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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit MP
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Department of Trade and Industry
1-19 Victoria Street
LONDON
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30 March 1984

Dear Norma.

COMPETITION POLICY

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with
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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

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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

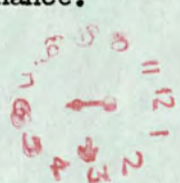
Competition in international trade is one of the most important ways in which competitive pressures operate in a large open economy, therefore:

(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