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From the Private Secretary

14 January 1999

Dear Rod,

BA/POCL

I understand that your Secretary of State and the Secretary of State for Trade and Industry were due to discuss this issue today. It may be helpful if I set out the Prime Minister's thinking.

NO FURTHER COPIES SHOULD BE MADE of this letter, and it should be made available ONLY to other Ministers and officials with a STRICT NEED TO KNOW of its contents.

The Prime Minister believes that:

(i) our key objective should be to develop the Horizon Project, by negotiating with ICL the earliest possible move to smart cards. It will be extremely important to get the Post Office to take this negotiation seriously.

(ii) but at the end of the day, if this negotiation does not succeed in improving upon the existing Benefit Payment Card project, it would be better to accept this project than to pull out of the negotiation with ICL completely, with all the damage that could do.

The Prime Minister is not close enough to the negotiations to take a firm view on what precisely should be said to ICL at this stage of the negotiations. But he thinks it may be easier to secure an outcome along the lines we want (ie (i) above) if ICL are told sooner rather than later that the Government is prepared to agree a deal with them that is broadly in line with the financial parameters currently on the table.

The Prime Minister would be grateful if your Secretary of State and the Secretary of State for Trade and Industry could discuss further, with other Ministers and the Policy Unit as necessary, what the Government's best

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negotiating strategy might be at this stage, and how best to engage the Post Office constructively in negotiations on an improvement to the BPC project, taking into account points (i) and (ii) above. He would then welcome a note on this, agreed with the Chief Secretary, by close next Wednesday, 20 January. He thinks it is essential that the Chief Secretary should be in a position to get back to ICL with a positive message before the end of next week.

I am copying this letter to Antony Phillipson (Department of Trade and Industry), Ros Roughton (HM Treasury), David North (Cabinet Office), Mark Langdale (Lord Falconer's Office) and to Sebastian Wood (Cabinet Office).

Yours,

GRO

JEREMY HEYWOOD

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