will therefore set criteria for public access to the services of Post Office Counters which will be policed by the Regulator.

There has been a moratorium on the Crown office conversion programme. I have now agreed with the Post Office a strategy - which reflects proposals put by the Post Office to the trades unions - of retaining a core of directly owned and managed Crown offices which account for a significant value of the business done at post office counters. But the strategy also recognises that some further conversions will be beneficial to customers and the business. This is a sensible way forward, and I am therefore lifting the moratorium.

If the Post Office is to operate on a commercial basis it must be able to reward staff for their efforts, taking account of the success of their business, but cutting the cloth to fit in difficult periods. The Government therefore intends as part of this staged process of reform to invite the Post Office Board to come forward with proposals which will, within the necessary context of public sector pay policy, enable more flexible means of reflecting performance within the various parts of the business. It is important that, where appropriate, the Post Office should be able to reward success.

Madam Speaker, events will, no doubt, continue to move rapidly in this constantly changing commercial environment and further structural changes might be required to enable the Post Office to grow and to meet customer needs and which are in the best interests of the Post Office and its staff. As I said earlier, we do not rule out the possibility of making further changes to equip the Post Office for success, such as a minority share sale or an exchange of equity with other businesses. These options will be kept under review. We will need legislation in due course, in any case, to reflect the long term nature of the reform package we are putting in place including turning the Post Office into a PLC to underline the commercialisation of the business.

CHECK AGAINST DELIVERY

The reform programme I have outlined will provide a balanced package of freedoms and disciplines for the Post Office. It is, I believe, the best possible package of reforms available to the Post Office which to date has been left starved of resources to invest in growth and unable to step up to new market challenges in the way that other European postal services have done.

Over the past year we have appointed a dynamic new chairman and have refreshed the board with new non-executives with wide and complementary business skills. They have a vision of a British Post Office which is world class and which aims to be among the most successful in the world. We must give the Post Office the opportunity to bring this about.

Considerable benefits to the consumer will be the result in terms of choice, price and quality of service.

We are ushering in the start of a confident, bright new dawn for the Post Office, and are looking to its management and workforce to seize the opportunities putting right the neglect of the past.

Everyone stands to be a winner from our reforms which I will set out in more detail in a White Paper early in the New Year. In the meantime I commend them to the House.