

NEW FILE COVER

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PART 1

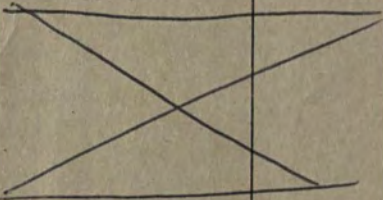
CONFIDENTIAL FILING

COMPETITION POLICY

ECONOMIC POLICY

S
812

DECEMBER 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
28.2.86							
							
PART 1 ENDS							
<p>PREM 19/1711</p>							

PART 1 ends:-

CDL TO SS/DTI 28.2.86

PART 2 begins:-

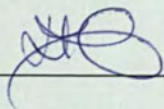
CDRNT TO DTI 3.3.86

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(83) 6 th meeting, <i>minutes</i>	27/10/1983
E(A)(84) 3	16/01/1984
E(CP)(84)2	12/07/1984
E(CP)(84) 1 st meeting, <i>minutes</i>	26/07/1984
E(CP)(85) 3	01/02/1985
E(CP)(85)2	05/02/1985
E(CP)(85)5	04/02/1985
E(CP)(85)8	16/04/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed  _____

Date 15/09/2014

PREM Records Team

010

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CC36



CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

Tel No: 233 3299
7471

28 February 1986

The Rt Hon Paul Channon MP
Secretary of State for Trade and
Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1 0ET

Prime Minister

I have not yet commented
on your behalf. Do you want to:
(i) agree to support going straight
to an announcement;

(ii) support an E(CP) discussion;
(iii) hold off comment for a while
longer
I suggest (iii). DW 28/2

We should have
an E(CP)
discussion
either E(CP) or E(LA)
D Paul, ←

WITHDRAWN

REVIEW OF COMPETITION LAW AND POLICY

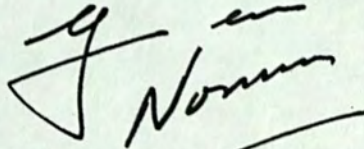
Thank you for the copy of your letter of 20 February to Nigel
Lawson.

I would not want to see a comprehensive and open-ended review
launched without first having contemplated what the likely outcome
of the review would be. I recognise that there are a number of
inadequacies in UK competition law as it stands, which may need
remedying. And the impact of EC law needs to be considered. But
the announcement in the terms which you propose may tend to draw us
towards radical changes in competition law, more closely akin to
the competition laws of the United States (with the prospects for
litigation afforded by this) than colleagues may find desirable. I
have also to be conscious that our approach to competition in the
next Manifesto will be a significant aspect of our policy towards
industry and I should not want our freedom of action on this point
to be heavily circumscribed. Finally, we should consider how this
announcement will be received in the context of current take-over
activity in the City, and recent and forthcoming decisions on MMC
references.

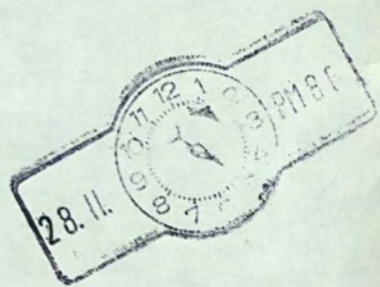
I would certainly find it helpful if E(CP) could take an early
opportunity to consider the proposal for a review, and its terms,

as well as its timing. This would precede any announcement of the kind you propose. I hope that Nigel Lawson and you will be able to agree to this way of proceeding.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, other members of E(CP) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a large, stylized initial 'N' and a long horizontal flourish extending to the right.

NORMAN TEBBIT





MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

cc B9

From the Minister

CONFIDENTIAL

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

28 February 1986

Dear Secretary of State

WBPB.

WITHDRAWN

Thank you for copying to me your letter of 20 February to Nigel Lawson about your proposals for the review of competition law and policy announced last year.

I welcome an early announcement to add to the bare bones of that made last autumn and have no comment on the proposed text. I believe the time is ripe to put an end to doubts over what we have in mind in this highly contentious sector. Mr W E Mason CB will represent my department on the Steering Group.

I am copying this letter to the Prime Minister, to Members of E(CP) and to Sir Robert Armstrong.

Yours sincerely

Paul Channon

for

MICHAEL JOPLING

(approved by the Minister
and signed in his
absence).

RECON POL
COMPETITION
POLICY
12/83



Prime Minister. ①

Would you like to ask the Trade and Industry Secretary and the Chancellor to consider widening the terms of reference of the review, and how reserved vigour can be given to EKP's work in that context? M&A 27/2

PRIME MINISTER

27 February 1986

I hope we can reconsider the

REVIEW OF COMPETITION LAW AND POLICY

present MMC. It is ambitious, lengthy and demanding. The U-S system in follow

(letter attached)

Paul Channon proposes to initiate a major review of competition law and policy, resulting in a Green Paper in the autumn of 1987 and legislation in the next Parliament.

merger to go ahead

The Importance of Competition

or then if they appear to break known / unknown to other designers.

Extending competition is a fundamental aspect of Government policy: it results in more jobs, wealth-creation, better service and greater choice. Internationally it ensures export success and a strong pound. The Secretary of State's initiative therefore is to be welcomed as an important facet of Government economic policy.

Thus many makes emphasis are considered not

The Need for the Review

It is also needed from a DTI perspective because of:

- a. Dissatisfaction with the present implementation of Monopolies and Mergers policy. GEC - Plessey, Guinness - Argyll and Distillers, Hanson - Imps and United Biscuits have brought out once again the adverse effect of long delays before final decisions are reached, the inadequate criteria on which decisions are made, and the rôle of merchant banks in openly flouting Stock Exchange rules in making bids (eg Morgan Grenfell in two of the above bids).

- b. Piecemeal development in law relating to competition policy, which is being added to at present by the special régimes for telecommunications, financial services, water etc.
- c. The need to harmonise with EC law.
- d. The possibility of private actions being allowed.
- e. The inadequate powers to uncover informal agreements given by present laws.

The Scope of the Review

The scope of the review would be concerned with the operation of existing legislation and would therefore be centred on those laws for which the DTI is responsible.

- Fair Trading Act 1973
- Competition Act 1980
- Restrictive Trade Practices Act 1976
- Resale Prices Act 1964

If the DTI just focus on these Acts, then we will only get increased competition among some building contractors, cement manufacturers, booksellers and suppliers of artificial limbs and wheelchairs, etc.

But that still leaves major tracts of the economy where competition is restricted because of Government procurement policy and import controls, eg coal, steel, defence procurement, airlines, gas, Health Service etc. Any initiative calling itself 'a major review' should at the very least examine these areas. This would require the active support of EC(P).

Recommendations

1. Applaud the initiative.
2. Urge that the review be as broad in its coverage as possible.
3. To this end, suggest that EC(P) be invited to support the work of the Review.

B.G.

BRIAN GRIFFITHS



Secretary of State for Trade and Industry

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 01-215 7877

CBG
BG Appin

20 February 1986

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

REVIEW OF COMPETITION LAW AND POLICY

I am writing to let you know that I propose to initiate a major review of competition law and policy, with a view to publication of a Green Paper in the Autumn of 1987, followed by a White Paper and legislation in the next Parliament. The intention to carry out such a review has already been mentioned in general terms in the House; I now propose to make a full announcement.

While there have been several reviews of some parts of the competition legislation over the past few years, there has never been a scrutiny of the legislation taken as a whole. The law has developed piecemeal, and continues to do so, for example in the special regimes for telecommunications, financial services and other sectors. There has been some criticism of particular aspects of UK competition law and its administration, as well as of its overall effectiveness. In addition, the direct application of EC competition law within the UK has been a major development: EC law is enforced by the European Commission but also provides a basis for private actions in the UK courts. Finally, there has been a growing interest in the possibility of a domestic competition regime allowing greater scope for private legal action by the victims of anti-competitive behaviour; a quick review of this question last year reached the conclusion that this thinking could not easily be grafted on to the current system of UK law, but left open the possibility that there might be scope for movement in this direction in a radical overhaul of the legislation.

DW3AJD

CONFIDENTIAL

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19 **86**
BOARD OF TRADE
BICENTENARY



CONFIDENTIAL

It would be an exaggeration to claim that there is a groundswell of opinion pressing for change. But given the background I have described, I believe that it would now be timely to undertake a thorough and comprehensive review of UK law and a careful study of all the options for change, including radical change if necessary. We shall need to start from first principles in defining the objectives of competition policy, against which the effectiveness of the current law and policy can be assessed.

The main focus of the work will be the principal powers in the legislation for the investigation and control of monopolies, mergers, anti-competitive practices and restrictive trade practices. It would clearly be untimely to review the new specialist regimes for the control of competitive behaviour in telecommunications, financial services and some other sectors. However, we will need to keep in mind the special regimes and watch for any implication that our main work may have for them; in particular, in considering the institutional structure of UK competition policy, we shall inevitably need to address the question of how the role of the specialist agencies relates to that of the OFT, and to consider the implications of the new regulatory regimes for the MMC.

There are two further points I should mention about the scope of the review. First, the Fair Trading Act contains special provisions for the control of newspaper mergers, which raise issues going far beyond mainstream competition policy considerations, though related to them. I propose that the review should cover newspaper mergers, since there are difficulties with the current legislation and I should not want to miss the opportunity to reform these provisions in any subsequent Competition Bill. Second, Section 11 of the Competition Act provides for MMC scrutiny of nationalised industries' efficiency. This has very little to do with competition policy, and a review would raise a number of difficult and entirely extraneous issues. I therefore propose that this provision should not be included in the review; though, as for the special regulatory regimes, we shall need to bear Section 11 in mind in our main work, particularly since it provides a major part of the MMC's workload.

DW3AJD

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BOARD OF TRADE
BICENTENARY



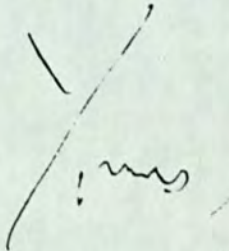
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I intend that the review should be conducted by a Working Group under the broad guidance of a higher-level Steering Committee. In order to keep the review brisk and sharply focused, I should like to keep both these groups as small as possible. The Working Group will be of DTI officials, augmented by the OFT and the MMC as appropriate. The Steering Committee will be chaired by my Department and include representation from MAFF - thereby covering the bulk of industrial sponsorship interests - as well as from the No 10 Policy Unit and the Treasury. The Working Group will of course consult with other Departments where their particular interests arise. I am anxious that the review should be receptive to a wide range of external opinion, and interested organisations will be invited to contribute their views.

The review team will report to me periodically and I shall keep the Sub-committee informed. I should mention that I have an outstanding remit to report to the Sub-committee in early 1986 on the operation of the restrictive trade practices legislation. I regard this as overtaken by the proposed review.

I intend to announce the start of the review shortly by written Answer in the terms of the attached draft. I would be grateful for any comments from you and colleagues by Friday 28 February.

I am copying this letter to the Prime Minister, to members of E(CP) and to Sir Robert Armstrong.


PAUL CHANNON

DW3AJD

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19 **86**
BOARD OF TRADE
BICENTENARY

DRAFT ANSWER

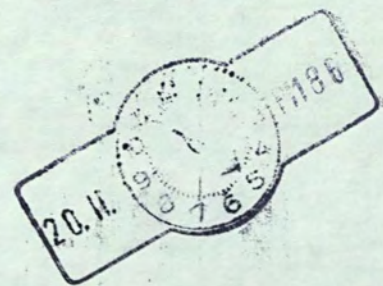
To ask the Secretary of State for Trade and Industry, what plans he has to review competition policy; and if he will make a statement.

The Government believes that by and large the existing competition legislation has operated effectively and served the economy well. However, from its beginnings in 1948 it has developed in a piecemeal fashion, and there has never been a review of the legislation taken as a whole. Over the period there have been substantial changes in the way competition operates both within the UK economy and internationally. I believe it would now be timely to undertake a comprehensive review, and I have established a small team in my Department to carry out this work. The aim will be to publish a Green Paper in the Autumn of 1987, as a basis for formal consultation and possible subsequent legislation.

The review will involve a thorough analysis of the practical effectiveness of the existing legislation as a whole and piece by piece, and will examine the existing institutional structure of competition policy administration. There can at this stage be no presumption that major change will be desirable; but the review team will begin their work prepared to explore radical options for change among others.

I am keen that the review team should be receptive to a wide range of outside opinion, and with that in mind I invite interested parties to contribute their views in writing on any aspect of competition law and policy. At the initial

stage, it would be most useful to receive comments of a general nature about the operation of the existing legislation and of broad possible alternatives. As the review progresses the review team will in appropriate cases follow up initial contributions with the invitation to put forward more detailed views. Initial written contributions are invited by the end of May.





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

29 July 1985

Alex Fletcher Esq MP
Under Secretary of State
for Corporate and Consumer Affairs
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

John Alex

Thank you for your letter of 28 June with which you enclosed some speech material on competition policy.

I think this is an excellent innovation, and I hope that colleagues will make full use of the material. There are some very striking achievements recorded here, many of which are worth considerable publicity.

When these notes are updated I think it would be very helpful if they included more facts and figures. It is in providing easily quotable examples of the benefits of our competition policy that these notes should be at their most useful. In addition, I think it would be useful if there were a few summary sheets of bull points. As an example I would suggest that the note on small firms (topic No.9) could usefully point to the very large excess of new company formations over liquidations in the last four years.

In your letter you said you would be in touch about a speech campaign. I hope it will be possible to co-ordinate a major campaign involving contributions from a number of Ministers.

I am copying this letter to all Ministers in charge of Departments, the Chief Whip and the Paymaster General.

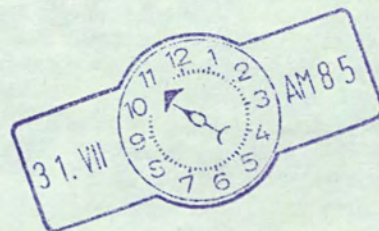
NIGEL LAWSON

*John
Nigel*

NDBM

BT 518

2797



Act 2 dx

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

Telephone (Direct dialing) 01-215 5662
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(Switchboard) 215 7877

Secretary Under Secretary of State
Consumer Affairs

LTP
2 CF

c. b. m. p.
10/2

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

Mr Allen
Enjo!
10/2

28 June 1985

Dear Chancellor

At its meeting on 7 February E(CP) invited Norman Tebbit "to assemble the material required for a campaign to bring home to the general public the Government's achievements in increasing competition, to the benefit of the consumer, taking into account information he would obtain from colleagues about specific areas in the economy, and to consider further whether it would be helpful to publish a document on the basis of this material".

X Our Departments are in touch about a speech campaign and we shall be writing separately about the question of a published document. However, I see no need to delay circulating our speech material and I enclose a copy of it. It is simply a compendium of "achievements" material in a form which can be drawn on directly for speeches, articles etc. I hope that all colleagues will make full use of it. We shall of course update and supplement it as and when appropriate. Additional copies are being provided to Departments through the network of contacts that has been established.

I am copying this letter and the enclosure to all Ministers in charge of Departments and to the Chief Whip.

- PS/Secretary of State
- PS/Sir Brian Hayes
- Mr Liesner
- Mr Wright
- Mr Burbridge
- Miss Bowe
- Mr Whittingdale

Yours sincerely

OP Cuffin

ALEX FLETCHER

Approved by Mr Fletcher and
(signed in his absence)

MR VIKI

Enc

J05AGP

12/2h

From: James Harrison, Assistant Private Secretary

CC/NO.



NDP7
AS
12/6

MINISTRY OF DEFENCE

WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/AB/1/14

11th June 1985

Dear Andrew,

COMPETITION POLICY: PRESENTATION

Mr Butler has seen Andrew Lansley's letter to you of 29th May. He has noted that the attached draft outline of a speech by the Prime Minister makes no reference to the role of Government as industry's customer for promoting competition. HMG is a customer of industry in many ways - information technology, for example - although the Ministry of Defence is clearly very much the leading Department in this role. The Ministry of Defence is, in its equipment procurement policy in particular, making considerable efforts to promote competition, and you may wish to refer to the Defence White Paper, page 35, for examples and a brief outline of this policy.

Yours,

James Harrison

Andrew Turnbull Esq.,
10 Downing Street

ECON POL; Competition policy: Dec 83

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB
TELEPHONE 01-235 8300
FAX 01-235 8300

12/6



COMPANION

III



10 DOWNING STREET

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M/S MOD
PUSS, DTI

bcc Mr Sherbourne
Mr Redwood

From the Private Secretary

11 June 1985

Dear Andrew.

COMPETITION POLICY: PRESENTATION

Attached to your letter of 29 May was an outline of a speech which it was suggested the Prime Minister should make on competition. The Prime Minister rarely makes speeches on single issues and rarely addresses the type of audience for whom a speech largely devoted to competition would be appropriate. Nevertheless, she has on many occasions devoted parts of speeches to the need to serve consumers and to the benefits which the Government's competition policy is bringing. We will continue to identify speeches in which the competition theme can be deployed and will draw on the material you have sent in preparing them. The compendium of material referred to in your letter will be very helpful in this task.

I am copying this letter to Private Secretaries to members of E(CP) and to Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Andrew Lansley, Esq.,
Department of Trade and Industry.

MR. TURNBULL

cc. Mr. Redwood

Presentation of Competition Policy

I refer to the letter to you from Andrew Lansley (DTI) dated 29th May.

I have two comments:-

1. I cannot see any way the Prime Minister could devote a whole speech to competition unless she was addressing a very specialised audience.
2. I therefore agree with you that we might try to work in a few paragraphs into a political speech - the only one coming up being the Welsh Party Conference on 22nd June - but on these speeches the best laid plans can go astray!

St.

STEPHEN SHERBOURNE

31.5.85

BF 1.10.85

MS



TF to write for
debate or
address or (more
likely) Guildhall.

HW
cc 5/5

10 DOWNING STREET 2/60

John Redwood

Presentations of Competition Policy

I would welcome your views on
when PM could speak on
general competition. In my view the
proposal is based on a misconception
- the PM does not often ~~make~~^{make}
single issue speeches, and she
has often referred to competition
in speeches in the past but
has not wanted to develop
them at too great length
as this would bore the kind
of political audience she
normally addresses.

I think we should offer
only a short passage.

AT

AT 30/5

I agree it shd be
one section of a more general
speech. DR.



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

29 May 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Andrew

COMPETITION POLICY: PRESENTATION

When E(CP) discussed the presentation of Competition Policy in February, it was agreed that my Secretary of State should assemble, with the help of colleagues, the material required for a campaign to bring home to the general public and Government's achievements in increasing competition, to the benefit of the consumer. This has now been done, and the Secretary of State will be circulating to colleagues a compendium of material which can form the basis for references to specific examples of the benefits of the Government's competition policy in any speeches which Ministers make.

2 The Committee also agreed that such a campaign should if possible be initiated by a keynote speech by the Prime Minister, to focus public attention on the issue. My Secretary of State hopes that the Prime Minister would be willing to do this, and I attach a draft outline of the form such a speech might take. The precise shape and content of the speech would of course depend upon the nature of the occasion and its timing.

3 We have considered whether, in the light of the Bonn summit, the Prime Minister might make a speech combining the themes of competition and trade policy. However, such a combination could weaken the impact of both themes; and my Secretary of State spoke largely on trade policy at the CBI dinner on 21 May. In these circumstances it seems best for the Prime Minister to concentrate on domestic competition policy now, and consider a trade policy speech at a later date.

4 Copies go to the private secretaries to the other members of E(CP) and to PS/Sir Robert Armstrong.

Yours ever,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

JH2API



PROPOSED SPEECH BY PRIME MINISTER ON COMPETITION POLICY

DRAFT OUTLINE

I INTRODUCTION

Competition fundamental to the Government's economic policies and objectives. Freer play for market forces, controlling inflation, promotion of industrial and commercial efficiency, wealth-creation and employment.

Competition brings wider choice; better service; lower prices and stronger industries, leading to international competitiveness and more jobs.

II MEANS OF PROMOTING COMPETITION

Role of competition legislation and the competition authorities in curbing restrictive agreements, abuse of monopoly power, anti competitive practices and mergers detrimental to competition.

The Government's record to date and intentions in applying the competition legislation and in promoting competition in all walks of the nation's economic life.

III EXAMPLES OF BENEFITS

a Removal of Monopolies

Conveyancing: as a result cheaper and better services are being offered to consumers, and new ways of buying and selling houses are being devised by the professions.



Opticians: removal of dispensing monopoly has led to new High Street outlets, and new cheaper ranges of spectacles from the opticians themselves.

BT: the breaking of BT's monopoly has created opportunities for competing telecommunications networks: and explosion in production of new telephone apparatus by competitors; as well as new services available over the network - a whole new industry.

b Deregulation

Deregulation of Long Distance Coach services has led to growth in services and reductions in fares. Similar benefits achieved in Domestic Air Services, and in International Air Services, where competition is possible.

Freedom for Capital and Financial Markets. The benefits that are flowing from abolition of controls on foreign exchange, dividends, hire purchase and bank lending, abolition of pay and price controls. Proposals to enable building societies to offer a wider range of services.

Labour Markets. Trade union legislation is bringing about more democratic internal union procedures. Intention to abolish or reform Wages Councils. Education and training now more relevant to the needs of industry and commerce. Greater flexibility in the housing market, and in pensions arrangements will improve labour mobility. Special attention being paid to employment in small businesses. Legislation to be introduced to remove restrictions on shop hours.



c Removal of Restrictive Professional Rules

Removal of restrictive rules is revitalising some of the professions. The agreement to open the Stock Exchange to greater outside influence, and remove stockbrokers' minimum commission scales, has introduced a period of radical and exciting change in the City.

Accountants and solicitors are tapping new sources of business as a result of their greater freedom to advertise and competing more actively amongst themselves. Mainly responsible for a dramatic fall in solicitors conveyancing charges.

d Privatisation

Privatisation as a means of increasing competition. It means more exposure to market forces, as well as freedom from bureaucratic or Parliamentary constraints. Managements will stand or fall by their own decisions. Dynamic effect of privatisation on National Freight Corporation, BT, Jaguar.

Where an element of monopoly remains, regulatory authorities will ensure it is not abused eg BT subject to licence and control of OFTEL. Similar arrangements envisaged for privatised British Airports and privatised British Gas.

IV CONCLUSION

Competition brings demonstrable benefits to the consumer, corporate customers, and the economy as a whole. It is also in the best interests of those exposed to greater competition; because it puts pressure on them to innovate and be more responsive to their customers.

Prime Minister (2)

Before getting directly involved yourself, I think you should discuss this with Lord Young who may not agree that initiative is losing impetus. I think he is still enthusiastic about his role as progress chaser in this area.

PRIME MINISTER

18 April 1985

AT

18/4

*Amend
not*

COMPETITION POLICY

E(CP) meets on Monday. To judge from the papers it will consider, on Agricultural Marketing Boards and on UK Voluntary Restraint Arrangements, this initiative is becalmed.

Flag B -

Michael Jopling, predictably, offers a dead-pan account of the Agricultural Marketing Boards and quangos. The message to colleagues is: the Boards have either been reviewed, or are being reviewed, or will be reviewed, so keep off, please! Michael Jopling should be asked to consider two questions:

1. Why should public money be spent on marketing private sector produce?
2. To what extent do these boards frustrate competition and hence close off opportunities. The Milk Marketing Board imposes uniform pricing across the country, discourages farmers from developing their own markets and products (why are there so few English cheeses?). The Wool Marketing Board has a statutory monopoly over buying wool. The Potato Marketing Board limits potato acreages, even though we import substantial potato tonnages. E(CP) should set MJ a clear remit to examine and report back on these anti-competitive aspects.

Norman Tebbit has produced a paper on UK "voluntary" restraints on imports.

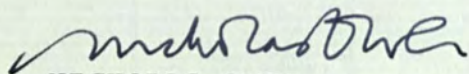
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- 2 -

It offers no proposals to phase out these arrangements. Having reviewed them "as a whole", DTI have now decided that they should be reviewed individually, in consultation with the industries concerned.

These quota arrangements invite foreigners to form cartels against us; we are, in effect, levying a tax on the consumer which goes straight to the foreigner.

We do not recommend that you intervene at this point but you should ask the Chancellor to report on progress after the meeting and take charge of the next meeting yourself, to restore the impetus to this initiative.


NICHOLAS OWEN

CONFIDENTIAL

D. B.
CONFIDENTIAL

Fila

MR TURNBULL

12 February 1985

COMPETITION POLICY

E(CP) decided last week that:

1. The way should not be opened for private actions in the Courts against restraints of trade. Instead, DTI should review the operation of the RTP Act, 1976.

It seems a pity to rule out the private actions route now. The review of the RTP Act might indicate that the Act has served a useful purpose but that something more radical, such as private actions, is both necessary and publicly acceptable.

2. Norman Tebbit should assemble material to present the Government's achievements in increasing competition; the PM should be asked to make a keynote speech.

I spoke to Treasury (Nick Monck). He expects that the Chancellor will write to the Prime Minister about the speech when there is some progress with the material. I told him that the competition theme should form only a part of a speech. It might fit into a wider, supply-side theme, taking in deregulation, trade liberalisation, and the kind of economy/society we are trying to develop.

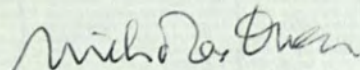
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3. E(CP) should now look at the professions, VRAs and Lord Young's ideas which include reviewing agricultural marketing boards and regulatory agencies.

Establishing the right to advertise in a competitive fashion (rather than the low key, 'tombstone' fashion allowed by professional bodies) is, we believe, the key to liberalising the professions, and undermining scale fees, where they exist.

MAFF Ministers and officials seem determined not to have their marketing boards reviewed by E(CP). I predict that these boards will eventually collapse, firstly because they no longer serve the long-term interests of the majority of their members, and secondly because they operate in ways which will be found contrary to the Treaty of Rome.

I do not recommend that the Prime Minister writes at this point.


NICHOLAS OWEN

Prime Minister (2)

These summaries the papers being taken at E(CP)
The Chancellors and/or SS/TE are likely to minute
you afterwards on its conclusions, and invite
you to make competition the major theme of one of your
speeches. - see para 6 of E(CP) (81) 3.

BK/BIF when
all OK with Tebbit
reports on a case
of E(CP)

PRIME MINISTER

5 February 1985

AT 1/2

AT
4/2

COMPETITION POLICY - E(CP) MEETING, 7 FEBRUARY 1985

Competition and Private Actions

Should private individuals be allowed a right of action
in the Courts against those who adopt anti-competitive
practices? It is private individuals, rather than Ministers
and officials, who are damaged by anti-competitive practices.
The threat of action would deter such practices better than
the toothless watchdogs of the State. Competition policy
could be partially privatised, made more effective, and
cheaper to administer.

as in
the US?

Norman Tebbit's paper explains the difficulties. It
would be difficult to graft a right of action onto a system
which does not prohibit anti-competitive practices. In our
system, we proceed on a case-by-case basis, weighing the
damage arising from anti-competitive arrangements against
other, largely political factors in pursuit of "the public
interest".

Our present policy is a broken-backed, bureaucratic
affair, reflecting an ambivalent attitude to competition. We
ought now to consider a stronger commitment because:

1. Our commercial life is becoming accustomed to rulings
based on Articles 85 and 86 of the Treaty of Rome, which

prohibit anti-competitive practices which inhibit Community trade. We believe in opening up the internal market of the EEC and have (eventually) accepted Community rulings against our own anti-competitive practices, eg imports of UHT milk, relaxation of the brewers' tie.

2. Can we hope to achieve the economic vitality of the US economy which we need in order to secure the growth rate which alone will re-employ the 3 million unemployed, unless we loosen up our rigid economy? The OFT is doing a good job but it is swamped by formal procedures and inhibited by rulings of the RTP Court.

Consider the cement industry, for example. In 1961 the RTP Court judged that price fixing agreements in the industry operated "in the public interest". Yet between 1960 and 1982 cement prices rose by 60% relative to the price of other manufactured goods (corresponding figure for Germany: 6%). Even though our cement prices have been higher than on the continent, imports make little headway, because the cement manufacturers refuse to supply anyone who uses any imported cement. The OFT will have difficulty in re-opening such a case because it would have to show that circumstances have changed materially.

We recommend that you encourage Norman Tebbit to take a radical look at our competition policy.

Competition Policy: Presentation

Norman Tebbit proposes a series of speeches to explain, and take credit for, the various initiatives in the competition field. There are some real and substantial achievements which affect broad areas of national life, eg the removal of financial controls, the liberalisation of telecoms and the introduction of parental choice over schooling, informed by the examination results for each school. But these achievements are now familiar. Our problem on presentation is that a number of initiatives promise much, but still have to be delivered, eg shop hours, opening up the monopoly on conveyancing, liberalising the bus industry, reducing car price differentials.

Important sectors, such as the nationalised energy monopolies, are still untouched by competition. The rented housing sector is still choked by the Rent Act.

We believe that the benefits of competition will be substantial and visible. For example, the liberalised bus experiment in Hereford and Worcester has reduced fares by 25% on average and increased bus mileage, according to the County's Planning and Transportation Committee. Professor Farrand predicts that costs of conveyancing will fall by 25-30% once the monopoly is extended.

We recommend that you find an opportunity to indicate to Norman Tebbit that you will be prepared to include a

competition theme in a speech, provided that Departments can contribute convincing material of wide appeal on the recent achievements of the policy.

Competition in the Professions

The DTI and OFT are making gradual headway in their efforts to introduce competition into the professions, relying almost entirely on the professions' voluntary acceptance of MMC and OFT findings and recommendations.

Unfortunately, these valiant efforts have not, so far, greatly changed the professions' behaviour. Advertising is being accepted, but on such restrictive terms ("so as not to bring the professions into disrepute") that it adds no competitive bite. In those cases where mandatory fee scales have been abandoned - by architects, surveyors and engineers - they have been replaced by "recommended" scales. These have had virtually the same effect because if an architect cannot advertise that his fees are below the recommended scale, there is little incentive for him to undercut the recommended scale.

Norman Tebbit's priorities, we believe, are the right ones, particularly:

1. The invitation to the DG of Fair Trading to consider advertising restrictions and recommended fees. We would like to see a general right to advertise, subject only to

the rules of the Advertising Standards Authority. This would undermine the recommended fee structure.

2. The invitation to Norman Fowler to report on introducing competition into medical and paramedical professions. This fits in closely with our own ideas on improving the General Practitioner Service, by making more information available to the public about GP's services and by easing entry restrictions.

N. Owen
PP NICHOLAS OWEN

CONFIDENTIAL



NRPM

CENO

AF 4/2

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

31 January 1985

The Rt Hon Michael Jopling MP
 Minister of Agriculture, Fisheries and Food
 Ministry of Agriculture, Fisheries & Food
 Whitehall Place
 LONDON SW1

John Michael

COMPETITION POLICY

You wrote to me on ~~31~~ December about the proposal that E(CP) should review the marketing boards. I have since seen Norman Tebbit's letter of 22 January and Douglas Hurd's letter of the same date. *will request if required*

I accept that the different timing constraints make it difficult for you to produce an overview paper for E(CP) on the marketing boards as originally envisaged. And I certainly agree that it is too early to review last year's decisions on the Potato Marketing Board scheme which will only come into operation in the 1985-86 marketing year. Since we intend to review the new arrangements before the end of the 5 year period, we can, as you say, cover competition and deregulation aspects at the same time.

On wool, I share your wish not to impede the review by officials which I gather has already been somewhat delayed. I understand that decisions are needed before the end of the current marketing year on 30 April. But I should have thought that once officials have done some of the groundwork, the main issues could be referred to E(CP) some time next month.

On milk, we agreed last year that we would need to have a wide ranging review of the role of the milk marketing boards in addition to the specific study by consultants on the MMB's commercial activities. I remain convinced that E(CP) would be the right forum for this. We could not, of course, take decisions until we have seen the consultants' report. But I do not think that the genuine political problems you mention

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should preclude us from considering collectively whether the present milk marketing arrangements are still appropriate.

Finally, I wonder whether it might also be useful for E(CP) to take a more general view of the competition policy aspects of the numerous other agricultural "quangos", such as the Apple and Pear Development Council, the Eggs Authority, the Home Grown Cereals Authority, the Meat and Livestock Commission, etc. It may be that these organisations have no distorting effect on the market but it would certainly be useful to have a paper setting out their functions and activities so that we can satisfy ourselves on the point. Could you set this in train?

I would be happy to accept David Young's suggestion that a subgroup of E(CP) should deal with these subjects initially and would like the Treasury to be represented either by the Chief Secretary or by the Financial Secretary.

I am sending copies of this letter to the Prime Minister, the Lord President, the Foreign Secretary, the other members of E(CP), the Secretaries of State for Scotland, Wales and Northern Ireland, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

Econ Pol: Competition Policy Dec 83.

6 7
5 4
3 2
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10 9

FEB 1985



NDSM
AT 22/1
CND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

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

22 January 1985

Dear Chancellor,

COMPETITION POLICY

I have seen Michael Jopling's letter to you of 31 December in which he considers that now would not be an opportune time to review the activities of Marketing Boards. I agree with his views.

In Northern Ireland the Wool Marketing Board and the separate Milk Marketing Board for Northern Ireland operate. I agree with Michael that a decision on a full scale review of the Wool Board's activities should await the outcome of the current review of the guarantee arrangements. However, I am more immediately concerned about the position of the Northern Ireland Milk Marketing Board.

As you know Michael announced on 5 December that he was appointing management consultants to investigate certain aspects of the commercial activities of the Milk Marketing Board for England and Wales. The outcome of that review will have implications for other Milk Marketing Boards. As I indicated in my note of 27 November to the Prime Minister, the milk industry, particularly in Northern Ireland, is hard hit by the impact of quotas and I do not think we should add to the current uncertainty by casting further doubts on the future of the Milk Marketing Boards.

Copies of this letter go to the Prime Minister, the Lord President, the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food, the Secretaries of State for Scotland and Wales and Trade and Industry, the Chief Whip and the Secretary to the Cabinet.

*Yours Sincerely
NDSM
Private Secretary*

for D H

(Approved by the Secretary of State
but signed in his absence in Belfast)

ECON. POL: Competition Policy: Dec 83.

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[Circular red stamp with numbers]

22 JAN 1984



From the Minister
CONFIDENTIAL

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG

NBPM AT 2/1 a.A.
MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

31 December 1984

COMPETITION POLICY

I have been considering the proposal for a review of marketing boards that David Young's letter of 14 December to you enlarged upon.

will request, if required.

First, I should stress that the remaining marketing boards operate in the three highly disparate commodity areas under very different types of scheme. There is no longer a common thread and action in each sector is subject to different constraints.

As regards the Milk Marketing Boards, we have recently agreed that there should be an enquiry into the commercial activities of the England and Wales Board, an enquiry which could have implications for the commercial activities of the other Milk Boards. We cannot therefore proceed on this front until we have the management consultants' report: to commit ourselves now to further studies would appear to prejudice the enquiry and would also risk undermining the improved consultation procedures which the industry has just established. We would also seriously exacerbate current apprehension in the industry and among many of our supporters in Parliament, and introduce a further complication into our dealings with the Commission.

The Potato Marketing Board operates the support arrangements for growers (there is no CAP regime for potatoes) as well as setting

/quality

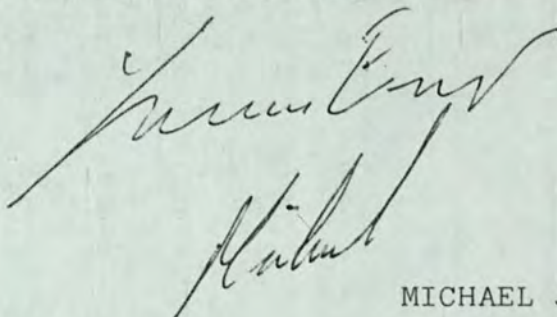
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quality and grading standards and undertaking research. During 1984 we completed a review of the Potato Marketing Scheme and the potato guarantee arrangements which has resulted in an agreement, approved by the Treasury, on a new five-year arrangement to operate until mid-1990 designed to transfer from the Exchequer to growers more of the financial responsibility for market support. The amendments to the existing scheme necessary to give effect to the new arrangements was the subject of lengthy, statutory, consultation procedures culminating in a public enquiry. We are now about to seek Parliamentary approval for these amendments and for the related changes to the guarantees. It would seem perverse to choose this moment for a further review of the Potato Marketing Board. There is in any event provision for these arrangements to be reviewed before the 5-year period expires and that review could cover also the competition and deregulation aspects (unless, of course, there has been development of a CAP regime in the meantime).

The Wool Marketing Board has power to buy and sell wool (and to adapt it for sale) and to take measures to promote the greater efficiency of the wool industry. The guarantee arrangements for wool are currently under review jointly with the Treasury. We would certainly not wish to do anything to impede this and it would seem sensible to await the outcome before considering whether any further review was desirable.

For these reasons I do not think now would be an appropriate moment to review the activities of the Marketing Boards.

Copies of this letter go to the Prime Minister, the Lord President, the Foreign and Commonwealth Secretary, the Secretaries of State for Northern Ireland, Scotland, Wales, and Trade and Industry, the Chief Whip and the Secretary to the Cabinet.

A handwritten signature in dark ink, appearing to read 'Michael Jopling', written in a cursive style. The signature is positioned above the printed name.

MICHAEL JOPLING

CONFIDENTIAL

FLS

54



10 DOWNING STREET

From the Private Secretary

28 August, 1984

bc M. Owen

cc: D/Fn ✓ FSec's of
 ✓ D OE HMT
 ✓ DHSS ✓ M/S, M/D
 ✓ DTI ✓ Pass, DTI
 (Mr Fletcher)
 ✓ EDLO ✓ Leo
 ✓ D/Emo ✓ SO
 ✓ MAFF ✓ LOD
 ✓ D/Transp. ✓ CO

The Prime Minister has now seen the Chancellor's minute of 7 August reporting on the first meeting of the Ministerial Sub-Committee on Competition Policy (E(CP)). She endorses the general approach proposed by E(CP) and in particular, welcomes its recognition of the competition dimension and the agreement that the onus of proof should lie with Departments wishing to retain anti-competitive arrangements. She further hopes that Departments which initially stood aside from the action programme can begin to make a contribution to the initiative.

On presentation, the Prime Minister hopes that the momentum of the Government's policy can be maintained and that, if at all possible, a regular flow of announcements with wide consumer appeal should be kept up. In this context, the Prime Minister agrees with the approach which the Chancellor suggests to the Committee's discussion of presentation at its next meeting.

On detailed points, the Prime Minister has noted that E(CP) instigated consideration of the possibility of legislation to build on the common law provision against restraints of trade. She hopes this consideration bears fruit but, in the event that there is difficulty with this approach, she wonders whether appropriate amendments to the Fair Trading Act, 1973 might be an alternative. The Prime Minister has also noted that the Committee considered car price differentials in Europe. She hopes that, as part of its future programme of work, E(CP) can consider the review by the Department of Trade and Industry of VRAs and in due course monitor progress in reducing car price differentials.

I am sending a copy of this letter to Private Secretaries to members of E(CP) and to the Lord Chancellor, Secretary of State for Scotland, Attorney General and Sir Robert Armstrong.

TIMOTHY FLESHER

Miss Margaret O'Mara,
H.M. Treasury

CONFIDENTIAL

copy 1



Prime Minister:

Yes (i) Agree to general lines of the Chancellor's approach

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

PRIME MINISTER

ii) agree the individual

COMPETITION POLICY

points made in the Policy Unit note flagged at A

The Ministerial Sub-Committee on Competition Policy (E(CP)) met for the first time on 26 July under my chairmanship, to consider:

13/8

attached

- (i) an Action Programme for fostering competition policy;
- (ii) initiatives for promoting competition;
- (iii) the presentation of our policies on competition.

Action Programme

2. The Secretary of State for Trade and Industry, to whom you gave a general co-ordinating responsibility for promoting competition policy, put to the Sub-Committee a draft Action Programme (Annex B to E(CP)(84)2) prepared following consultations with colleagues and bilateral discussions between the Parliamentary Under Secretary of State for Corporate and Consumer Affairs and the Ministers chiefly concerned. We broadly agreed on the inclusion of the items in the draft, subject to changes to clarify where matters stand on Wages Councils and certain Marketing Boards. The Secretary of State will circulate a revised version, taking account of a wide discussion which also covered energy, the environment, employment, training and further education, agriculture and health.

New and Extended Initiatives

3. The Sub-Committee discussed a number of further ways of promoting competition. I should particularly draw the following to your attention.

- (i) We should seek to ensure that the onus of proof in collective discussion is on those whose proposals would be likely to restrict competition, and not on those whose proposals would tend to liberalise it.



(ii) It was noted that a more flexible and constructive policy towards contract terms and procedures in the public sector could contribute to increased competition.

(iii) Nationalised industries should be encouraged, and where possible required, to foster improved competition by all appropriate means, including contracting out. The ideas being pursued by the Secretary of State for the Environment for more extensive contracting out by local authorities might be capable of application to the nationalised industries.

(iv) E(CP) might appropriately consider proposals for the abolition of mandatory scale fees (where they existed) in the professions, and initiation for the introduction of full-cost charging for services provided by one public sector body for another.

4. In addition, the Chancellor of the Duchy of Lancaster suggested that it might be possible for the Government to legislate generally to improve competition by reducing restrictive practices in the professions, industry and in other fields. He envisaged that such legislation might build on the common law principle that action in restraint of trade was unlawful unless justified by either necessity or the public interest. He suggested that giving individuals affected by restrictive practices a right of action in the Courts based on this principle might offer a way of achieving a major enhancement of competition without the need for detailed legislative provisions, quasi-governmental monitoring and enforcement agencies or criminal sanctions. The Sub-Committee invited the Secretary of State for Trade and Industry to consider the possibility further, consulting the Lord Chancellor, the Chancellor of the Duchy of Lancaster, and the Attorney General.

Presentation

5. Discussion of the issues above left little time to discuss presentation of the Government's policies. We propose to do so at our next meeting. In the meantime, we agreed that Ministers in their speeches and public statements should put the most positive construction on the Government's policies towards competition, placing particular stress on measures likely to bear fruit within the lifetime of the present



Parliament and which could be persuasively presented as enhancing freedom of choice, improved services and reducing prices.

Future work

6. In general, the Sub-Committee intends to meet regularly and to pursue an active role. We shall need to focus on key issues, with clear economic and political benefits. We shall also discuss any issues which may arise where competition is the predominant question.

7. Members of E(CP) will provide the Secretary of State for Trade and Industry with the information necessary for him to keep the Action Programme up-to-date and to add to it as appropriate. He will issue a revised version at six-monthly intervals as a basis for discussion in the Sub-Committee. We can also see some specific issues ahead. E(CP) agreed that car price differentials was one such issue. It is of some complexity, but with great political attraction.

8. I am copying this minute to other members of E(CP), to the Lord Chancellor, the Secretary of State for Scotland and the Attorney General and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

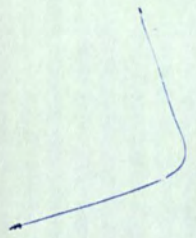
7 August 1984



13 AUG 1984



COMMUNICATIONS



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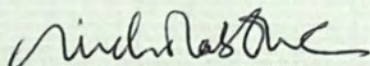
MR TURNBULL

3 August 1984

COMPETITION POLICY: POINTS ARISING FROM THE FIRST
E(CP) MEETING

When the Chancellor's report of this meeting arrives in due course, the Prime Minister might respond along the following lines:

1. Welcome the recognition of the competition dimension, and the agreement that the onus of proof should lie with Departments wishing to retain anti-competitive arrangements. Hopes Departments which stood aside from action programme can begin to make a contribution to the initiative.
2. An effective presentation of the policy will require three or so announcements, with wide consumer appeal,
by end-1984.
3. A common law provision against restraints of trade would be welcome but in the event that this proves difficult, would appropriate amendments to the Fair Trading Act, 1973 be an alternative?
4. Hopes that E(CP) can consider the DTI's reviews of VRAs and, in due course, monitor progress on reducing car price differentials in Europe.


NICHOLAS OWEN

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10 DOWNING STREET

Pune Minuti (2)

E(CP) holds its inaugural
meeting tomorrow. Some
progress, but its all hand
work, particularly with
Energy and Agriculture - see
Policy Unit comments.

No need to
comment

BT

25/7

mf

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PRIME MINISTER

24 July 1984

COMPETITION: AN ACTION PROGRAMME

The initiative has not so far produced much, if anything, which would not have happened anyway. As we have found with deregulation, it is an uphill task to persuade Ministers to disturb existing arrangements, and departmental interests in pursuit of wider benefits. Privatisation shows that it can be achieved if the lead Ministry means business.

What more is needed? There is no shortage of ideas. What is needed is the commitment to bring the more obvious ones to fruition. The 3 next steps are, in our view, to pull the foot-draggers into line with the initiative, to make E(CP) an effective Committee, and to decide on, say, 3 visible targets, with wide consumer appeal, to achieve by end-1984.

Norman Tebbit has chosen, rightly in our view, to give more prominence in the paper to the foot-draggers - Energy and Agriculture, - than to those whose contributions appear at Annex B. Peter Walker did not trouble to set out a considered Departmental response at all. Our energy policy stands conspicuously aside from the pro-competitive approach. We allocate oil blocks, and use this to pressure developers to buy British equipment. The State-owned

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suppliers are monopolists. The NCB, not the Department of Energy, controls licences for private sector coalmining.

The Agriculture Departments constrain competition in various ways - by blocking imports of fresh milk and poultry, by establishing monopoly purchasers, of milk and wool, by restricting potato acreages, by allowing the MMB to discriminate on price between different end-users. These restrictions are not CAP requirements; they are sometimes in direct contradiction to the CAP, eg milk pricing, barriers to imports.

To be effective, E(CP) must meet regularly, keep a grip on progress, and resolve problems. Above all, Departments must be persuaded to bring their "reviews" to the Committee in draft form, rather than announcing them as fait accomplis. E(CP) ought therefore to see, by the end of the year:

- the Lord Chancellor's Department's reviews of employed solicitors and non-solicitor conveyancers;
- DTI's reviews of VRAs;
- A progress report on EC car distribution regulation;
- MAFF's review of milk marketing;
- the Home Office's review of shop hours.

The Committee could also resolve differences between Departments, eg the wrangling between Treasury and MoD over the MoD's interpretation of the public purchasing initiative as a Buy British policy.

The Committee could set itself some targets for end-1984 eg for house purchasing, for liberalising some of the professions further, for shop hours.

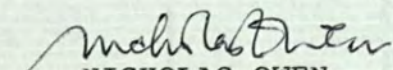
Recommendation

Should you wish to comment on the progress of this initiative in advance of the meeting on Thursday, there are three observations you could make:

- i It is encouraging that a programme is beginning to take shape. You hope that E(CP) can set itself targets for end-1984 which would give the programme a visible and appealing profile.

- ii You hope that Departments which have not so far contributed at all, or in a significant way, can bring forward proposals to the next meeting, in the Autumn.

- iii That the various reviews mentioned at Annex B of the paper can be brought to E(CP) for discussion.


NICHOLAS OWEN



NSPM
AT 14/7
CO NSO

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

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF6950
PS Secretary of State
for Trade and Industry

13 July 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

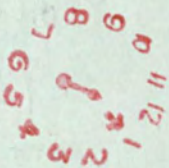
COMPETITION INITIATIVE

Thank you for your letter of 26 June.
My Secretary of State's paper has now been
circulated and a meeting of E(CP) Committee
has been arranged for 25 July.

Yours ever,
Ruth

RUTH THOMPSON
Private Secretary

Een Pol = competition Pol
12/83



16 JUL 1984

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL

NBA
AT 13/17

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

5 July 1984

CAPITAL ALLOWANCES IN AGRICULTURE

When you wrote to me in ^{at May} May you set out the reasoning which underlay your decision to withdraw first year capital allowances. I understand that you have now written in similar terms to Sir Richard Butler making it clear that you see no prospect of exempting the farming industry from these changes.

While I quite understand your wish to maintain the general line against the wide ranging representations which have been made, I must express my disappointment that it has not been possible to take account of the likely impact in agriculture. As I pointed out in earlier correspondence, the competitive edge which our industry has achieved has depended to a large extent on its willingness to invest in the most up to date and efficient plant and machinery. That willingness is likely to be significantly reduced under the new arrangements.

Like you I have no wish to encourage investment with low or negative pre-tax rates of return but I do believe that the balance has swung against the unincorporated sector in the strategy which is now being pursued. Although you suggest that individual farming businesses could seek incorporation if they felt that was to their overall advantage this is a step which goes beyond tax considerations and I doubt whether it will prove to be an option which is attractive to many farmers.

/I would like ...

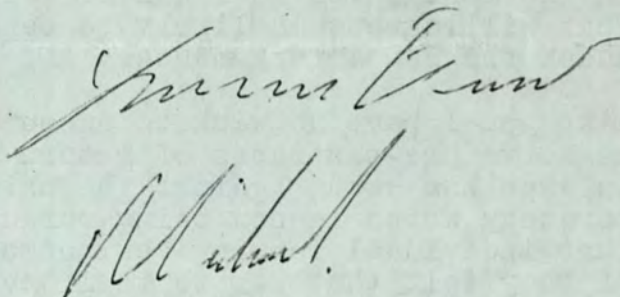
Gen Pol - Competition Pol.

12/83

I would like to revert to one aspect of the new arrangements which requires further consideration. That is the question of the regime to be applied to agricultural buildings after 1 April 1986.

A writing down allowance of 4% per annum is not appropriate for many of the short life buildings which are used in horticulture and in the pig and poultry sectors. It does not appear sensible to have a writing down period which could be 10 years longer than the physical life of the building. If we are not to discriminate against such investments special arrangements will be required and I should welcome your assurance that this point will be taken fully into account when the enabling provisions are being drafted.

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

A handwritten signature in cursive script, appearing to read 'Michael Jopling', written in dark ink.

MICHAEL JOPLING

CC HMTUMAFF ✓
DIN ✓ DOT ✓
DOE ✓ FST ✓
DHSS ✓ M/S MOD ✓
COL ✓ PUSS ✓ DTI ✓
DM ✓ CO ✓

CONFIDENTIAL FILE

da



bc JR ✓

10 DOWNING STREET

From the Private Secretary

26 June 1984

Competition

In her minute of 1 February the Prime Minister invited your Secretary of State to survey the main obstacles to competition and to put forward a programme of action for the Government. It was originally suggested that this should be completed by the end of May. The Prime Minister understands that it has not been possible to meet this timetable though work is well in hand. She very much hopes that it will be possible to bring the proposals to E(CP) for discussion before the Recess.

I am copying this letter to Private Secretaries to members of E(CP) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy, Esq., ✓
Department of Trade and Industry.

CONFIDENTIAL

881



NBPM

a 10

AT 14/5

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

11 May 1984

The Rt. Hon. Michael Jopling MP
 Minister of Agriculture, Fisheries and Food

John Michael

COMPETITION POLICY: TAXATION ASPECTS

You wrote to me on 24 April, raising a number of questions about taxation policy.

On the extension of the VAT base, I appreciate the force of the points you make.

You also mention your concern that the abolition of stock relief in the Budget could damage the competitive position of the Scotch whisky industry. But I would stress the need to view my corporate tax reform package as a whole and on this basis it has been generally welcomed by industry and by the main representative bodies. Against the loss of stock relief we should therefore set other measures like the reduction in the rate of corporation tax to 35 per cent by 1986-87. The Scotch Whisky Association did not mention this in their memorandum but it was made possible only by the abolition of stock relief and the changes in capital allowances.

Nevertheless, you may like to know that my officials have arranged to see representatives of the Scotch Whisky Association shortly and I understand that someone from your department will be coming too. I can assure you that they will listen very carefully to what the industry have to say and I have asked them to give me a full report. But I must point out that the whisky industry is not alone in having to finance maturing stocks over an extended period. I did, as you know, take the problems facing the whisky industry into account in my duty decisions in the Budget and I think it is also fair to remind the industry of the action Geoffrey Howe took last year on duty deferment.

X 11
 You also express some concern about the effect on agriculture of the phasing out of the first year allowance. I do not think any of us would want to maintain a system under which investment projects with extremely low, or even negative, pre-tax rates of return simply because of an excessive tax subsidy. I recognise, of course, that farmers who have not incorporated their businesses will not benefit directly from the reductions in the rates of corporation tax. They will, however, benefit from other changes such as the substantial increase in the income tax thresholds, the abolition of the National Insurance Surcharge and



Investment Income Surcharge and the capital taxation changes. Moreover, the possibility of incorporation is open to any farmers who consider that, in their own circumstances, the balance of advantage between corporate and unincorporated status has swung sufficiently following the Budget to justify the costs of a change.

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

NIGEL LAWSON

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17 JUN 1984



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NBPM AT 25/4

25 April 1984

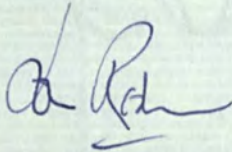
MR TURNBULL

I have read Michael Jopling's letter concerning competition policy and taxation.

I am sure he is right that it would not be realistic to extend VAT to all food items sold in the shops. The RPI consequences and the impact on the poorest members of the population would be severe. Some food items are, of course, already vatable - eg some kinds of sweets and chocolates. It might be possible to extend the definitions a little further to encompass more luxury and discretionary items.

A special pleading on behalf of the Scotch whisky industry is unreasonable. The main company, Distillers, has no financing difficulties.

The case for abating the capital allowance changes for agriculture is also not well made out. It might mean that more farming business incorporate in order to benefit from the lower Corporation Tax rate. Alternatively, there is a range of other ways of shielding tax which farmers will doubtless exploit to the full.



JOHN REDWOOD

MINACY

SEND

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

24 April 1984

JS
24/4

COMPETITION POLICY: TAXATION ASPECTS

I read with interest your letter of 11 April to Norman Tebbit and the accompanying note about the 1984 Budget and some possibilities for future changes in the tax system.

I note what you say about the possible extension of the VAT base as a means of eliminating distortions in consumer choice and of investment. I was glad, however, that you recognised the political difficulties which would be involved in any extension of VAT to food generally. It would, of course, affect most severely the poorest elements of the population, who are not well placed to exercise consumer choice, since food necessarily represents a much larger proportion of their total expenditure than it does for the majority. Moreover, at the present VAT rate, its extension to food generally would increase the RPI by over 2.5% - or about half the current rate of inflation. I do not believe that any improvement in competition which such a move was likely to achieve would justify the economic and social costs involved. In any case I believe the proposal is unthinkable for political reasons.

I should also mention my concern that the abolition of stock relief in the Budget risks causing some distortion of competition and inequity in the spirit drinks sector. This is because of the long periods for which Scotch whisky must mature, which results in the industry's investment in stocks of maturing whisky being necessarily out of all proportion to its investment in fixed assets. The abrupt change in the tax base could damage the industry's competitive position in relation to other spirit drinks not

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Competition Policy

requiring maturation, many of them imported, and its ability to compete effectively overseas, where 80% of its market lies. I know that the industry has written to you about this, and I hope that you will give sympathetic consideration to their proposals for alleviating the impact of this change.

My further concern relates to the effect which the reduction in first year allowances will have in agriculture. In most sectors the reduction in capital allowances will be offset, at least partially, by the reductions in Corporation Tax but in agriculture less than 10% of businesses are incorporated. The overwhelming majority will not, therefore, be in a position to benefit from the changes in corporate taxation.

Agriculture has traditionally accounted for a major share of the first year allowances in the unincorporated sector and this investment has enabled the industry to improve its competitiveness and its labour productivity significantly. It would be most regrettable if the effect of the Budget measures was to deter unincorporated farming businesses from undertaking highly desirable capital investment because the taxation arrangements, particularly for those paying tax at the higher rates, made the project uneconomic.

I know that the National Farmers' Union is deeply concerned about the adverse effects of the changes in capital allowances and I understand that the President will be writing to you shortly on this point. I hope that here again you will feel able to consider his representations sympathetically.

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

James Funnell
Michael Jopling

MICHAEL JOPLING



24 APR 1984

✓ CC NO



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

11 April 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

A handwritten signature in cursive script, appearing to read 'Norman Tebbit'.

In my letter of 28 February I promised to write to you after the Budget about the taxation aspects of competition policy. (You have already received our paper covering other aspects of the subject).

I enclose a short note covering both the 1984 Budget itself and some possibilities for future changes in the tax system. Needless to say, many desirable reforms of the tax system are concerned not so much with promoting competition as with reducing the tax burden (particularly for direct taxation), broadening the tax base, removing discrimination between different types of activity, and simplification. Nevertheless, tax changes can clearly have a role to play in improving the operation of markets generally and facilitating greater competition.

I am copying this letter to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

COMPETITION POLICY: TAXATION ASPECTS

Tax policy

Tax policy has an important role to play in promoting competition, in particular by:

- Reducing the level of taxation, so as to improve incentives
- Reducing the distortions in the tax system which discriminate between different types of activity and impede the working of the market
- Simplifying the tax system to make it more intelligible to the taxpayer and reduce the costs of compliance.

The 1984 Budget

2. The 1984 Budget was designed to reform the tax system so as to help achieve these objectives. In particular it:

- Made big real increases in tax thresholds so as to take substantial numbers of people out of tax and improve incentives especially for the lower paid.
- Continued the process of reducing the punitive higher rates of tax which we inherited by cutting the top CTT rate to 60 per cent and abolishing the IIS.
- Increased the incentives and motivation of key executives by the more favourable tax treatment of share options.
- Set out a medium-term programme for reforming company tax mainly by abolishing first year allowances on capital equipment, reducing the rates of Corporation Tax, and abolishing NIS. These changes will reduce the distortions which now exist between investment in different types of equipment, between different methods of financing, and between capital and labour.
- Introduced various measures for improving the flow of savings and investment and reducing discrimination between different forms of saving, notably by

withdrawing life assurance premium relief for new policies, halving the main rates of stamp duty, bringing in composite rate scheme for payments of bank interest and making various changes to encourage corporate bond issues.

- Broadened the VAT base, both to provide more revenue to finance the desirable change in direct taxation and to reduce distortions between those goods and services which are zero-rated for VAT and those which are not.

Future action

3. We must aim to move further in these directions. In particular we must aim:

- To continue to reduce the level of taxation so as to leave taxpayers more freedom to decide how to spend their money and to improve work incentives. Further real increases in tax thresholds, to take the lowest paid out of tax altogether, will continue to be a priority.
- To continue the movement which began in 1979 from direct to indirect taxation. We must proceed carefully, taking account of the effects of any changes on those affected. But we have been clear for a long time that, to promote individual freedom of choice, there should be more taxation of spending and less taxation of income.

4. On more specific measures, we can probably regard the main structure of company taxation as now settled for the lifetime of this Parliament. Other important areas are:

VAT Only about half of the total consumer spending is liable to VAT. This distorts consumer choice to some extent, and may direct investment towards non-taxable areas. Extension of the VAT base could reduce or eliminate these distortions, but the political difficulties need no underlining.

Housing I made suggestions in my earlier note for reducing the heavy distortions in the housing market. Mortgage interest relief also has a major influence on the market but we are firmly committed to the principle of this relief.

Pensions Tax treatment of pensions is especially favourable. But decisions in the pensions area should await progress on the enquiry now under way under the Chairmanship of the Secretary of State for Social Services.

Capital markets We must continue to consider the possibilities for improving the workings of the capital markets.

Tax simplification It will also continue to be important to make progress towards tax simplification. I mentioned in the Budget speech that I hoped to return to Capital Gains Tax next year and there may be other possibilities in the personal tax field, for example taxation of the self-employed. I intend to keep this area under especially careful review.

Leon Pot Compth - Pot

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19 APR 1984

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DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
 Secretary of State for Trade and Industry
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON
 SW1H 0ET

6 April 1984

Dear Secretary of State

COMPETITION POLICY

Thank you for your letter of 17 February. I am sorry that we have overshot your deadline for reply.

I welcome the exercise which you are coordinating and attach a note which sets out the scope and nature of my Department's involvement in it and the answers to your specific questions.

The emphasis of our note is on the areas of the private sector of which DHSS is a sponsor and on the main health professions. As the Prime Minister's minute puts privatisation outside this exercise, we have deliberately not dealt with the merits of the existing public/private sector balance, beyond detailing the substantial initiative taken on competitive tendering for NHS support services. Nor does the note deal with the scope for competition within the statutory services for which I am responsible. In the statutory social security field, the question is practically meaningless. In the statutory health and personal social services, the exercise of consumer choice is obviously desirable but many of the consumers are inherently unable to exercise this role and, except in large conurbations, the scope for shopping around between expensive facilities requiring a large catchment is necessarily limited. But that is not to say, of course, that those services cannot learn from the competitive commercial sector - you and colleagues know, for example, the steps we are taking to vitalise NHS management in this way.

For the purposes of the bilateral discussions you envisage, I suggest that Alex Fletcher get in touch with John Patten. At official level the coordination here is being done by Mr Jeremy Knight of the Department's central secretariat.

As with your letter, copies go to the Prime Minister, members of the Cabinet and Sir Robert Armstrong.

Yours sincerely
SA [Signature]

for NORMAN FOWLER

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

CONFIDENTIAL

COMPETITION POLICY : DHSS RESPONSE TO DTI INITIATIVE

Introduction : The Scope and Nature of DHSS Involvement

1. As a Department chiefly concerned with the delivery of services for which it is more or less directly responsible (social security, health, personal social services), DHSS must be a supporter rather than a leader of efforts to promote competition. Even in relation to the health and social service professions, our approach to competition must acknowledge that the services for which we are responsible are the main and sometimes the only employer of a particular professional skill.

COMPLEMENTARY PRIVATE SECTOR PROVISION

2. To the extent, though, that DHSS services are not a monopoly, we could be said to have a sponsorship role towards the related private sector - notably the occupational pension industry, and private health care. Our close liaison with the former over the regulation of occupational pensions provisions does not extend to promoting competition between members of the industry; but the first steps we envisage in relation to "portable" pensions (see point IV 2.1 below) fit in well with competition policy by promoting the mobility of, and so competition for, labour in the economy. Government policy on private health care can have important consequences for the growth of that sector and for competition within it and the industry has certainly benefited in this way from the policies pursued since 1979.

SUPPLIER INDUSTRIES

3. The Department also has an important sponsorship role towards the pharmaceutical and health care equipment industries which in the UK are mainly geared to the support of the NHS (but have important export potential), and where considerable influence can therefore be exerted through public purchasing policies. This involves the Department (and the NHS Supply Council) in balancing - in part through regulatory activity - the needs of the NHS (for safe and effective equipment and medicines at the lowest possible prices) against the requirement for an efficient and prosperous home industry.

4. The NHS is also an important client of the construction industry. DHSS acts on behalf of the NHS in discussions with the industry and sets the policy framework for health authorities' works operations. Virtually all major building and engineering work and the major portion of maintenance work in the NHS is carried out by private sector contractors, who obtain it on the basis of competitive tenders.

THE PROFESSIONS

5. Finally, the Department is the guardian of the legislation governing the access to and activities of the main health care professions. Under this legislation the professions are predominantly self-regulating; but the Department can and does initiate statutory change where the existing situation is considered too restrictive.

REGULATION VERSUS COMPETITION

6. Traditionally, DHSS interest in particular commercial and professional activities has been directed not so much to their promotion as to their regulation for the purposes of public protection. The production and marketing of medicines, and the provision of private health care (eg particularly abortions, cosmetic surgery) are just two examples of activity in which there is a lively public interest, rightly demanding Government action which can sometimes constrain competition. Similarly, with private residential and nursing homes, it is necessary to regulate the operation of competition by overseeing very closely the standard of provision made by proprietors. In some fields of commercial activity, the Government has thought it right for reasons of public policy explicitly to inhibit the scope for competition eg the restraint on advertising by the tobacco industry which might encourage children and young people to smoke.

7. It would, however, be wrong automatically to equate regulatory activity with limitation on competition. In the pharmaceutical field, neither the Medicines Act nor the Pharmaceutical Price Regulation Scheme (PPRS) is concerned to limit competition. The PPRS provides a framework within which any company is at liberty to compete for NHS business - in effect, by persuading doctors to prescribe its products. Since price competition as such is weak, successive governments have taken the view that the PPRS is necessary to control companies' costs and profits. Within the Scheme there is keen competition between companies'

products. All the signs are that the PPRS has encouraged the UK industry to efficiency and competitiveness internationally : the UK has an excess of exports over imports of £600m pa. The Department's responsibilities for the safety of medicines and equipment used in the NHS involve regulation and inspection of manufacturing facilities and products. Much of this activity promotes Government policy (notably, as set out in the White Paper "Standards, Quality and International Competitiveness") for the improvement of design and quality based on standards, certification, etc, and stimulates firms to compete, in the home and international markets, through the quality of their product as well as their price levels.

I. "What actions have Government taken in your field since 1979 to promote competition?"

I.1. Private health care

I.1.1 Health Services Act 1980 abolished Health Services Board, which was charged with the reduction of facilities for private patients in the NHS.

I.1.2 1980 Act also relaxed controls over the construction of independent nursing homes and hospitals, exempting hospitals of up to 120 beds from authorisation by Secretary of State (previously 100 beds in London, 75 outside).

I.1.3 Allowing whole-time consultants - the largest single group - to undertake limited amounts of private practice in addition to their NHS duties (1979).

I.1.4 Increasing the pay of maximum part-time consultants from 9/11 of the whole-time salary to 10/11, thus making the maximum part-time option with its rights to unlimited private practice more attractive to consultants uncertain of their earning power in the private sector (1979).

I.1.5 All these changes have provided a better environment for the growth of private health care : the number of people covered by health insurance in the UK has grown from 2.4 million in 1978 to 4.5 million in 1983.

I.2 Contracting-out

I.2.1 Competitive tendering : in September 1983 all district health authorities were asked to draw up programmes to test the cost effectiveness of their domestic (cleaning), catering and laundry services by seeking competitive tenders, including in-house tenders. All authorities are expected to complete tendering for these services in all their hospitals and other premises by September 1986. The cost of these services in 1982/83 was about £950 million. The introduction of VAT refunds on service contracts in September 1983 has removed a major disincentive to health authorities using contractors.

I.2.2 NHS audit : beginning with the audit of accounts for the year ending 31 March 1983 six firms of accountants were appointed to audit the accounts of eight District Health Authorities for an experimental period of three to five years. The following year four firms were appointed to audit the accounts of a further six District Health Authorities. The purpose is to assess the advantage of involving commercial firms in the audit of the NHS, otherwise undertaken by officers of the Department's Audit Directorate.

I.3 Health care equipment

I.3.1 Establishment of the Supply Council (July 1980) with a responsibility inter alia, of helping the health care industry to become more competitive.

I.3.2 Introduction of Guides of Good Manufacturing Practice (GMP) for sterile medical products, cardiac pacemakers, orthopaedic implants and medical devices leading to the establishment of manufacturers' registration schemes for sterile medical products (1982) and cardiac pacemakers (1983). These schemes encourage competition on grounds of quality and provide users with information on which to base purchasing decisions.

I.3.3 Support for Government's Public Purchasing Initiative through the issue of procurement guidelines for the NHS (1981).

I.3.4 Establishment of the Health Care Export Partnership (DHSS/British Health Care Export Council) following a Rayner review of DHSS activities in support of exports. One of the aims of the Partnership is to foster the competitiveness of British industry in tendering for overseas contracts.

I.3.5 Rayner review of wheelchair procurement conducted as part of MPO's Whitehall-wide exercise. An action document is being prepared.

I.4 Pharmaceuticals

I.4.1 Review of the Pharmaceutical Price Regulation Scheme, rewarding efficiency and competitiveness.

II. "What actions are already in train in your field to promote competition?"

II.1. Private health care

II.1.1 Similar arrangements for community physicians as for whole-time consultants (I.1.3 above) to undertake limited amounts of private practice in addition to their NHS duties (agreed 1984; not yet implemented). There will then be no NHS doctors who may not undertake private practice to the extent consistent with their primary responsibilities to the NHS.

II.2 Contracting-out

II.2.1 Competitive tendering : health authorities are being encouraged to consider making greater use of specialist contractors for services other than cleaning, catering and laundry - eg transport, vehicle, building and equipment maintenance.

II.2.2 DHSS participation in inter-departmental consideration of scope for more contracting-out by local authorities.

II.3 Health Care Equipment

II.3.1 The Supply Council has promulgated the public purchasing guidelines to health authorities and has encouraged greater competitiveness by promotion of better customer/supplier links, full application of comprehensive "value for money" criteria and support for new products. It has also set a cost reduction target of some £60m over a wide range of NHS supplies which will sharpen competition among suppliers.

II.3.2 A recently completed Rayner scrutiny of NHS central stores policy will lead to more efficient purchasing and should provide, inter alia, increased competition among suppliers.

II.3.3 Extension of existing product approval schemes, increasing competition amongst approved suppliers, and extension of manufacturers' registration schemes based on GMP guides, aimed at improving product quality over a wider range of medical products.

II.3.4 The artificial limb service is to be reviewed. This is expected to include a review of artificial limb contracts and lead to greater competition between companies providing goods and services. In the meantime current contract negotiations with companies are encouraging more competition.

II.4. Health building

II.4.1 The current review of the NHS Works Function is considering ways in which alternative forms of building contract (eg turn-key, management, and design and build) might be introduced.

II.4.2 The Department is working in conjunction with the Inter-Departmental Committee on Professional Fees towards introducing fee competition during 1984 into procedures for the appointment of professional consultants engaged for building projects, eg Architects, Engineers and Surveyors. It is intended to phase in the new arrangements, starting with new construction projects in excess of £5 million, but eventually applying to all projects in excess of £500,000. Fees for smaller projects will in future be negotiated instead of taken from standard fee scales.

II.5. Professions

II.5.1 Opticians : Measures to break registered opticians' monopoly on the sale of spectacles and to remove restrictions on advertising are incorporated in the Health and Social Security Bill. These positive steps to promote competition and increase consumer choice will be taken later in the year.

II.5.2 Dentists : The Department has given the Office of Fair Trading information about the practice of the profession of dentistry and the development of NHS dental service. The OFT's interest was stimulated by the dental technicians, who seek to fit and provide dentures direct to patients and the OFT have also been taking a wider interest in the availability of NHS dental services.

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III. "What firm plans do you have to promote competition in your field in the next three years?"

III.1. HealthCare Equipment

III.1.1 Further extension of manufacturers' registration schemes.

III.1.2 Further action on limb and wheelchairs will emerge from the reviews mentioned at I.3.5 and II.3.3 above.

III.2 Professions

III.2.1 Opticians Following on from II.5.1 above, in April 1985 NHS supply of spectacles is to be removed from all but children and those on low income. NHS supply to these groups will later be replaced by a voucher system.

IV. "What further action could be taken to promote competition in your field in the next three years? Please specify the form of action required (eg legislative, administrative, voluntary, etc)."

IV.1 Health care equipment :

IV.1.1 The establishment of European GMP guides to complement the development of international standards, many of which derive from British standards. Exploratory moves have already been made and prospects are good for eventual administrative action leading to competitive advantages outlined in Cmnd 8621.

IV.2 Occupational pensions:

IV.2.1 DHSS is considering issuing a consultative document in the near future which would give employees leaving their employment and their pension scheme the right to request a transfer value and the right to have that value transferred to a pension plan of the employee's own choice. Not yet public knowledge. Legislative.

IV.3 Professions:

IV.3.1 Pharmacists: The Department has been reviewing the contractual arrangements under which retail pharmacists provide dispensing services. A working group of officials has identified competitive tendering as a possible means for deciding which pharmacists to enter into contract with.

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Because it is not clear whether this could produce greater competition and cost-effectiveness or could operate in the opposite direction and restrict competition and lead to the introduction of cartels, the matter has been referred to a firm of management accountants for independent advice. legislative.

IV.3.2 Dentists : Subject to what the OFT reports (II.5.2 above), there is one particular area where the General Dental Council's regulation of the profession seems, on the face of it, unduly restrictive and contrary to the interests of the patients. This is advertising. For example, GDC rules forbid signs at dentists' surgeries indicating participation in or abstention from NHS practice. This is an area where, without undermining the professional status of dentistry, there would seem to be scope for providing a better service to patients. This is, initially, a matter for the General Dental Council but if they were reluctant to take the necessary steps to implement public policy, statutory measures could be needed.

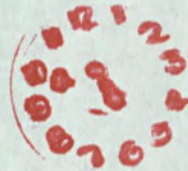
V. "What further action to promote competition in other fields would you like to see taken in the next three years?"

V.1. Health Care Equipment

Relaxation of the "rule", long enshrined in Government and public procurement practice, that a tender offer remains confidential to the parties to the offer. Disclosure of bids would be likely to sharpen competition in subsequent tendering exercises.

Exam Pol: Competition Policy Dec. 83

16 APR 1984





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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

30 March 1984

Dear Norma.

COMPETITION POLICY

file
with
AT

Nigel Lawson and Peter Rees have asked me to thank you for your letter of 17 February.

Privatisation is excluded from the exercise and we have undertaken to cover possible taxation aspects separately as soon as possible. So for the moment I can only suggest a few proposals for action where the Treasury is in the lead. I have not felt inhibited from putting forward a number of proposals for action in other fields, though some of them may also figure in the replies from the responsible Ministers. I think that trade policy, including both rolling back barriers and restricting export subsidies, has an important part to play in stimulating competitiveness and it is of course very much on the international agenda at the moment.

To avoid crossing wires we have not included measures to improve competition in the nationalised industries. These are to a considerable extent inextricable from privatisation measures and are already picked up in the periodic review of the privatisation programme that Ministers conduct or will come up as related issues.

I think it might be helpful if an attempt is made to distinguish between the effect proposals will have on competition and the effects greater competition will have if the proposals are carried through. This may help prevent the exercise from getting bogged down in too many minor proposals. If you agree, perhaps your officials could get in touch with mine to discuss this.

I am copying this letter to recipients of yours.

John Moore

JOHN MOORE

COMPETITION POLICY : PROGRAMME FOR ACTION

[NOTE: This annex excludes privatisation and taxation measures]

1. What action has Government taken in your field since 1979 to promote competition?

(i) Removal of controls

- (a) Exchange controls lifted.
- (b) Dividend controls abolished.
- (c) Pay and price controls abolished.

(ii) Contracting out

- (a) A wide range of services in Central Government and the National Health Service are already being contracted out. Further instructions have been issued to Health Authorities. A disincentive has been removed by arranging for the refund of VAT on contracted-out services.
- (b) Encouragement of contracting-out by local authorities.

(iii) Public Purchasing

- (a) Introduction of the GATT Agreement on Government Procurement which became effective on 1 January 1981. This increased the number of contracts which have to be advertised internationally, and extended the non-discrimination in the EC Directive to a number of other countries, notably USA and Japan.
- (b) As a consequence of the GATT Agreement and extension of the EC Directive to computers on 1.1.84, ending the Government policy of ICL preference in computer purchasing (although some preference is still given to ICL insofar as it is possible within the EC/GATT rules).

(c) The Public Purchasing Initiative, set out in the Treasury's Guidelines of March 1981. Departments are required to consider what action they can take through their purchasing to maintain and improve competition for their contracts.

(d) Measures taken in November 1982 to make it easier for small firms to compete for Government contracts, thus widening the degree of competition. The measures include exempting firms from qualification procedures for contracts under £5,000, allowing non-qualified firms to tender for non-urgent contracts and qualify after they have successfully won a contract, and a requirement on purchasing departments to review approved lists of suppliers more regularly and rotate invitations to tender more effectively.

(iv) Financial Institutions

(a) Abolition of the "corset".

(b) Changes in monetary control arrangements to enable interest rates to be determined to a greater extent by market forces.

(c) Abolition of hire purchase controls.

(d) The Authorities decided not to resist increased competition by banks with building societies in the provision of mortgage finance.

(e) Fiscal and other steps to enable building societies to raise funds on the wholesale money markets.

(f) National Consumer Council report on banking services.

(v) Fees and Charges

More competitive procedures for appointing agents, advisers etc have recently been introduced in privatisation exercises.

(vi) Civil Service Support Services

Rayner scrutiny of Civil Service Catering completed in September 1982.

2. What actions are already in train in your field to promote competition?

(i) Public purchasing

(a) Restriction of the use of Variation of Price (VOP) conditions to contracts which last longer than two years. This has already come into force for supply contracts, and discussion is underway with industry on extension to works contracts. Firms have been guaranteed reimbursement of the inflationary element in their costs for contracts lasting more than one year. The change will require them to quote a fixed cash price for all contracts up to 2 years' duration. In effect competitive tendering will cover the whole cost of the contract; and pressure will be put on contractors to hold down the price increase on labour and materials.

(b) Pressure on the EC Commission to take infraction proceedings against foreign Governments which practice protectionist Government procurement policies in contravention of the EC rules.

(c) A programme of Treasury monitoring of departments' implementation of the Government's public purchasing initiative to ensure that departments are taking the necessary action to promote the competitiveness of their suppliers.

(d) Arising from (c) action is being taken to ensure greater awareness

of the Government's purchasing guidelines, and to identify and take action on product areas where departments' purchasing across the board could improve the performance of the suppliers.

(ii) Financial institutions

(a) Stock Exchange: abolition of minimum commissions and other changes to encourage competition (DTI in the lead).

(b) Building Societies: work in hand towards a Green Paper on changes in building societies' legislation. A number of its proposals will allow improved competition with banks and others. It will also review the "advised rate" arrangements which last year took the place of the previous building societies cartel.

(c) Preparations for legislation to enable the Trustee Savings Banks to complete their transition to the private sector, where they will be free of special Treasury controls and able to offer stronger competition to other banks, building societies and other providers of financial services.

3. What firm plans do you have to promote competition in the next three years?

(i) Public purchasing

(a) The GATT Agreement on Government Procurement is being renegotiated in 1984. It is planned to use this as an opportunity to improve the Agreement to encourage more genuine international competition in public purchasing. The possibility of extending the Agreement to cover service contracts is being considered.

(b) Action is being taken to standardise the qualification requirements

for departmental approved lists. Standardisation has already been achieved on information required for financial and general qualification; the aim is to establish similar standard requirements for technical qualification.

(ii) Financial institutions

Enactment and implementation of measures described in 2(ii) above.

(iii) Civil Service Support Services

The Freeman report on CCTA recommends that departments should no longer be required to use the Agency exclusively for advice on information technology, but should be free to obtain advice from the private sector (and should pay for it).

Decision on tendering out of catering services is to be made by departments within the framework of the Government Statement 22 December 1983.

4. What further action to promote competition could be taken in your field in the next few years? Please specify the form of action required (legislative, administrative, voluntary).

(i) Public purchasing

(a) Greater use of open tendering. At present a very high proportion of contracts are let under a restricted procedure whereby only a limited number of suppliers/contractors are invited to tender for each contract from approved lists. Administrative.

(b) Wider advertising of contracts. A view-data project for advertising contracts is being considered by a DTI inter-departmental group. We could consider more generally whether departments make known their requirements sufficiently widely amongst potential suppliers.

Administrative.

(c) The EC/GATT exemptions, particularly in computer procurement could be interpreted more narrowly. Administrative.

(d) Review Board for Government Contracts. The rate of profit on MOD non-competitive contracts is reviewed (in future annually) by the Review Board. There is strong pressure on the Government to accept the findings of this independent Board. It is possible that the Government could obtain a better deal by negotiating directly with the contractors' representatives. Also, it is for consideration whether it is right to have one profit formula applicable to all MOD non-competitive contracts, or whether MOD should have discretion to negotiate or impose different rates in particular cases.

(ii) Financial institutions

(a) In banking services, future developments may establish a prima facie case for investigation and action on:-

- membership of clearing (now being examined officially by the clearing banks themselves) following the National Consumer Council report;
- the ability of those other than clearing banks to participate in EFT/POS developments; and
- whether technical standards for cheques, plastic cards, etc are being used to distort competition.

If examination and action become appropriate, OFT would be the obvious agent.

(b) As regards investment business, it is important that regulation of securities dealing following the Gower Report creates as little

impediment to free competition as is compatible with adequate investor protection. There is a balance to be struck here, as there is in other parts of the financial sector where regulation is imposed by Government or the Bank of England to protect the public from dishonest, imprudent or incompetent providers of financial services.

(c) Cartelised behaviour on issue of securities (eg standard sub-underwriting fees) may merit examination at some stage, if the changes in the Stock Exchange fail to disturb them. This might be handled by OFT.

(iii) Fees and charges

Review of basis of charging for consultancy etc services where Government is the customer.

Administrative.

(iv) Public Sector Support Services

(a) untying from PSA, HMSO and COI. Administrative.

(b) consider possibility of private sector auditors carrying out some work at present done by C & AG.

Administrative.

(v) Contracting-out

A requirement for Departments to seek competitive bids for a number of specified services. Administrative.

5. What further action to promote competition in other fields would you like to see taken in the next few years?

(i) Labour markets

(a) Labour market restrictive practices eg closed shop agreements. Case for establishing a Labour Market Commission analogous to MMC. Legislative.

(b) Remove unnecessary impediments on access to training and jobs, including those affecting professional activities such as law and medicine; those affecting apprenticeships and skill trades; and restrictions on work permits. Administrative/legislative.

(ii) Housing

(a) Move towards economic rents to public sector housing. Legislative.

(b) Split up local authority housing stock to reduce local monopolies of supply. Legislative.

(c) Revival of private rented sector after modification of present controls on renting and security of tenure.

(Under Ministerial consideration.) Legislative.

(iii) Civil Aviation

Review of international air service agreement and air treaties (eg Bermuda 11) to assess whether the UK should seek to liberalise them. Administrative.

(iv) Energy

(a) Auctioning of all North Sea licence blocks and reviewing the commitment to British technology as a criterion for

deciding between bids.

Administrative.

(b) Review the function and future of the Offshore Supplies Office. Administrative.

(c) Consider an MMC review of the oil industry, an oligopoly showing signs of cartelization. Administrative.

(v) Restrictive practices in the professions

(a) Barristers and solicitors : merge two professions.
Legislative?

(b) Removal of solicitors' conveyancing monopoly.
Legislative.

(c) Ending estate agents restrictive practices eg fee sharing, local restrictions on competition. Legislative.

(vi) Product markets

(a) Review ways to reduce distortions in product markets caused by subsidies eg agricultural capital grants and selective industrial assistance or by price fixing eg arrangements for marketing milk (including the role of the Milk Marketing Boards).
Administrative/Legislative.

(b) Improved information to consumers, for example about fat contents of foods. Legislative.

(vii) Removal of Laws, regulations, restrictions and other rules leading to restrictive practices in services sector.

- (a) resale price maintenance for books etc.
- (b) shop and pub opening hours.
- (c) BBC/ITV monopoly rights to programme listings.

(viii) Procurement Policy

- (a) Review the scope for departments (particularly DHSS, DNS, DVLC and Home Office), to use alternatives to the Post Office counters, in order to provide competition leading to improved efficiency of the Post Offices. This would raise major issues relating to the sub-post office network, which however is expensive, and justified largely by the DHSS work. Legislative/administrative.
- (c) Public sector building and civil engineering contractors claim that a high proportion of the supplies required to carry out their contracts can be obtained only from monopoly or near monopoly suppliers (eg in bricks, asphalt etc) whose prices they cannot challenge. Consider the case for an MMC review.
- (d) Review the civil aviation rules that preclude Departments from seeking competition amongst agents for their air ticket business, eg prevent departments from seeking discounts.

(ix) Quangos/public bodies

Continued development of more commercial organisation of Ordnance Survey. Administrative.

(x) Contracting-Out

Continue to encourage contracting out in NHS and local authorities. Administrative/legislative.

(xi) International trade

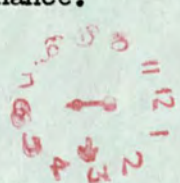
Competition in international trade is one of the most important ways in which competitive pressures operate in a large open economy, therefore:

(a) reconsider the need for existing trade barriers as part of the commitment to "roll-back".

(b) seek international agreement on reducing export subsidies, notably in the field of mixed credits; UK hopes to make specific proposals at OECD Ministerial in May and at London Summit.

(xii) ECCGD

Subject to conclusions of Matthews Committee, encourage private sector credit insurance or the development of alternative private sector sources of export finance.



20 MAR 1984



10 DOWNING STREET

1. AJC. Thank you. A.F.C. 24/3.

I am not proposing to put this into the Prime Minister just yet - it is one of a series of Departmental returns to a DTI exercise on competition.

Nevertheless you might like to see the M.D. response. Looks quite good on paper.

2. CF.

NBPM

AT 19/3



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

ND PM AF

16/3

CONFIDENTIAL

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

16 March 1984

COMPETITION POLICY

Thank you for your letter of 17 February about the Prime Minister's initiative on the promotion of competition. I attach a note which sets out our response to the questions annexed to your letter.

Where appropriate, the note touches on those food products whose marketing is subject to statutory measures. Particularly in the case of milk, for reasons that will be known to you, we are proceeding as agreed in Cabinet and therefore have regarded it as an issue to be pursued separately from, although in parallel with, this present exercise.

I shall be taking a close personal interest in the progress of the examination, but I suggest that Alex Fletcher should make contact with John MacGregor for further discussion. Mr Gordon Myers is the Under Secretary who is acting as focus here at official level.

Copies of this letter go to the Prime Minister, other members of Cabinet and to Sir Robert Armstrong.

MICHAEL JOPLING

CONFIDENTIAL

COMPETITION POLICY

FOOD AND DRINK PRODUCTS

Introduction

1. Articles 85 to 90 of the Treaty of Rome, which relate to rules on competition, apply to the production of and trade in agricultural products (defined as the products of the soil, of stock farming and of fisheries and products of first stage processing directly related to these products) only to the extent determined by the Council. The Council issued in 1962 Regulation 26 concerning the application of the rules on competition in agriculture. This Regulation provides that Articles 85 and 86 are not applicable to most agricultural agreements, namely agreements which form an essential part of a market organisation or concern the production and sale of agricultural products.

2. Although food and drink manufacturing and distribution in the UK are both relatively concentrated, they nevertheless constitute an area of intense competition. This is largely a consequence of the dominant position held in retail distribution by a few very large and highly efficient chains of multiple grocers who are competing vigorously with each other for market share and for the remaining available sites suitable for superstore expansion. However, volume is critical to the profitability of most food manufacturing enterprises; they are very dependent on maintaining the custom of two or three very large retailer buyers; and they are consequently subject to increasing pressure from those buyers. This has not yet developed to the point where manufacturers' margins are being subjected to intolerable pressures, but there does appear to be a growing imbalance.

3. The crucial issue for the next few years is therefore whether the continued fairly ruthless exercise of retailer power will undermine the ability of our food manufacturing

industry to compete effectively with overseas suppliers by depriving it of the necessary funds for investment in research and innovation, a particularly important consideration at a time of rapid technological change. This is an issue which the Minister of State for Trade is encouraging the Director General of Fair Trading to look into in consultation with the departments concerned and this paper does not pursue it further. But it seems likely to be the major threat to fair and effective competition in food manufacturing in the next five years.

4. Another important factor is the ease of entry into the UK food and drink market for overseas suppliers. Our highly efficient and centralised retail distribution system makes market penetration by imports into the UK probably easier than into any other Community country. This has the advantage from the competition point of view that it provides a strong spur towards greater efficiency for our manufacturing industry. But there are also elements of unfair competition underlying parts of this trade, for example anomalies in the operation of the Common Agricultural Policy (eg the unsatisfactory method of calculating monetary compensatory amounts on processed foods), which are not conducive to effective competition in the long run. The adverse trade movement since 1973 in some of the more highly processed foods such as sugar and chocolate confectionery and biscuits is one of the results. In terms of the benefits of competition outlined by the Prime Minister in her minute, there can be some short term gains for the consumer from such a development in terms of lower prices. But in the longer run the domestic industry will suffer, competition will decrease to the detriment of the consumer and our industry's products will be less able to hold their own on world markets, and these developments would be clearly contrary to the objectives outlined by the Prime Minister.

5. Against this background, the following are the answers to the specific questions posed in the Annex to the letter from the Secretary of State for Trade and Industry. It will be apparent that in seeking to identify ways to achieve more effective competition, we have in mind two main objectives - first, to increase competition, but, secondly, to achieve fairer competition.

Question 1

6. Last year the Government used the occasion of the revision of the Community regulations on exclusive purchasing agreements to seek and obtain an arrangement which will open up the longstanding brewery tie without undermining the economy of the public house system. Under the previous arrangements, tenants of public houses were severely limited in the range of drinks which they could sell and in the sources from whom they could buy. Under the new provisions, tenants can obtain a full range of drinks for which there is a reasonable demand and independent drink manufacturers and wholesalers will have greater opportunities to compete for sales to public houses.

7. The Government have recently reviewed the arrangements for market support of potatoes with the objective of promoting greater commercial competitiveness and giving further encouragement to better marketing in response to the requirements of processors and consumers. Changes in the financing of market support measures which were announced by the Government on 29 February will place greater responsibility on the Potato Marketing Board (and hence on producers) for meeting the cost of the Board's support buying operations. Since 1979 the UK potato market has been open to imports and British growers and processors are having to compete in terms of quality, variety and price with the imported product. Therefore, though potatoes are still a Government supported crop, the level of the guaranteed price and the value of Government support has been substantially eroded in real terms since 1979, so compelling producers to seek their returns increasingly through the more efficient marketing of the crop and in competition with imports.

8. So far as intra-Community trade is concerned, the Government have also made strenuous and continuing efforts to eliminate illegal national aids in the Community since these clearly inhibit competition. The previous Minister made a major issue of national aids during his Presidency of the Agriculture Council in 1982 although, since the initiative lies with the Commission, only limited progress was achieved. Similarly, we have supported measures in the Community to remove legislative barriers to intra-Community trade in foodstuffs. In particular we gave strong support to the labelling directive and were one of the few Member States fully to apply its provisions from the prescribed date. We have also, following the ruling of the European Court, opened up the UK market to competition from imports of UHT milk.

Questions 2 and 3

9. The major questions in the food and drink manufacturing and distribution sector are whether the concentration of retailer buying power will continue to increase, whether (either through abuse of a dominant position or otherwise) this will threaten to undermine the viability of food and drink manufacturers and whether consequently their ability to compete with overseas suppliers will be weakened. Preliminary investigation of this problem, and particularly of alleged abuses of buying strength, is being undertaken by the Office of Fair Trading.

10. Over the next three years it is hoped to make new Regulations on food labelling designed to provide improvements in information to the consumer, notably on nutritional aspects and on meat products. An informed consumer is obviously an essential element in effective competition.

11. The decision to open the market to imports of UHT milk has opened the way for the abolition of Government control of the maximum prices for liquid milk, which is no longer necessary now that consumers have available an alternative supply. The Minister of Agriculture has announced his intention of bringing these controls to an end by the end of 1985 at the latest and has opened

consultations with the interests concerned about the implementation of this decision. There has been considerable Ministerial discussion of the much wider question of whether any other changes are needed in our present system of milk marketing and the Minister of Agriculture has been invited in consultation with other Ministers concerned to examine future marketing arrangements for milk and to bring forward the results of the examination and recommendations for discussion by the summer or as soon as possible thereafter.

12. At the request of Ministers, the Sea Fish Industry Authority has prepared a fish market development plan which it is hoped to implement over the next five years. This will include a number of measures designed to improve competition in the fish market. In particular, consumer education should lead to greater consumer awareness in purchasing fish. Improved methods of rapid dissemination of market information should lead to more effective competition between ports and markets in the UK. The development of retail outlets for fish should lead to greater competition at the retail stage.

13. Where appropriate, the Ministry is continuing to pursue in negotiations in the Community the removal of artificial barriers to trade through harmonisation of food standards and to press for the removal of discriminatory taxation on alcoholic drinks, including prompt application of Court judgements, and for removal of illegal national aids.

14. The Ministry is examining jointly with the Department of Trade and the FCO the arrangements for imports of bananas to see whether there is scope for increasing competition without prejudice to our longstanding Treaty obligations to the Commonwealth Caribbean suppliers.

15. The Department of Trade and Industry are considering various aspects of competition in the professions. We are particularly concerned with the veterinary profession (which has reservations about the proposal to introduce advertising) and we have an interest in any proposals which are likely to affect that profession.

Question 4

16. Apart from the courses of action already referred to in answer to the preceding questions, there are various specific measures which could be taken to improve competition in the industry, although some would raise obvious difficulties.

17. The most striking would be to end the distortion of competition created by the retention of VAT on certain foods. This discrimination prevents, for example, producers of chocolate biscuits from competing effectively with producers of other biscuits, ice cream from competing with other desserts or soft drinks with fruit juices. The financial constraints and the problems in Brussels which make it difficult to make such a change are however recognised.

18. Another area where competition might be improved, but which would require legislation, is in sales of alcoholic drinks. There has been a marked switch in the pattern of consumption from pub to home as a result of the rapid growth in supermarket sales of alcoholic drinks. The constraints on competition by the public houses could be eased to some extent (without risk of increase in consumption, let alone misuse of alcoholic drinks, if experience in Scotland is any indication) by extending south of the border the flexible licensing hours which operate in Scotland, as was recently urged by the Food and Drink Manufacturing EDC. This would not entail any longer opening hours in total, but only the facility to adjust hours of opening to suit consumer needs. Different arrangements might be necessary to take account of differences between England and Wales.

19. We also need to take continuing action to redress the imbalance between the terms of competition under which imported alcoholic drinks are able to compete on our market and the obstacles with which ours have to contend in overseas markets both of third countries and the European Community. In the Community the Court provides some protection to our manufacturers but we have to contend with failure to comply with judgements, or compliance only after a long period. The legal and administrative devices adopted in other Member States make it impossible for our own industry successfully to combat these without help from Government.

Question 5

20. The agriculture and food industries are inevitably affected by the degree of competition in related sectors. The following are a few of the areas where action might prove beneficial:

- (a) Energy is frequently quoted by food and drink manufacturers as a sector in which freedom to compete would lower prices (although we of course recognise the counter-arguments). Manufacturers wishing to compete by generating their own electricity also complain particularly of the handicap of penal charges for the necessary standby arrangements with the national grid. The high charge fixed by a monopoly supplier ought to be reasonably based and not operate to discourage competition.
- (b) Companies which provide their own loading, unloading and handling facilities at the Port of London Authority docks complain that they nevertheless have to pay the full port charges. This discourages enterprise. Even more discouraging to competition is the lighterman's monopoly in the PLA which precludes companies from using their own vessels from Erith upstream. The fishing industry too suffers from distortions in competition from the operational inflexibility and higher costs in some of the larger fishing ports attributable to the Dock Labour Scheme.
- (c) The fruit and vegetable manufacturers complain that, in spite of the steel surplus, tin plate prices here are appreciably higher than overseas. Since cans account for half the cost of producing canned fruit and vegetables in the UK this inhibits their ability to compete effectively with overseas suppliers. It is not clear whether this price differential is due to the application of subsidies overseas or to exploitation by BSC of their semi monopoly position. Ministry officials have already suggested that this may be a subject worth further investigation.

Dec 83

- (d) UK manufacturers are dependent on the UK monopoly supplier of hydrogen (since imports are impracticable) and prices in the UK are substantially higher than those on the Continent. This is again an area which might merit investigation.

21. It is of course equally important to prevent the adoption of new measures which will distort competition and impede efficiency. The current proposals by the Greater London Council for restricting access of lorries to London could have a profoundly adverse effect on the food manufacturing and distribution industry in both these respects.

Ministry of Agriculture Fisheries
and Food
9 March 1984



~~CCND~~

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

MO 26/2

15th March 1984

COMPETITION POLICY

Thank you for your letter of 17th February. As you know, I strongly believe in the need for a drive to promote competition by all possible means. This programme has my wholehearted support and I have initiated action across the Department to further our objectives.

Answers to your questions are attached. I place particular emphasis on the need to achieve the maximum competition across the range of defence procurement, logistics and supply services. While competition is not new to the MOD, I have in the last few months launched a major initiative so that competition in equipment procurement is used to the maximum extent compatible with good sense and practicality. The reasons for not using competition need to be approved at appropriately senior level within MOD, and all cases involving over £10M will be considered by Ministers.

There are, of course, some major constraints on how far we can go along this road, arising from the nature of defence equipment and the structure of the UK's defence industrial base. Even in the USA, with its vastly wider industrial base and greater ability to afford competitive front-end financing, only 40% by value of defence contracts are placed competitively. To help secure an increase in the comparable



UK figure - 21% - I have decided to alter the terms on which we commit ourselves to production in our contracts with industry. As John Butcher is well aware from his attendance at the recent meeting of the National Defence Industries Council, industry is less than enthusiastic. But the changes we are carrying through are necessary to remove an unhealthy degree of automaticity that had developed in our affairs.

Competition in the defence industries is also being encouraged by removal of some 'preferred source' policies originally introduced to encourage the establishment of centres of expertise and the transfer to industry of some in-house R and D capabilities. Most have already gone and when the ROFs lose their preferred source status on incorporation under the Companies Acts later this year, we shall have seen the last of the formal inhibitions to competition of this kind. Some positive measures to the same end can be seen in the action we have taken to widen the opportunities of smaller suppliers to gain defence business both at the direct and sub-contract level.

A very significant recent example of the new policy is the decision on the production arrangements for the MCV80 armoured personnel carrier - a programme worth some £900M. This vehicle has been very successfully developed by GKN Sankey and the original intention had been to proceed on the basis of single source supply from GKN. However it has now been agreed that, although the firm will receive an initial production order, further orders will be open to competitive tendering by all interested and qualified manufacturers and these competitive arrangements will reflect back on the price which GKN will receive for the initial production batch. We are sure that the arrangements applied more generally will lead to lower costs, tighter timetables and sound products.

Outside the area of procurement, the other main contribution MOD can make to your programme is in moving in-house supply and support activities to the private sector. Apart from the privatisation programme for the ROFs, to which I have already referred, the MOD has been



progressively divesting itself of direct involvement in a wide variety of support activities, ranging from insurance, to office cleaning to aircraft servicing, by placing them with private organisations, almost invariably after competition. More can be done. I am determined that only those functions which it is necessary to carry out inside Government should remain in MOD if there are cost effective alternatives available in the private sector. In that way, we not only get better value for money but also, subject to the availability of alternative firms with appropriate capability, increase competition.

I am nominating Geoffrey Pattie as the Minister with whom Alex Fletcher should discuss the information given in this letter and its attachments in the first instance, though John Stanley leads on the activities outside the procurement field. John Miles, Head of IP1 (Tel: 218 6158) will be the contact point at official level.

I am send a copy of this letter to the Prime Minister and to Sir Robert Armstrong.

Yours truly

Michael Heseltine



QUESTION 1 What actions has the Government taken in your field since 1979 to promote competition?

PROCUREMENT EXECUTIVE

Procurement Procedures

1. The use of competition to obtain value for money is a fundamental principle of MOD contract practice. Since 1979 emphasis has been put on the need to maximise the proportion of defence procurement subject to competition, within the limits imposed by the specialised nature of defence equipment and the structure of the UK defence industrial base. This is an integral part of MOD's programme of action to obtain increased long term value for money and to help our defence industries to compete in the international market as has been outlined in the Open Government Document DOGD 1/83 "Value for Money in Defence Equipment Procurement". An indication of the effect of this programme is that the proportion by value of MOD contracts placed by competitive tender in 1979/80 was 14%; by 1982/83 this had risen to 21%.

Preferred Source Policies

2. A number of arrangements limiting the procurement of certain ranges of defence equipment to particular suppliers or groups of suppliers, have been discontinued. For example the "Leitch" policy which restricted procurement of fuzes to 5 contractors was formally discontinued in 1983 and two hitherto preferred contractors - Plessey for sonars and BAe/Sperry for mine counter-measures - are now required to compete for defence contracts in these fields.

Small Firms

3. A number of steps have been taken to widen the opportunities for small firms to compete for defence contracts. The booklet 'Selling to the MOD' produced last September gives information about MOD procurement and contracting procedures. It is designed especially for firms who are newcomers to this area. It contains a list of contact points to which they can turn for help and advice. The requirements for assessing firms for the Defence Contractors list are being harmonised with those of other Government Departments and assessment dispensed with for the large number of contracts which are under £5000 in value or placed under local purchase arrangements.

Contracting out of R&D Support

4. A significant proportion of the support work in R&D Establishments including the running of some major facilities and ranges, has been contracted out, in most cases competitively, since the Strathcona Report. This programme is continuing.



SERVICE DEPARTMENTS

5. The extension of competition into a range of support activities and services has been encouraged by audits and reviews under the Rayner programme as well as by introducing it as a theme in conferences and training courses. Pressure on civilian manpower numbers has also encouraged the services to examine their support area for tasks which can be contracted out. As a result a range of activities has been opened to competitive tender. Examples include:

- a. Cleaning; contract cleaning has been progressively introduced across all three service departments since 1979. Contracts now cover 83% of the MOD cleaning task and almost all are let competitively. 5,800 posts and £12M pa has been saved.
- b. Insurance; from April 1982 contracts were let with brokerage firms (for a 3 year experiment) for insurance against traffic accident and employers' liability claims;
- c. Supply arrangements for non-warlike stores have been examined and as a result of a competitive tendering exercise the defence accommodation stores depot at RAF Quedgeley and the Air Publications and Forms Store, Woolwich are to be managed by contractors with effect from 1st September and 1st October this year respectively. The former will save 370 posts and the latter 66.
- d. Aircraft Servicing is subject to a continuing process of scrutiny. The servicing of army flying training aircraft at Middle Wallop has been contracted out for some years and steps are now being taken to promote competition for the tender covering this and other services which is to be re-let in July this year. It was decided in 1983 to transfer major servicing and refurbishment of Canberras and Hunters to industry; tenders are being sought for contract support of University Air Squadrons and Air Experience Flights and a trial contract is to be let this year for the support of one Basic Flying Training School.
- e. The refit of Royal Fleet Auxiliaries and of the majority of Army vessels is now put to competitive tender with British industry.
- f. An increasing amount of army driver training has been put out to contract, and the RAF propose to expand the use of civilian driving schools for Group A ordinary licence training later this year leading to savings of about £½M and 55 posts.
- g. Contract catering has been introduced at some service establishments on a competitive basis.
- h. A substantial proportion of office equipment, supplies and services has been opened to competitive tender.



QUESTION 2 What actions are already in train in your field to promote competition?

PROCUREMENT EXECUTIVE

Procurement Procedures

1. A major drive to exploit any further scope which exists for the application of competition whenever sensible and practicable has been put into operation. Ministers have issued instructions, the main features of which are as follows: Staff have been instructed:

a. to secure maximum competition-having regard to value for money - at the early stages of projects in order to ensure the best available choice of concepts and to stimulate innovation.

b. at the development and production stages to secure a competitive situation wherever possible. Arguments for awarding the first tranche of production to the development contractor are to be carefully scrutinised. For later production orders the presumption will be that these will be the subject of competition. The necessary re-negotiation of some of the conditions used in defence contracts is in progress with industry but meanwhile the policy is already being implemented case by case.

c. that for proprietary items, competition should not be dispensed with until staff have satisfied themselves that there are no competing equipments which would satisfy the requirements.

d. to obtain authorisation at the appropriate level for any decision to dispense with competition. Cases over £10M or which are controversial are to be referred to Ministers.

e. to make clear to prime contractors that they are expected to exercise effective competition to the maximum possible extent in negotiating sub-contracts and in determining whether work should be done in-house by themselves, or by an outside contractor. Prime contractors are expected as a matter of course to set out the steps which they have taken to secure competitive prices for sub-contracts. A code of practice for prime contractors relevant to competition at the sub-contract level is being developed.

f. to set up a monthly statistical return for Ministers to monitor progress in increasing the use of competition.

Civil Exploitation of Defence Industrial R&D

2. The means by which innovations made in industry in the course of MOD funded R&D programmes can most effectively find application in the wider civil market are under discussion between MOD and industry. Possibilities include:



- a. a change of ownership of Intellectual Property Rights from (as now) the contractor to MOD, to facilitate licencing to other companies (including small, innovative firms) who may be better able to exploit them.
- b. an alternative arrangement set up by industry to achieve the same result.

SERVICE DEPARTMENTS

3. The pressure described in the response to question 1 has been intensified and has featured in MINIS. Firm plans for the promotion of competition include the following:

- a. the refit of two warships is to be placed to contract with British industry to establish comparability with the Royal Dockyards.
- b. it is intended to contract out more than 30% of army equipment repair in the UK. Competitive tenders in this area will be an integral part of the developing strategy on the Army's workshops which currently handle £76M of REME repair work (86% of the total). Territorial and isolated regular units are to be given budgets for contracting out more vehicle repair and servicing to local garages.
- c. in the Royal Navy tenders are being sought to test the cost-effectiveness of contracting out sample support activities, currently done in-house, eg, marine services at Falmouth. It is likely that tenders will be sought for other activities later in the year.
- d. contract catering and gardening are being extended in Service establishments and progress is to be regularly reviewed by Ministers.
- e. the costs of all in-house services in the reprographic, printing and office machinery areas are being compared with the private sector resulting in an increase in the ranges of work subjected to competitive tender.
- f. Service training is under study by a group chaired by the Parliamentary Under Secretary of State (Armed Forces). The scope for competition is being examined particularly in ADP and driver training. An increasing proportion of basic driver training is now subject to competitive tender; tenders for a trial of contracting out HGV driver training to commence later this year are currently being assessed and more ADP training is likely to be put out to contract. A trial of contracting out guard dog training has been unsuccessful.



g. following a report on machinery maintenance at RN shore establishments plans are being developed for a significant part of this £40M task to go to contract.

h. recent experience in putting a helicopter refinishing task to competitive tender has encouraged the RN to put more of this work out to tender.

i. a trial of contracting out the provision of dental technician services is to commence next month.

j. The £33M annual buy of Royal Navy general stores currently placed with single source/proprietary suppliers is being thoroughly examined with a view to extending the range of items which can be subject to competitive tendering.

k. as a continuation of the policy of contracting out more aircraft servicing and repair, Ministers have decided that deep servicing of Nimrods is to be opened to competition.

l. Movement. All air charter contracts which can be are now subject to competitive tender. Action is in hand to put the Army's movement of freight (currently done by British Rail and the National Freight Corporation) to competitive tender next year.



QUESTION 3 What firm plans do you have to promote competition in your field in the next 3 years?

PROCUREMENT EXECUTIVE

Procurement Procedures

1. Implementation of the policy initiative outlined under question two.

Preferred source policies

2. The Royal Ordnance Factories are a preferred source for ammunition, explosives, guns and heavy armoured vehicles. This policy is already being phased out in the light of their forthcoming change of status and will be formally cancelled when the ROFs are vested as an organisation operating under the Companies Acts. This is planned for October. It has been decided to discontinue the policy of limiting procurement of Special Microcircuits to three contractors.

Civil Exploitation of scientific innovations at Defence R and D Establishments

3. Plans are being worked up for a group of entrepreneurs with access to venture capital to sponsor individuals to work up a portfolio of ideas exploitable in the civil field, based on work at a number of MOD R and D Establishments. It is expected that the results will often be exploited by the smaller innovative firms, increasing competition in high technology industry.

SERVICE DEPARTMENTS

4. a. It is intended to solicit competitive tenders for a range of support tasks normally carried out in-house or by single tender action. Many of these have been mentioned already; they include vehicle and machinery maintenance, catering, engine repair, aircraft servicing and the production of training films.
- b. It is hoped to increase commercial interest in tendering and sharpen the competitive edge by reducing the complexity of MOD requirements whilst imposing tighter delivery schedules.
- c. A management audit of the Royal Marine Auxiliary Service is to take place this year. The scope for providing these harbour and sea range services, currently costed at £102M, by competitive tender will be included in the study.
- d. The scope for introducing competition into the whole area of production, storage, management and distribution of printed matter will be examined.



e. Contractualisation of more storage depots will be examined. Scope at warlike stores depots may be limited, but examples of areas which are being examined are the RN helicopter repository at Wroughton and the supply and storage of gases to the RAF from Cardington.

f. MOD will be endeavouring to take advantage of the entry of Mercury into the telecommunications market.



QUESTIONS 4 AND 5

SERVICE DEPARTMENTS AND PROCUREMENT EXECUTIVE

- a. Continuation of the themes in 1, 2 and 3.
- b. Subject to revision of MPO guidelines it may be possible to put more security guarding tasks to competitive tender.
- c. The Army is conducting a study of its supporting Corps which may result in more tasks being contracted out. The other services have similar work in hand and will be considering, for example, the scope for competition in bird control at airfields and repair and maintenance of simulators.
- d. Lifting of the embargo on selling ships for scrap abroad may be considered.
- e. The scope for increased use of the private sector will be a consideration in a major study into the Defence Medical Services.
- f. Ministers hope to see a considerable increase in the quantity of repair and maintenance work in the RAF training, communications and support aircraft fleet put out to contract and will be paying particular attention to the prospects for contract servicing if a decision is taken to order a new basic trainer.
- g. Army districts are due to report next month on the scope for widening the use of the private sector for administrative transport in peace and transition to war.

Econ Pol. Dec 83

Competition Policy

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AT 29/2

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

28 February 1984

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Handwritten signature of Norman Tebbit in cursive.

COMPETITION POLICY

You wrote to me on 17 February explaining how you propose to carry forward this exercise. We have, of course, taken a number of important steps already such as the abolition of exchange, price and dividend controls but I am in no doubt that we need to make strenuous efforts to develop an effective programme of action, as you suggest. I very much agree that we should be prepared to look at radical proposals, even in cases where they have been considered previously.

We shall certainly want to look at taxation aspects of competition policy. It would clearly not be sensible for me to provide any material on this in advance of the Budget but I shall let you have a separate note as soon as possible thereafter.

I shall take a close personal interest in this work and have already set action in hand. As the Prime Minister envisaged, John Moore will handle the exercise at Ministerial level; Nick Monck, the Deputy Secretary responsible for competition policy matters, will be the contact point at official level.

I am sending copies of this letter to the recipients of yours.

NIGEL LAWSON

Handwritten signature of Nigel Lawson in cursive.

econ for 12/83

Compet = for

12/83



29 FEB 1984



JF5807

Secretary of State for Trade and Industry

✓ NO

NDRM AF 28/2

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

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27 February 1984

The Rt Hon Viscount Whitelaw
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

D. Willie.

COMPETITION POLICY

Thank you for your letter of 21 February.

2 The point you make is well taken, and I agree with it. I very much regret the leak which appeared in the 'Sunday Times' on 19 February, which was, of course, ill-informed but contained a sub-stratum of the truth. We shall need to take special care during the rest of the exercise.

3 I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

NORMAN TEBBIT

econ for Dec 83
Competition Policy

28 FEB 1984
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②

PRIME MINISTERCOMPETITION POLICY

To note Lord Whitelaw's nervousness. I think a distinction could be made between the farmers and the professions. On the latter Mr. Tebbit and Mr. Brittan have gone on record as supporting a 'without fear or favour' approach to the professions. It is not clear to me that this is such bad politics for the Government as evidenced by the leader in the (FLAG A) Mail on Monday. The trick is to present the Government, not as attacking professions, but as defending the interests of customers. The farmers, who might be the main cause of Lord Whitelaw's concern, need to be handled with rather greater care.

AT

M

22 February 1984

Conservative Party file

A.T.



CONSERVATIVE PARTY NEWS SERVICE

Press & Public Relations
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Conservative Central
Office.
32 Smith Square,
London SW1P 3HH

THE RT. HON. LEON BRITTAN, Q.C., M.P.

Release Time: 10.20 Hours/TUESDAY
21st February, 1984

118/84

Speech by the Rt. Hon. Leon BRITTAN, Q.C., M.P., (Richmond),
Home Secretary, to the Annual Convention of the Institute of
Directors at the Albert Hall, London, on Tuesday, 21st February 1984.

THE RADICAL APPROACH

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/...

A Radical Government

It is about radicalism that I want to speak to you today. The Conservative Party's media critics, between frenzied bouts of banana skin analysis, have hit on a new theme. The Government, we are told, is riven between radicals and so-called consolidators; the former champing at the bit to abolish the welfare state, the latter replete with traditional wisdom, holding them back. It may be boring to say so but that picture is totally false. And so is the dichotomy between radical policies on the one hand and policies which are aimed at consolidating the political and economic ground which has been won on the other. The reason is quite simple; it is that unless Governments are prepared to be radical in their approach the only thing they finish up by consolidating is the public sector.

This Government is a radical, reforming Government; and long may it remain so. Political success for the Conservative Party has always followed radical renewal. And political failure has followed from refusals to take risks, not from a forthright commitment to long term objectives. In the 1950s we proclaimed the need to 'set the people free' - and we won. In the late 1970s that commitment to freedom was robustly proclaimed anew by Margaret Thatcher - and again we won. This time the fruits of victory have proved durable. For the main achievement of Margaret Thatcher's Government has been to change for ever the terms of the debate about Britain's future. That change is not just important for the political parties. It is not just important for business and for everyone in this Hall. It is crucial to Britain's prospects and prosperity in the years ahead.

2. Turning the Tide of Collectivism

Forty years ago Professor Hayek dedicated his famous 'Road to Serfdom' "to the Socialists of all Parties". How right his gloomy predictions came to seem. As he put it, 'scarcely anybody doubts that we must continue to move towards Socialism, and most people are merely trying to deflect this movement in the interest of a particular class or group'. Over the intervening years it became so much assumed that it was barely even asserted that growth could only be induced by industrial planning and

/demand

demand management; that the role of Governments was to fine tune the trade-off between unemployment and inflation; and, most sinister of all, that social and economic peace could only be achieved through the spoils system of corporatist collaboration. The wisdom of markets would be replaced by the wisdom of the bureaucrat and the politician. And even the growing evidence of relative economic decline persuaded those in charge of the nation's affairs not that their assumptions and approach were wrong, but that decline itself, and probably absolute decline at that, was inevitable.

What a contrast if you look around you now. Where, we may ask, are the 'Socialists of all Parties' now?

Who now seriously believes that Government, through pulling monetary and fiscal levers or through planning and controls can permanently change the real world in which we have to live? Who now seriously argues that a bigger public sector and more public spending offer our best chance for social and economic progress? Who seriously thinks that workers can strike their way to higher pay settlements without pricing themselves and others out of jobs? Of course, some think these things, or at least pretend to. But those who do can rarely be found within those circles of informed opinion where but a few years ago their views would have been the consensus.

Or, again, outside the economic sphere, take yesterday's Socialist certainties in education. Does anyone seriously believe that ever more costly forms of social engineering in the classroom and suppression of selection in and choice between schools produce happier, more capable children?

Or in housing: who, walking through one of our vandalised, high-rise inner city council estates believes that yet more public ownership, more state subsidy and more Government planning are the answer to deprivation there?

The same sea-change of opinion, so fundamental and so swift as to pass almost unnoticed, has occurred abroad. Looking at the present

/actions

actions of foreign governments originally elected to spend, borrow and plan their way out of recession, Hayek today might be tempted to re-dedicate his book not to the Socialists of all Parties but to the Conservatives of all countries.

A new international consensus exists on the need to control Government spending and borrowing, to encourage profits and to make markets work. Successive international summits have recognised it - and the British experience is being followed closely. Just a few years ago our Medium Term Financial Strategy was the butt of lethargic jocularities at every fringe meeting at the Conservative Conference. Now, however, the example of the MTFS is studied and followed by Governments at Conferences of a rather different sort. West Germany and Holland have medium term plans to tackle their government deficits. And there is growing pressure to adopt a similar approach in the USA.

What lies behind this sea-change of opinion and policy is a mixture of necessity and conviction. To deal with necessity first.

It is all too easy now to forget how near the abyss Britain came when collectivist policies were last pursued. Massive over-spending, over-borrowing and an almost total abdication of financial responsibility induced in 1975-76 a crisis of confidence which only humiliating IMF intervention could allay. A more long drawn out crisis of labour relations fuelled by high and rising inflation, increased trade union power, and the internal politicking of the Labour Party undermined Britain's ability to compete. Government Ministers stood on the notorious Grunwick picket line. And in the winter of 1978-9 the ugly - and accurate - face of the collectivists' allegedly compassionate and caring society broke through again as hospital patients went untreated and the dead lay unburied. Public revulsion against all that will not easily be erased by public relations stunts and offering to send back the Elgin Marbles.

Internationally too the combination of inflation and unemployment brought home to Governments the need to curb collectivism - and above all the need to curb the growth of public spending. By 1981

Real public spending in the seven largest OECD countries was about 2½ times as great as in 1960; and it had been growing at some 4½% a year. Public spending on social security, pensions, health and education were the fastest growing items. Other countries had to realise that those trends had implications for taxation, growth and employment which many would consider profoundly unacceptable. The publication of our own Green Paper on long term public expenditure will allow those who share that perception to engage in debate those who manifestly still do not.

3. Markets as the Engine of Progress

But the new consensus also represents a new conviction. That is something which we must not hide. It is that the pursuit of equality through collective action creates poverty, injustice and often corruption and oppression. At the heart of liberal Conservatism and the social market economy is a belief in the individual's ability to better himself and, through the market, to better others too. That is why the most important single long term goal of this Government must now be to make markets work.

That does not mean that we should ease up in our attempts to create a solid, enduring framework of laws and sound money in which people and companies can thrive. Far from it. The fight against inflation must go on. And, as was demonstrated during the appalling scenes of violent picketing at Warrington, the rule of law must and will be upheld whenever it is challenged.

It does mean, however, that wherever markets are not working properly they must be reformed. Wherever the effects of markets can be simulated within the public sector, they must be. And, above all, where the private sector can legitimately challenge, supplement or acceptably replace the public sector it must.

The market mechanism, properly regulated, is and always has been the great engine of political, social and economic improvement. The way in which market forces can be brought to bear throughout

/the economy

the economy will be different from sector to sector. But there should be no doubt that if markets in Britain worked better we would have more, well paid employment, better prospects for sustainable economic growth and higher quality health care, better pensions and improved education.

4. Ending the Patronage State

One thing is clear. No-one can ever make markets work while more and more people have a vested interest in stopping them do so. The patronage state extending its tentacles of dependence into every area of our national life has no place in modern Britain. That is why it is so important to reduce the size of Government. Our Civil Service is now smaller than at any time since the War. Over 400 Quangos have been abolished. The frontiers of state ownership in industry are being rolled back. Argument upon argument about privatisation has been or is being layed to rest. First we were told that nobody would buy businesses or assets in the public sector; not only have people done so, employees have done so, thousands of them. Then we were told that the so-called 'natural monopolies' had to remain fully and permanently in public ownership. Telecommunications was regarded as one such - until someone discovered that the scope for competition and then private ownership under public regulation was real and the potential pay off enormous. To how many other 'public utilities' does this apply? Similarly, economists and politicians have together over the years contrived to define great areas of our public services as synonymous with the provision of 'public goods' which markets could never adequately supply: that must surely be open to challenge too.

There can be no doubt that it will always be difficult to introduce or replicate the benefits of competition and the market within the public sector. But try we must. And try we will. Take local government.

Local government is not as some would have us believe simply one elderly root of the ancient tree of British liberties. It

/certainly

certainly has a vital part to play in our national life. But it is also a large part of the public sector - and its spending has so far proved uncontrollable. I do not need to remind you today that some £4½ billion is levied in rates from British businesses: rates are the biggest single tax on companies and the only one which has risen - by one quarter - in real terms since 1978-9. Sometimes, as in the rate capping provisions of our Rates Bill, to which the Institute has lent its valued support, we have to use the power of the state to tame the state, so as to emancipate the individual. But along side that we must pursue, and indeed are pursuing, a vigorous policy of encouraging the extensive contracting out of local government services which can be performed more cheaply and efficiently within the private sector. In just one small area of local government activity - refuse collection and street cleaning - at least £7 million a year of rate payers money is already being saved by contracting out. Competitive tendering for health authorities' support-services will yield savings which can be used for patient care. Similarly, the contracting out of the ancillary functions of central government is proceeding apace. Our aim must now be to bring private enterprise and the market into the heart of Government itself.

5. More Choice in the Public Sector

Any attempt to talk about the need for market disciplines in health, education and housing frequently inspires hypocritical howls of execration. But market conditions can in some measure be created within the present structures of public services. To deny any possibility of sensible discussion of the scope for more choice, more personal responsibility and a market approach in whole tracts of the public sector would be to deny any possibility of change or improvement. In no other country in the free world would it be impossible to discuss these matters coolly; and it must not become so here.

The actions taken by this Government in health, education and housing all demonstrate how such improvements can indeed be made. In the National Health Service, Norman Fowler is planning to introduce changes which will lead to tighter management and to cost centres

analogous with those which would apply in the market sector. In education, parental choice between schools has already been widened by the 1980 Education Act. The publication of examination results is one way in which the operation of that choice is being improved. It may well be that there are other ways in which schools could be made cost centres with responsibilities for self management. We are also creating new pressure for higher standards by putting vocational education into the market place. The MSC will act as a customer, able to choose between vocational courses, both public and private. As a result, local authority colleges of further education will have to compete for funds from the MSC, with one another and with the private sector. And finally, housing. Greater strides towards a property-owning democracy and greater social and economic mobility have been made in this area than in any other. More than 600,000 households have bought their public sector homes and more than 120,000 sales are in the pipeline. Further incentives are to be provided under the Housing and Building Control Bill. Mobility within the public sector of housing is being improved. But there is undoubtedly much to do if we are to revive the market in private rented housing - and nothing could be more valuable in improving labour mobility and so tackling one of the root causes of unemployment. In no area of the British economy has the stubborn collectivism of the Labour Party wreaked such havoc as this.

6. Competition and the Professions

Nor should the professions remain unnecessarily sheltered from the stiff breezes of competition. Proposals to improve competition in conveyancing were announced last Friday. The City and the Law Society are also opening up their practices to more competitive pressure. Competition must apply irrespective of vested interests in the private and public sectors alike in whatever form best serves the customer's interests.

7. Reforming the Labour Market

Nowhere, though, would improvements in markets reap surer or more welcome rewards than in the labour market. A more efficient labour

/market,

arket, allowing workers to price themselves and others into rather than out of jobs, would make the single most important contribution to tackling the scourge of unemployment.

For years trade unions in Britain have sought to collectivise the economy. From the top, through pressure for nationalisation, planning agreements and legislative changes to reinforce their powers. From the bottom, by constant pressure to widen union membership - and in particular through the application of the iniquitous closed shop.

The whole sorry process has been self-defeating - but it has been a defeat in which all of us have lost. The inflation, price controls and nationalisation which were the quid pro quo for 'voluntary' incomes control under the Social Contract and its predecessors almost fatally undermined our ability to compete. And the very conditions which unions demanded from Government - above all, high spending, inflationary policies - prevented union leaders themselves from delivering wage restraint. In a vicious circle of alternate confrontation and collaboration unions and Labour governments systematically and spectacularly destroyed the British labour market and sowed the seeds of today's high unemployment.

Nothing is more nonsensical than the claim that the law has no place in industrial relations. It does; it always has; and it undoubtedly always will. Unions are creatures of law. Since the start of this century their leaders have lobbied, often successfully, for changes in the laws which govern their activities, in the direction that suited them. Our two Employment Acts are not different in kind. But ours are measures designed to redress the balance of power between employers and employees, those in unions and those outside them, those who hold jobs and those who seek jobs. As such they are both necessary and legitimate.

Yet ultimately it is up to the unions to recognise that the irresponsible misuse of their power both to force up real wages and to impose unionisation on those who do not wish it leads to more unemployment. The clear lesson from the United States is

/that where

That where labour costs are lower and where mobility between jobs is greater, more jobs come into existence - jobs in firms and industries often undreamt of a few years earlier, jobs in franchising, or growing self-employment. Like our counterparts abroad, we now, more than ever before, have to recognise that change is necessary, not resistable; that technology ultimately creates more wealth, better standards of social provision and more well paid jobs; and that it is not those who reject but who welcome change that gain from it.

Finally, the scope for making markets work as a route to prosperity, social improvement and fuller employment extends far beyond these shores. Whatever else it is to be, the European Community must become a genuine Common Market. Yet too many non-tariff barriers remain. Europe is still far from an open market in important services like insurance and civil aviation. Equally, the defence of the world's open trading system upon whose maintenance our and others' prospects of sustained recovery ultimately depend must and will remain a fundamental objective of our foreign and economic policies.

8. The Conservative Party as a Party of Reform

I began by saying why this Government is and has to be radical. And I have tried to sketch out across a wide canvas the areas where our radical market approach is and will be at work. I would like finally to lay to rest two damaging illusions, less likely to be shared by those in this Hall than those outside it, but pervasive all the same.

The first is that the Conservative Party should not be a Party of reform at all. To that I answer that there have always been two parts of the Conservative message of freedom and two historical though interwoven threads of Conservatism itself. On the one hand, we are rightly sceptical about short cuts, easy arguments, belief in changing institutions rather than in changing minds; we are in short conservative with a small 'c'. But it is no less true that we have inherited from the liberal tradition a belief in the capacity of individuals, families and businesses to change, improve and if necessary triumph over their environment. That
/optimism

optimism is the vital, vibrant quality which we share with the men and women whose skill and enterprise provide the wealth upon which this country lives.

Together we have, therefore, to dispel the second set of illusions about markets. We who believe in markets are not ideologues pushing an idea for its own sake. We believe in markets because we know they offer the prospect of real social and economic improvement. We know that markets can and must be combined with good social services and that only a successful market economy can ever pay for them. We are not advocates of 'laissez faire' for we understand that Governments have to be strong to maintain the financial framework and the rule of law required to make markets work. And Governments must be strong enough too to intervene vigorously when necessary to ensure that competition within markets is effective.

It is this brand of 'radicalism' that Britain needs.

We have sought to provide it. We shall continue to do so. The radicalism of yesterday is fast becoming today's consensus. But there is a long way still to go in the journey of practical exploration on which we embarked in 1979. Our task now is to proceed with all deliberate speed further down this road.

ENDS

COMPETITION

RESTRICTED



FILE

107

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

COMPETITION POLICY

Thank you for your minute of 20 February (A084/576). The Prime Minister is content that the Minister of State for Defence Procurement, Mr. Geoffrey Pattie, should be added to the new Sub-Committee on Competition Policy.

E. E. R. BUTLER

21 February, 1984

RESTRICTED



~~CENO~~

→ CC BI

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

21 February 1984

Dear Norman

COMPETITION POLICY

Thank you for your letter of 17 February.

I very much appreciate the value of the exercise which you are undertaking, though I do not at present wish to suggest any particular candidates for action. You propose that the exercise should range very widely; no doubt that is right, but I do hope you will not give publicity to it until we have reached some preliminary conclusions on what scope there is for real action. There is otherwise a risk that we might excite apprehension - which could prove ill-founded - in a wide sector of the community from which the Government draws its support.

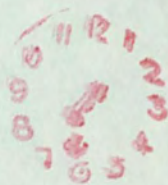
I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

Yours
L. Tebbit

The Rt Hon Norman Tebbit MP

ECON POL: Competition Policy: Dec 1983

2 1984





Prime Minister

This looks sensible.

Agree?

Yes ✓

FERS

20.2.

Ref. A084/576

MR BUTLER

Competition Policy

The Ministry of Defence have asked whether it would be possible to add the Minister of State for Defence Procurement, Mr Geoffrey Pattie, to the membership of the new Sub-Committee on Competition Policy. They point out that the Ministry of Defence is a very large customer of British industry, and as such may well be able to contribute to the discussion of policy to promote competition.

2. I should be glad to know whether the Prime Minister is content that we should add Mr Pattie to the membership of the Sub-Committee.

RA

ROBERT ARMSTRONG

20 February 1984

20.2.84

PAGE 6

Daily Mail COMMENT

Giving customers what they want

NOT CONTENT with smashing the opticians' restrictive practices, the Government is now committed to busting the solicitors' monopoly of conveyancing.

But this may be only the beginning.

The words from Downing Street are that, after having to be prompted into following her true instincts in this matter, the Prime Minister is beginning to warm to her work.

Though she eschews gimmickry and despises the notion that politics has to be some kind of novelty bazaar, she well understands that banging away with relentless persistence at the same old targets can be very boring.

Prime Ministers, the second time around, have to learn some new tunes.

This theme—mounting as vigorous an anti-monopoly drive against the professions as against the unions—could prove both popular and catchy.

In putting the customers first (which is what this is all about), there are even signs that Mrs Thatcher may be nerv-ing herself to take on the farmers.

Now that really would be something. For if the middle-class professions are entrenched in Parliament, then the farmers have always had their broad-acred friends comfortably seated round the Tory Cabinet table.

True, farmers are highly productive and hard-working. But the tax privileges they receive and the prices they are guaranteed make agriculture the most highly subsidised industry in Britain.

Run the gauntlet of the vested interests and give the customers what they want... in her heart Mrs Thatcher must know that is a campaign tailor-made for her gutsy service-with-a-smile style of Premiership.

THEY'RE
THEY AC

THE Chesterfield by election is being presented as the crucial test for the Labour Party.

Everybody seems to have forgotten that it could also be the beginning of the end for the SDP/Liberal Alliance and its two party leaders Dr David Owen and Mr David Steel.

If they cannot sparkle in Chesterfield, and if their candidate, Mr Max Payne, cannot prove a real threat to Mr Tony Benn, then the Great Crusade could be over almost before it has begun.

At the General Election there was a great huff and puff about how the Alliance could be the real Opposition this time round. When they polled 7.8 million votes to Labour's 8.4 million, it seemed to be on. This was to be the benefit Parliament, you remember, for the two boy Davids.

But since then the Alliance has faded almost to the point of invisibility.

A need for zeal

To the dismay of the seven million people who could not bring themselves to vote Labour or Tory when they walked into a polling booth last June, the Alliance parties are letting Britain drift back into a pattern of two-party politics.

It was always going to be difficult. Second place in 314 constituencies looks good in academic studies. But between elections the whole focus of politics is on the Commons. And with just 17 Liberal MPs and a mere six SDP members there, the odds are stacked against the Alliance.

But if the two parties believe their own propaganda — and no-one else will believe it if they don't—they have got to overcome those odds by some means.



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DEPARTMENT OF TRADE AND INDUSTRY
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JU711

Secretary of State for Trade and Industry

17 February 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister (2)
To note
AT
17/2
ms

D Nigel.

COMPETITION POLICY

You will have seen the Prime Minister's Personal Minute of 1 February on Competition Policy (M1/84) and have begun to identify what contribution your area of responsibility can make to the promotion of competition. The Prime Minister has given me the general co-ordinating responsibility for developing a programme of action and I am writing now to let you know how I propose to structure the initial exercise.

2 I am required to provide the new Sub-Committee of E(S) by the end of May with a report on the basis of which the Sub-Committee can decide upon a programme of action. The report is to be drawn up in the light of discussions with individual Ministers concerned. By way of preparation for these bilaterals I would be grateful if you would let me have by 9 March a note giving the information at annex A to this letter and if you would let me know at the same time with which Minister (or Ministers) you would wish Alex Fletcher to discuss the note. I would be grateful if your office would also let mine have the name of an official who can act as a contact point for my officials in this exercise.

3 I would emphasise the terms of the Prime Minister's Minute. The objective is to develop a programme of action and initiatives which will make a real contribution to the creation of a more competitive economy within the lifetime of this Parliament: that will be the approach of my report.

4 Action might take many different forms - deregulation, the removal of barriers to entry to a market (or a profession), changes in public purchasing procedures, removal of price control, more information for the consumer, removal of restrictive practices. It may involve direct action by Government (e.g. legislation), or use of the Government's capacity to influence others to change their practices, or use of the existing competition mechanisms such as the MMC and the OFT or other mechanisms.



5 I hope that you will take a keen personal interest in the possibilities within your Department. At this initial stage of identification I hope all colleagues will be willing to contemplate the removal of even the most deep-rooted and established of restrictions, and to come forward with wide-ranging, radical proposals. We should have particular regard to restrictions that affect citizens and consumers in a direct and personal way, for example in such areas as housing, travel, professional services, financial services, food, books, even funerals. The current activity in the field of house purchase procedures and conveyancing indicates just how the promotion of competition can not only offer the prospect of a much better deal for the consumer but also make a very wide appeal.

6 I am writing in similar terms to other members of the Cabinet and am setting comparable action in hand within my own Department. I am also sending a copy of this letter to the Prime Minister and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a horizontal line underneath the name.

NORMAN TEBBIT

COMPETITION: PROPOSALS FOR AN ACTION PROGRAMME

- 1 What actions have Government taken in your field since 1979 to promote competition?
- 2 What actions are already in train in your field to promote competition?
- 3 What firm plans do you have to promote competition in your field in the next three years?
- 4 What further action to promote competition could be taken in your field in the next three years? Please specify the form of action required (e.g legislative, administrative, voluntary etc).
- 5 What further action to promote competition in other fields would you like to see taken in the next three years?

Gen Pol: Competition Pol Dec 83

17 JAN 1984

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GEN POL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Prime Minister

8 February 1984

COMPETITION POLICY

I refer to your minute of 7 February to the Secretary of State for Trade and Industry.

It is not difficult to imagine a number of issues which lie within my Ministerial responsibilities in Scotland and which could give rise to questions of competition policy. This is reflected in the fact that more than half the Ministers on the Sub-Committee deal with subjects for which I am responsible in Scotland. I do not ask you to add me to the membership of the Sub-Committee, but I would be grateful if you would agree that the papers of the Sub-Committee should be copied to me and that I should have the right to attend if some matter arises of particular significance or sensitivity in Scotland.

I am copying this minute to Sir Robert Armstrong.

G.Y.

G.Y.

Prime Minister

This seems fine. Agree I give to Young (and to Edwards) the assurance.

AT 8/2

Yes

Private office of SS/S and SS/U informed of this

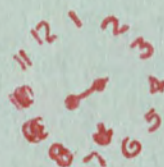
AT 9/2

Exam Bl : Competition King Dec '83

SCOTTISH OFFICE
WHITFIELD LODGE, WINDYBANK



18 Feb 1984



Post Office

SUBJECT

MRJ

cc Master
OPS

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M1/84

SECRETARY OF STATE FOR TRADE AND INDUSTRYCompetition Policy

The promotion of competition is one of the Government's most central and fundamental policies. It can bring lower prices, better services for the consumer, products better able to hold their own in world markets and ultimately more jobs. Your Department has the general responsibility for competition policy, although many other Ministers have sponsoring, regulatory or other responsibilities which provide opportunities for promoting more competition in the economy. Some of these opportunities will arise as part of the privatisation programme. In addition however the time has now come to seek out, wherever we can, opportunities for fostering more competition and to develop a programme of action for bringing this about during the remainder of this Parliament.

I should be grateful if you would assume the general co-ordinating responsibility for this task. As a first step it would be helpful if all members of the Cabinet would examine their areas of responsibility with a view to identifying what contribution they might be able to make to the promotion of competition, aside from any action which is already in hand as part of the privatisation programme. I should be grateful if

/you would

you would then arrange a series of discussions with other Ministers with the aim of preparing a report not later than the end of May.

I think that it would be helpful to set up a new Sub-Committee of the Ministerial Steering Committee on Economic Strategy to consider issues of competition policy, other than those arising in connection with the privatisation programme, which will continue to be dealt with as now in E(A) or E(DL) as appropriate. The new Sub-Committee would consider your report, agree on a programme of action, and provide a forum for the discussion of individual issues. I hope that these initiatives will make a real contribution to the creation of a more competitive economy within the lifetime of this Parliament. I am asking the Chancellor of the Exchequer to chair this Sub-Committee. The other members will be yourself, the Secretaries of State for Energy, the Environment, Social Services, Employment and Transport, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Financial Secretary, Treasury and the Parliamentary Under Secretary of State for Corporate and Consumer Affairs in the Department of Trade and Industry.

I am sending copies of this minute to all members of the Cabinet and to Sir Robert Armstrong.

(sgd) MT

1 February 1984

LPO

Press Notice

Prime Minister ④
This is the speech
Mr Tebbit promised

AT
3.11

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 5678/3919 Ref: 57
Out of hours: 01-215 7877

January 31, 1984

COMPETITION THE KEY TO GROWTH - MR TEBBIT

Competition is the key to economic growth and wealth creation, Mr Norman Tebbit, Secretary of State for Trade and Industry, said today (Tuesday).

Speaking at the Tenth Anniversary Conference of the Office of Fair Trading, in London, Mr Tebbit said:

"Competition is the best stimulus for growth and wealth creation. Our commitment to its promotion is wide ranging: from the maintenance and development of an open international trading system through to the prevention of monopoly and abuse and restrictive practices in the domestic market.

"These principles apply across the economic spectrum. Competition is as important in the service sector as in manufacturing industry, and restrictions of competition within professional services is an area to which the Government has been devoting a good deal of attention recently.

"Promotion of competition is therefore part of the fabric of Government policy] and every one of my Ministerial colleagues must keep in mind the competition implications of policy decisions.

"A good example of the way competition policy impacts upon other Government policies is the privatisation programme, which reflects our basic belief that market forces are a key stimulus to efficiency in the economy. But I have repeatedly stressed that privatisation alone is not enough; there has first to be a competitive environment. There will however be cases where a degree of monopoly power will continue to

exist after privatisation, and in these cases separate regulatory arrangements may need to be set up."

Mr Tebbit said the Government's plans to privatise British Telecom illustrated these points.

"The Telecommunications Bill provides for the ending of British Telecom's exclusive privilege, and the establishment of new arrangements for licensing telecommunications operators. British Telecom has already begun to respond to this prospect but, because BT will remain for the foreseeable future a dominant provider of telecommunications in the UK, new regulatory arrangements are being set up, in the form of a powerful and independent Director General of Telecommunications, to monitor and amend licences, and to look into complaints.

"Each public body which is privatised will present different competition problems. But I believe that the principle that I have outlined will ensure that privatisation takes place in the context of the greatest degree of competition which the circumstances permit."

The backbone of the Government's competition policy was the competition legislation administered by the DTI, the Office of Fair Trading and the Monopolies and Mergers Commission, Mr Tebbit said.

"Perhaps the most contentious aspect of competition policy in recent years has been mergers policy. Debate has ranged over what the aims of the policy should be, and what role should be assigned to the Director General, the Monopolies and Mergers Commission, and the Secretary of State. Public attention has been focussed on these questions whenever a reference decision by the Secretary of State has been made against the advice of the Director General.

"As I speak to you today, I have not departed from the Director General's advice over a merger reference decision. It would be tempting providence to forecast how long this happy state of affairs will remain. What I can say is that I expect in future that competition considerations will be the predominant factor in merger reference decisions, with only rare exceptions which raise other public interest issues. On that basis I can see no likelihood that I will see the need to depart from the Director General's advice in the vast majority of cases."

CONFIDENTIAL

bc J.R.

J.P.



10 DOWNING STREET

From the Private Secretary

26 January 1984

B.F.

COMPETITION POLICY

The Prime Minister has accepted your Secretary of State's arguments in favour of establishing a new Sub-Committee of E(S) to deal with competition policy. This would provide the forum for discussing the outcome of the series of bilaterals which he has been asked to undertake and for establishing a programme of action. I have amended the draft minute from the Prime Minister which was attached to Sir Robert Armstrong's minute of 20 January to reflect this. The Prime Minister has also made some adjustments to the membership and now thinks it would be better for the Chancellor to be in the chair.

The Cabinet Office would be content with this but, before it is sent by the Prime Minister, I would be grateful if you could let me know whether your Secretary of State is also content.

B.F.

(ANDREW TURNBULL)

Callum McCarthy, Esq.,
Department of Trade and Industry.

Type

DRAFT MINUTE FROM THE PRIME MINISTER TO THE SECRETARY OF STATE FOR
TRADE AND INDUSTRY

COMPETITION POLICY

The promotion of competition is one of the Government's most central and fundamental policies. It can bring lower prices, better services for the consumer, products better able to hold their own in world markets and ultimately more jobs. Your department has the general responsibility for competition policy, although many other Ministers have sponsoring, regulatory or other responsibilities which provide opportunities for promoting more competition in the economy. Some of these opportunities will arise as part of the privatisation programme. In addition however the time has now come to seek out, wherever we can, opportunities for fostering more competition and to develop a programme of action for bringing this about during the remainder of this Parliament.

I should be grateful if you would assume the general co-ordinating responsibility for this task. As a first step it would be helpful if all members of the Cabinet would examine their areas of responsibility with a view to identifying what contribution they might be able to make to the promotion of competition, aside from any action which is already in hand as part of the privatisation programme. I should be grateful if you would then arrange a series of discussions with other Ministers with the aim of preparing a report not later than the end of May.

/I think

I think that it would be helpful to set up a new Sub-Committee of the Ministerial Steering Committee on Economic Strategy to consider issues of competition policy, other than those arising in connection with the privatisation programme, which will continue to be dealt with as now in E(A) or E(DL) as appropriate. The new Sub-Committee would consider your report, agree on a programme of action, and provide a forum for the discussion of individual issues. I hope that these initiatives will make a real contribution to the creation of a more competitive economy within the lifetime of this Parliament. I am asking the Chancellor of the Exchequer to chair this Sub-Committee. The other members will be yourself, the Secretaries of State for Energy, the Environment, Social Services, Employment and Transport, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Financial Secretary, Treasury and the Parliamentary Under Secretary of State for Corporate and Consumer Affairs in the Department of Trade and Industry.

I am sending copies of this minute to all members of the Cabinet and to Sir Robert Armstrong.



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P.01214

MR TURNBULL

cc Sir Robert Armstrong
Mr Buckley

COMPETITION POLICY

Thank you for giving me the opportunity to comment on your suggested redraft of the Prime Minister's personal minute on competition policy, designed to accommodate her wish to have a new Sub-Committee under the Chancellor of the Exchequer's chairmanship as well as the bilateral exercises undertaken by the Secretary of State for Trade and Industry.

2. As I mentioned to you I would like to see some additional words inserted in the third paragraph making it clear (as is I think already implied in the second paragraph) that this Sub-Committee will not be dealing with those competition issues which come up on specific privatisation proposals.

3. Secondly, I would suggest three additional members:

the Secretary of State for the Environment
(because of the competition issues affecting the professions such as architects, surveyors, etc and the housing market);

the Secretary of State for Social Services
(because of the competition issues affecting the professions and trades connected with the Health Service);

the Financial Secretary to the Treasury
(because it would be better for the Chancellor as chairman to have someone else to make Treasury departmental points, for example affecting City institutions).

1

↓ These are responsibility
of EST (Mr Stewart).

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CONFIDENTIAL

To prevent the Sub-Committee from becoming too big, I would suggest leaving out the Secretary of State for Scotland. Like other territorial Ministers, he could be invited as necessary.

4. You were going to explore with Mr Kerr whether the Financial Secretary would be the Chancellor's preferred choice for the second Treasury Minister. There would be convenience in having the Financial Secretary since he is in operational charge of the privatisation exercise and is a member of E(DL); this would be a further help in reducing the risk of wire crossing between the two exercises.

5. For convenience I attach a re-type of your second page incorporating these suggestions.

P L GREGSON

26 January 1984

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I think that it would be helpful to set up a new Sub-Committee of the Ministerial Steering Committee on Economic Strategy to consider issues of competition policy, other than those arising in connection with the privatisation programme, which will continue to be dealt with as now in E(A) or E(DL) as appropriate. The new Sub-Committee would consider your report, agree on a programme of action, and provide a forum for the discussion of individual issues. I hope that these initiatives will make a real contribution to the creation of a more competitive economy within the lifetime of this Parliament. I am asking the Chancellor of the Exchequer to chair this Sub-Committee. The other members will be yourself, the Secretaries of State for Energy, the Environment, Social Services, Employment and Transport, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Financial Secretary, Treasury and the Parliamentary Under Secretary of State for Corporate and Consumer Affairs in the Department of Trade and Industry.

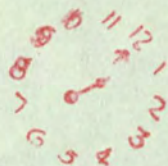
I am sending copies of this minute to all members of the Cabinet and to Sir Robert Armstrong.

CONFIDENTIAL

ECON POL: Competition Policy

Dec '83

26 JAN 1984



CONFIDENTIAL

SUBJECT FILED ON:
ECON POL: Privatisation
Pt 8

P.01211

PRIME MINISTER

Competition and Privatisation:

E(A)(84)3

BACKGROUND

1. At their meeting on 27 October, the Sub-Committee agreed that the pace of work on the privatisation programme should be accelerated, giving particular weight to the need to increase competition; and that the Financial Secretary, Treasury should pursue bilateral discussions with the main sponsor Ministers and draw up a timetable for discussion early in 1984 (E(A)(83)6th Meeting).
2. The Financial Secretary has now completed his discussions. The results are set out in the memorandum by the Chancellor of the Exchequer, E(A)(84)3. This draws attention to the implications of the proposed programme for the market and for the Government's legislative programme. He proposes that the Financial Secretary should continue to supervise progress, with the Chancellor reporting to E(A) as necessary on any significant variations of plan that may emerge. E(A)(84)3 stresses the need to ensure that the importance of increasing competition is taken into account.
3. Finally, the Chancellor of the Exchequer proposes that all Government shareholdings, other than 'special shares' which give Ministers exceptional rights to influence the operation of certain companies judged to be particularly important for the national interest, should be transferred to the Treasury so that they can be managed as a single portfolio and disposed of as appropriate.

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4. E(A)(83)6th Meeting invited the Secretary of State for Energy and the Secretary of State for Scotland to put forward options for increasing competition in and privatising the gas and electricity supply industries. Papers on these matters are expected to come forward next month.

MAIN ISSUES

5. The detailed proposals in the attachments to E(A)(84)3 have been discussed with departments; and so far as we know there is unlikely to be any serious dissent. Nor is it likely that the Sub-Committee will dissent from the need to make increasing competition a dominant theme in the privatisation programme, or from the recommendation that the Financial Secretary should oversee progress. They will probably wish to concentrate on the following.

- i. Should any major additions or deletions be made in the list of candidates for privatisation?
- ii. Are the market implications of the proposed programme tolerable?
- iii. Are the legislative implications acceptable?

They will also need to discuss:

- iv. The proposal to transfer all except "special" shares to the Treasury.

The list of candidates

6. It seems unlikely that any member of the Sub-Committee will wish to suggest deletions from the proposed programme at

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this stage. If there are any major difficulties these are more likely to emerge at the next stage when the specific options for privatisation are considered. If the programme is carried through as proposed it will represent a formidable reduction in the public sector within the life of this Parliament. The main areas left untouched on present plans will be:

- the NCB's mining activities
(this would require primary legislation and it is no doubt better to concentrate effort during this period on closures)
- BL's Austin Rover volume car business
(the commercial prospects are not thought good enough but collaboration with other companies such as Honda may lead to some equity participation)
- BS's merchant shipbuilding
(depending on the Corporate Plan which E(NI) is to examine shortly, not much of this may survive)
- BSC's mainstream business
(privatisation is likely to be beyond the life of this Parliament but the possibility of creating separate Companies Act companies is being pursued)
- the Post Office, other than National Girobank
- BR's railway business
(although private finance for the Victoria-Gatwick line and possibilities for more contracting-out are being pursued)

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Market implications

7. The chart annexed to E(A)(84)3 shows that the proposed programme would make heavy calls on the equity market. The Chancellor of the Exchequer's targets for asset sales are £1.9 billion in 1984-85, and £2 billion in each of the years 1985-86 and 1986-87. This is because he does not wish explicit targets, which might be published, to appear over-optimistic. In fact the individual figures for the major candidates where action is already in train add up to around £6 billion over the three years, for example:

British Telecom	£4 billion
British Airways	£1 billion
Enterprise Oil	£400 million
Jaguar	£200 million
Royal Ordnance Factories	£150 million

This makes no allowance for the British Gas Corporation, British Airports Authority and National Bus Company where possible sales might arise in 1986-87, or for minor candidates and possible sales of residual shareholdings in companies already in the private sector such as BP, Britoil, Cable and Wireless and BAe.

8. The capacity of the capital markets is for the Chancellor of the Exchequer to judge. But the Sub-Committee may wish to satisfy themselves that he is confident that the totals implied by his detailed proposals are realistic.

Legislative implications

9. The chart annexed to E(A)(84)3 envisages three major privatisation Bills for the 1984-85 Session: on the bus industry, the British Airports Authority, and the British Gas

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Corporation. Firm bids have been made to QL for the first two Bills; but only a marker has been put up for the third. In all these areas there are major policy issues about the structure for privatisation on which serious discussion has not yet begun. It seems likely that the resulting Bills will be introduced late in the Session and will be contentious. If so, it will not be realistic to assume, as the chart does, that Royal Assent could be secured by the end of March 1985. We understand that the Lord Privy Seal, in fact, is not convinced that any of the legislation could be ready early enough in the 1984-85 Session to secure passage by the end of the Session, given the other demands made by the programme. His proposals to QL (in QL(84)3), which are to be discussed by that Committee on 24 January, *QL has now provisionally decided to recommend inclusion of only one of the three Bills - that relating to buses.*

10. Treasury Ministers will no doubt argue strongly that this is an inadequate recognition of the importance to the Government's strategy of privatisation and increasing competition. On the other hand, there is no point in building the legislative programme on false premises. You will no doubt wish to question both the Treasury Ministers and the relevant sponsoring Ministers (the Secretary of State for Energy and Mrs Chalker representing the Secretary of State for Transport) on the realism of their estimates.

Transfer of shares

11. Who holds the Government's shares is essentially a matter of mechanics. We have no reason to suppose that members of the Sub-Committee will dissent from the Chancellor of the Exchequer's proposal to transfer ownership to the Treasury. Transfer to the Treasury of shares other than "special" shares may have the incidental presentational advantage of re-emphasising that the Government holds its shares as a

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(temporary) investment portfolio and does not intend to intervene in the management of the companies concerned.

Next steps

12. It seems unlikely that there will be dissent from the proposals for organising the future work. The approach is broadly as follows:

- i. the Financial Secretary to remain as coordinator of the programme;
- ii. policy options on specific industries to be brought either to E(DL) under the Chancellor's chairmanship or in major cases such as gas and electricity to E(A) under your chairmanship;
- iii. reports on the overall progress of the programme to E(A) as necessary.

HANDLING

13. It will probably be convenient to divide the discussion into two main parts.

- i. All matters other than legislation (in particular any substantial changes in the list of candidates proposed in E(A)(84)3; market implications, and the transfer of shares to the Treasury); and
- ii. legislative implications.

14. You might open the first part of the discussion by inviting the Chancellor of the Exchequer to introduce his proposals; the Financial Secretary, Treasury could then be

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asked to expand on any points of detail. Any member of the Sub-Committee may wish to comment on the candidate or candidates for which he is responsible; but you will wish to discourage contributions on mere matters of detail which do not call the proposed programme seriously into question.

15. The second part of the discussion could again be introduced by the Chancellor of the Exchequer. The Lord Privy Seal could then be invited to reply. The Secretary of State for Energy and the Minister of State, Department of Transport could be asked for their assessment of the timetable for any legislation on their industries (gas, buses and airports) in the 1984-85 Session.

CONCLUSIONS

16. You will wish the Sub-Committee to reach conclusions on:

- i. The programme of privatisation set out in the attachments to E(A)(84)3 and, in particular, the legislative implications.
- ii. The proposed arrangements for supervision (day to day in the hands of the Financial Secretary, Treasury, with reports by the Chancellor of the Exchequer to E(A) as necessary).
- iii. The need to give full weight to competition and deregulation.
- iv. The proposed transfer to the Treasury of shares, other than "special" shares.

PLG

P L GREGSON

24 January 1984

①

PRIME MINISTER

cc: Mr. Redwood

COMPETITION POLICY

As agreed, I put to Mr. Tebbit the proposals contained in the minute drafted by Sir Robert Armstrong. Under this:

- (i) he would be asked to take on a wider co-ordinating role for competition policy;
- (ii) he would develop a programme of action;
- (iii) this programme of action, developed after a series of bilaterals with colleagues, would be processed through EA.

The difference from the proposals discussed at your meeting with Mr. Tebbit and Mr. Fletcher is that EA would be used rather than a new committee dedicated to competition policy.

The Secretary of State is unhappy with this. He feels that if he is to complete (i) and (ii) successfully, he needs to be able to report it to a committee whose membership is sympathetic to the objective of promoting competition. Without this, he would be reluctant to take on the co-ordinating role.

Before any minute is sent out, he would like a chance to speak to you about this. Agree a meeting at which Sir Robert Armstrong would also be present?

AT

I No ~~to~~ think ^(Ph.T.) he is right
 The point had escaped me although
 we did discuss it not

24 January, 1984

MASTER

file

My



bc J. Redwood

10 DOWNING STREET

From the Private Secretary

23 January 1984

Dear Callum,

Competition Policy

The Prime Minister held a meeting on 18 January with your Secretary of State and with Mr. Fletcher. The meeting had before it the Policy Unit note of 16 December.

Your Secretary of State strongly endorsed the argument that promotion of competition was a central plank of Government policy. He accepted that where Government had acted, e.g. on the Stock Exchange and on conveyancing, its presentation had often been poor, with the Government failing to earn the credit it should have done. Action was needed to remedy this and he himself would shortly be making a major speech at the OFT Conference, setting out the Government's record.

The meeting then considered how a more systematic approach could be developed for identifying those areas where competition was weak and for mobilising Government action. The way Government was organised meant that responsibility for promoting competition was dispersed amongst many Ministers. The Prime Minister suggested that your Secretary of State should take on a wider responsibility for co-ordinating the Government's search for greater competition. A programme could be established, modelled on the privatisation exercise, for tackling competition black spots. Your Secretary of State favoured such an approach.

The meeting then discussed whether changes in the machinery of Government were desirable to provide a forum for considering such a programme and for tackling the individual cases which were identified. A new Ministerial committee on competition policy was suggested. Both the Prime Minister and your Secretary of State saw attractions in this. It would comprise most of the economic Ministers, though other Ministers could be invited to join the group when issues within their area of responsibility came up for consideration. Your Secretary of State could be in the chair.

/The meeting

CONFIDENTIAL

da

The meeting then turned to particular competition issues. It was noted that though progress had been made in a number of professions, e.g. surveyors, architects and accountants, there was still further progress to be made. Action was also needed in the case of vets.

On car prices your Secretary of State said that the Commission were likely to introduce a directive setting a maximum range for car prices between the different markets within the Community. Though this approach was rather bureaucratic, it would probably represent a significant improvement. He had examined the figures and had concluded that, though differences in prices existed, they were not as great as frequently quoted. Comparison was often made with Belgium which was an unrepresentative market, having no domestic production and a long history of price control. It was possible that most car companies were selling at a loss in all the European markets with the exception of the UK. If this were the case, efforts to bring car prices close together could produce increases abroad rather than reductions in the UK. One effect of this, however, would be to raise the export earnings of UK producers. He wished to make progress on this issue but did not think it should be rushed.

Your Secretary of State said he was anxious to ensure that when privatisation took place, it was done in a way which secured the greatest introduction of competition. This was more important to the health of the economy than maximising receipts from the sale. He would use his remit to take a wider interest in competition to talk to the Ministers concerned. He was particularly anxious to ensure that the privatisation of gas and electricity was done in a way which maximised competition.

Concluding the discussion, the Prime Minister said it was agreed that the Secretary of State for Trade and Industry should take on greater responsibilities for promoting competition across the whole range of Government policies. In particular, he should hold bilateral discussions with colleagues to develop a programme of action. She would write to him, with copies to the other Ministers concerned, setting out this proposal formally, and suggesting how the machinery of Government might be strengthened.

I am copying this letter to Sarah Chambers (Mr. Fletcher's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

Andrew Turnbull

Callum McCarthy Esq
Department of Trade and Industry.

Competition file
Handed to PM at 18/11
meeting with N. T. J. J.

Competition policy is concerned with the efficient allocation of economic resources. It is based on the broad assumption that efficiency in a free market economy is best promoted where markets are subject to the free and fair play of competitive forces. Government intervention is necessary to minimise obstacles to competition or to safeguard the consumer interest in markets characterised by restrictive practices or monopoly.

PRIME MINISTER

Competition Policy

Before minuting out to Mr. Tebbit following your meeting on Wednesday, I consulted the Cabinet Office about the ideas discussed for changes to the machinery of Government. Sir Robert Armstrong's views are set out in the attached minute. He fully endorses the proposal to give Mr. Tebbit a greater role, enabling him to act not just as co-ordinator but as an initiator of policy, even in the area of responsibility of other Ministers. Sir Robert also endorses the idea of a programme identifying areas where competition is weak, with action to tackle these black spots.

Sir Robert has, however, doubts about the wisdom of setting up a new committee.

- (i) He sees problems with a committee which is chaired by the leading protagonist (Mr. Tebbit himself had reservations on this score).
- (ii) There could be problems of overlap with E(A) and E(NI).

Sir Robert therefore suggests that the action programme be routed through E(A). The question of whether to set up a sub committee to handle the individual cases could be considered in due course.

Although originally I was attracted by the idea of a separate committee, I think there is a good deal in what Sir Robert has to say and his suggestions do not really blunt the impact of this initiative. The draft of a minute for you to send to Mr. Tebbit is attached.

Agree Sir Robert's proposals? If so, I will show the minute to Mr. Tebbit's office and explain the reasons behind the modified proposals. *before it is sent out*

AT

Yes please ref

20 January 1984



Ref. A084/240

PRIME MINISTER

Competition Policy: Machinery

I understand that you wish to give the Secretary of State for Trade and Industry the responsibility for giving greater coherence, thrust and emphasis to the Government's competition policy and have been considering how best to do this.

2. The Secretary of State for Trade and Industry already has the general Ministerial responsibility for competition policy; this emerges most clearly from his responsibility for the Office of Fair Trading and the Monopolies and Mergers Commission. But many other Ministers, sometimes more senior, have specific responsibilities which have a major bearing on the achievement of competition in practice. Examples are: the Chancellor of the Exchequer in respect of banks and other financial institutions; the Lord Chancellor in respect of the legal profession; the Secretary of State for Social Services in respect of the professions associated with the National Health Service; and the Secretary of State for Transport in respect of the licensing of buses and of airlines.

3. My understanding is that you want to make changes which will

- (i) draw attention to, and elevate, competition policy in the hierarchy of the Government's policy priorities;
- (ii) reinforce the status of the Secretary of State, as the Minister with general responsibility for competition policy, *visa-a-vis* the Ministers with specific responsibilities, and give him some authority and a position to act not just as a co-ordinator but as a policy initiator in this respect;
- (iii) to ensure that a programme of action is agreed and implemented.

4. Clearly setting up a new Ministerial Sub-Committee under the Secretary of State for Trade and Industry's chairmanship would be a way of doing this. But I doubt whether it would be the best

way. Putting a Departmental Minister in the chair of a Committee or Sub-Committee which is, or is seen as being, designed to further his Departmental interests rarely works out well in practice, especially where there are potential conflicts of policy and more senior Ministers are involved. Where the problems are intractable or politically difficult (for example conveyancing) they will nearly always have to be resolved in the Cabinet or in some other forum chaired by you. The Ministerial Sub-Committee on the Disposal of Public Sector Assets (E(DL)) is a case in point. It has not been possible to use it as the forum for taking the major policy decisions on privatisation (for example that relating to British Telecom in the last Parliament) or for developing the new overall programme for the new Parliament. That latter task has been done, following a personal minute from you, through bilateral discussions between the Treasury and sponsoring Ministers, under the supervision of E(A) who will be considering the programme on Tuesday. E(DL)'s work will come later in supervising the implementation.

5. Secondly, a Sub-Committee on Competition Policy would overlap responsibilities of other Committees. One of the main areas where competition needs to be developed is as part of the privatisation programme. The Chancellor's paper for discussion on Tuesday (E(A)(84) 3) is indeed titled "Competition and Privatisation", contains specific comment on competition in respect of each industry, and seeks approval for increasing competition and deregulation to be pursued as part of the privatisation programme. These aspects of competition can be and are pursued in E(A) and E(DL). Where industries are likely to remain in the public sector, it is difficult to separate out competition issues from the other issues which Ministers consider when these industries come before E(NI). In the bulk of the private sector where these complications do not arise the Secretary of State for Trade and Industry is already the sponsoring Minister and would not require the Sub-Committee. I suspect therefore that the creation of the new Sub-Committee could lead to confusion and time-wasting manoeuvring and inhibit progress.



6. An alternative approach, which I think would avoid some of these problems, would be for you to send a personal minute to the Secretary of State for Trade and Industry, copied to other members of the Cabinet, which would:

- (a) give new emphasis to competition policy;
- (b) assign the Secretary of State for Trade and Industry a more explicit general co-ordinating role for competition policy, and in particular invite them, in consultation with Departmental Ministers as appropriate, to draw up a programme for promoting and extending competition, for consideration by the Cabinet or E(A).

This would lead to a series of bilateral discussions between the Secretary of State for Trade and Industry and other Ministers able to contribute to promoting more competition; to a report back to E(A) by, say, end-May; and to a discussion in E(A) leading to an agreed programme of action. The Secretary of State for Trade and Industry could then be charged with responsibility for overseeing the implementation of the action programme; and at that stage we could consider again whether there would be any advantage in setting up a Sub-Committee to progress the agreed plan of action, or whether to do it in E(A).

7. In order to illustrate this alternative approach I attach a draft of the kind of personal minute which you might wish to send out to set the exercise in motion.

8. I am sending a copy of this note to the Secretary of State for Trade and Industry.

Re
Approved by
ROBERT ARMSTRONG
and signed in his absence

20 January 1984

DRAFT PRIME MINISTER'S PERSONAL MINUTE

SECRETARY OF STATE FOR TRADE AND INDUSTRY

COMPETITION POLICY

The promotion of competition is one of the Government's most central and fundamental policies. It can bring lower prices, better services for the consumer, products better able to hold their own in world markets and ultimately more jobs. Your department has the general responsibility for competition policy, although many other Ministers have sponsoring, regulatory or other responsibilities which provide opportunities for promoting more competition in the economy. Some of these opportunities will arise as part of the privatisation programme. [~~The Ministerial Sub-Committee on Economic Affairs (E(A)) agreed at its meeting on 25 January that increasing competition and deregulation should continue to be dominant themes of the privatisation programme.~~] In addition however the time has now come to seek out, wherever we can, opportunities for fostering more competition and to develop a programme of action for bringing this about during the remainder of this Parliament.

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2. I should be grateful if you would assume the general coordinating responsibility for this task. As a first step it would be helpful if all members of the Cabinet would examine their areas of responsibility with a view to identifying what contribution they might be able to make to the promotion of competition, aside from any action which is already in hand as part of the privatisation programme. [I should be grateful if you would then arrange a series of discussions with other Ministers with the aim of ^{preparing} bringing a report before E(A) not later than the end of May. In some areas there may well be a conflict of priorities with other policy objectives which Ministers will have to resolve collectively, and in some areas it may emerge that adequate steps are already in hand. I would hope however that, following the discussion in E(A), we should be able to agree on a programme of action which will make a real contribution to the creation of a more competitive economy within the lifetime of this Parliament.]

3. I am sending copies of this minute to all members of the Cabinet and Sir Robert Armstrong.



10 DOWNING STREET

From the Private Secretary

19 December, 1983

Competition Policy

The Prime Minister has received the attached note prepared by the Policy Unit and shares some of the concerns about the way in which the Government is not securing the advantage it should from its good record on competition policy. She would like to hold a meeting with your Secretary of State and the Parliamentary Under-Secretary of State for Consumer Affairs. The points in the final paragraph can form the agenda. This office will be in touch to arrange a meeting some time in January before Parliament reassembles.

I am copying this to Sarah Chambers in Mr. Fletcher's office.

ANDREW TURNBULL

M. C. McCarthy, Esq.,
Department of Trade and Industry

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17 January 1984
Policy Unit

PRIME MINISTER

COMPETITION POLICY

Transport

Energy

Agriculture
Subsidies

Employment

At your meeting tomorrow with Norman Tebbit and Alex Fletcher, the following subjects could be discussed:

1. The need to set out the general argument concerning the virtues of competition and the very real progress that the Government is making in increasing competition in a range of markets.
2. The importance of taking enough measures to encourage competition in nationalised industries that are about to become private sector companies.
3. The need to have a sustained programme of action to deal with private sector monopolies and cartels.
4. The handling of the programme.

1. The General Argument

The case for competition is well known and is generally supported by the public. A choice of producer will mean lower prices than a single supplier. It will mean more choice over the style and standard of service or product. It will encourage faster innovation and change in the delivery of services and products in response to customer needs.

Some of the other benefits are less well known but equally important. Competitive businesses in all but extreme inflationary conditions encourage better working relationships between employers and employees, and usually create fewer union difficulties. Outflanking large labour monopolies is one of the important but wisely understated advantages of a general competition policy. Competitive markets also offer more opportunities for new small businesses to start up if they do not face the daunting competition of a large monopoly which would probably put them off, or alternatively ruin them at a sensitive stage in their development. It is also possible to get a greater degree of worker shareholding and involvement in smaller competitive units than it is in large monopoly enterprises, which are usually bureaucratic in their structure. Competitive markets help in the drive to lower prices, to lower inflation.

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These general arguments need supporting with Ministers spelling out the action that has been taken to give credibility to the Government's general belief in competition.

2. The Importance of Competition to Privatisation

The main burden of criticism of the privatisation programme in the press and amongst the commentators at the moment is that our privatisation programme is returning monopolies and cartels to the private sector in the interests of maximising the proceeds from the sale, in preference to introducing virile competition. This is unfair and needs countering.

In the cases of British Telecom and British Airways - which are under the most intense public scrutiny - the story is not nearly as bad as the critics would suggest. From next year, for example, you have a choice over the phone set in your home and over the carrier of your message.

In the case of the airways, more competition on internal domestic flights has been introduced. The results have included substantial reductions in fares (eg half-fare to Edinburgh if the passenger can book 14 days in advance next month), a major refurbishment of British Airways' shuttle lounges, and the introduction of meal and drink services on some of the British Airways shuttle flights. This is yet more evidence of the powers of competition.

It is equally important that proposals for National Bus include strong competitive elements in the service and those for the BAA at least include substantial additional private franchising.

3. The Need for a Programme of Widening Competitive Pressures

(a) Professional services

- (i) The Stock Exchange cartel has been broken. A minimum consequence of this is going to be a substantial reduction in stockbroking commissions charged to all types of customer, including possibly the small retail customer who only wants a stockbroker to execute a bargain without any additional advice. The Government needs to claim more of the credit for change.

- (ii) The solicitors' monopoly has been dented by the decision to open up conveyancing to solicitors employed by other institutions. This should lead to advertising and price competition, which is what the public wants.
- (iii) Pushed by the OFT, the accountancy profession moved in 1981 to a half-way house on advertising, and accepted "tombstone" advertisements in local newspapers not more frequently than once a week. It is possible that in the course of this year, the English accountants will accept their President's recommendation to adopt unrestricted advertisements, subject to conditions (that advertisements should not be misleading, should not make comparative claims, should not bring the profession into disrepute). Architects and surveyors have abandoned restrictions on mandatory scale fees; they are still prohibited from revising their tenders in response to lower bids; restrictions on advertising still stand. The Secretary of State could threaten further MMC/OFT pressure if progress is not more rapid.
- (iv) The vets obdurately refuse to move on advertising, despite the MMC's finding that their prohibition of advertising was contrary to the public interest. The Secretary of State could either:
- threaten the Royal College of Veterinary Surgeons with an order to desist from this restrictive prohibition; or
 - at least write to the College in an effort to persuade the profession to reform.

(b) Car prices

The high price of cars (for the personal buyer) in this country has become a scandal. List prices in Britain (net of taxes) in October 1983 were on average 38 per cent higher than in Belgium, according to the European Bureau of Consumer Unions.

Allowing for discounts and differences in specifications (eg whether radios included) DTI judge that the differentials are 25-30 per cent for BL models, 12-18 per cent for Ford and Vauxhall models. For the fleet market (50-70 per cent of the UK market) the differential is 9 per cent on average. It is also fair to point out that Belgium is a low-price market.

These excessive prices represent additional payments to foreign suppliers, and to foreign shareholders of the UK multinationals. The Institute of Fiscal Studies calculated that the additional costs amounted to £1 billion in 1981. More recently, the DTI calculate that if UK car prices fell by 10 per cent, we would save £400 million a year in payments to foreign car producers.

The European Commission is proposing a measure intended to reduce these differentials, by allowing the car producers to retain their exclusive franchising arrangements with their dealers (the so-called "block exemption") on certain conditions, the most important of which are that:

- (i) pre-tax recommended prices of comparable cars should not differ between member states by more than 12 per cent; and
- (ii) producers must supply dealers with specifications appropriate to another member state in which the same models are marketed ("full line availability") at the same prices as those obtaining in domestic market, save for differences in specifications.

The Commission's clear intention is that where prices differ significantly between member states, parallel trade can develop via unauthorised dealers, so reducing the price differentials.

The problem may disappear by 1986 if sterling depreciates further against European currencies and BL improves its productivity faster than continental producers. Our options are broadly:

- (i) try to dissuade the Commission from pursuing this approach;
- (ii) do nothing, in the hope that the measure fails;
- (iii) take the initiative ourselves to reduce differentials, possibly by persuading the UK industry to modify its traditional price structure (high recommended prices and high discounts), in order to reduce the apparent differentials.

If we adopt the first option, we will appear to condone the existing price structure. If we fail to dissuade the Commission, and its approach succeeds, we will have the worst of both worlds - vilification for trying to bolster an arrangement which is expensive for the car-buyer and for the UK, while failing to protect BL's profitability. We favour pursuing the third.

(c) Milk prices

Milk prices have risen more sharply than food prices over the last 10 years. In part, this reflects the cosy marketing arrangements of bottled milk. The OFT are forcing registration of their restrictive practices, and are probing the activities of the Co-ops and others. In part, this reflects the Milk Marketing Board pricing decisions. The European Commission is trying to establish the illegality of their pricing practices in order to disallow sizeable UK expenditure from reimbursement. This matter is under separate review.

(d) Banking

The clearing bank arrangements have been cosy through the Bankers Clearing House restrictions on membership. There are currently 10 members. Citibank, an aggressive US bank, are applying for membership. If the Association turns them down, the DTI/Bank of England should consider how the clearing system can be invigorated by new entrants. The DTI should also consider the banks' responses to the recommendations in the National Consumer Council Report.

(e) Travel

National Bus Company is currently exempted from the restrictive Trade Practices Act. This exemption should be repealed as part of the prelude to a more competitive private sector industry.

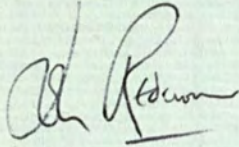
In the case of airways, more national routes can be licensed by the CAA for competitive services.

4. Handling

Competition policy needs a stronger steer if it is not to become snagged by particular departmental interests, or overtaken by press and public misunderstanding. The unsatisfactory response to the House-buyers' Bill illustrates the consequence of not co-ordinating the policy (DTI were not consulted by the Lord Chancellor's Department about the Government's reply in the debate on 16 December).

We suggest that you ask the Secretary of State to propose the development of a programme of action. This should be a matter of priority and be brought up before E(A) as soon as possible for collective discussion.

A letter from you to the relevant Secretaries of State could underline the importance of this policy and of pre-empting further adverse criticism or other Private Members' Bills.



JOHN REDWOOD

PRIME MINISTER

COMPETITION POLICY

This meeting should have two objectives:

- (i) To develop a systematic approach in Whitehall for identifying where there are competition black-spots which need to be challenged; and for securing Government action;
- (ii) To discuss particular cases which are live at present, e.g. car pricing, accountants, vets, etc.

On (i), there could be an E(CP), conducting an exercise very like E(A) and E(DL) on privatisation, with Tebbit and Fletcher forming a similar team to that of Lawson and Moore. This will probably require a letter from you to launch it, but I would involve the Chancellor first. You could do this yourself later in the day.

On (ii), I would avoid discussion of milk marketing. This is being tackled from a different direction and there is a risk that wires will get crossed. Banking also needs to be handled carefully, as this is as much Treasury business as DTI.

HT

17 January 1984



10 DOWNING STREET

Prime Minister ^①

Agree I arrange such
a meeting in January
before Parliament returns?

Yes

AT

16/12

I would have
been helpful if this
had been raised
yesterday & then
we had to many
minutes present
no.

RIME MINISTER

COMPETITION POLICY

We are in danger of losing the initiative. We believe that competition brings lower prices, better service, more jobs, innovation and better products. We believe in strong government, which should oppose monopoly power whether it be in the NGA or in a producers' cartel. Yet on each issue, like conveyancing and car prices, the press often reports that concessions are wrung out of a government that appears reluctant to pursue its own beliefs.

The difficulty with putting together all the necessary policies is that they run across departments, they involve attacking entrenched producer groups who are good at lobbying, and they require government to use many different devices. In some cases it is necessary to encourage a reference to the Monopoly and Mergers Commission, in some cases an OFT enquiry, and in other cases legislative action.

The following areas are suggested to bring some unity to the policy:

The Home-Buyer

The purchaser of a new home faces many costly obstacles. The high cost and complexity of conveyancing hinders purchasers: we are now tackling this. The other professional services - estate agency, surveying, and architecture for a new home - are expensive and not very competitive on price. The commission structure on insurance-related finance for house purchase, and on lending, is generous. Some action has been taken on these areas. We should spell it out and see what more needs to be done.

The Traveller

Nick Ridley has promised tough action to deal with the bus monopoly. We should hope for early action to combat the economic licensing which guarantees high fares and restricted competition over most of the bus network in this country.

The motorist suffers most from the high cost of new cars. UK prices are some 20 per cent higher on average than prices elsewhere in the EEC. We are under pressure from the EEC Commission to lower the

price differentials between UK and foreign cars. UK customers in aggregate paid £1,000 million more to foreign companies in 1981 than they needed to for the vehicles they purchased, according to an Institute for Fiscal Studies estimate for 1982. Should the position of BL dominate our policy on this important issue? Might we not be forced reluctantly into action to reduce car prices anyway in the end?

The Food Buyer

Any progress that could be made in returning to sensible pricing for European agricultural products will lower the current £4,000 million of additional cost imposed on the British housewife (compared to world prices) as a result of the Common Agricultural Policy. In the meantime, we could also examine the specific cases of the lack of competition in retailing that comes from our domestic marketing boards (exercising caution about the popular doorstep milk delivery) and the production cartels in some food manufacturing activities.

We can regain the momentum. If you like the idea, you could hold a meeting soon with Norman Tebbit and Alex Fletcher to:

- a. stimulate some public statement of our general intention, probably via a speech from a DTI Minister;
- b. spell out the bold initiatives the Government has already taken (eg opticians, solicitors, the Stock Exchange).
- c. organise a programme for dealing with the worst monopolies and cartels throughout the economy;
- d. put in place a mechanism for handling the interdepartmental problems and for reporting back. An exercise like the privatisation bilaterals would be a possible route under DTI ministerial supervision;
- e. resolve the car pricing issue where the DTI are divided themselves on how to proceed.



JOHN REDWOOD

