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P.0951

PRIME MINISTER

CPRS Report on State Monopolies
(E(NI)(83)1)

BACKGROUND

As part of the work programme for 1982, you asked the Central Policy Review Staff (CPRS) to consider how the power of the state monopolies might be reduced. The minute of 26 March 1982 from the then Head of the CPRS accordingly proposed a work programme, which you approved (Mr Scholar's minute of 7 April 1982). The results of that work, which included brief reviews of the coal, electricity, water and telecommunications industries, are set out in the report circulated with the note by the CPRS (E(NI)(83)1).

2. The main recommendations of the note and report are as follows:
(paragraph numbers refer to the report)

- a. The first objective should be to increase competition wherever possible, by the measures outlined in paragraph 82.
- b. The more radical options described in paragraph 83 (privatisation; new regulatory agencies; regionalisation; extension of franchising and contracting out) should be examined, particularly for those industries which have to remain as monopolies.
- c. Steps should be taken to reduce union power (paragraph 84).
- d. The statutory and financial context should be changed by encouraging private finance and joint ventures; removing Government guarantees against bankruptcy; removing the statutory duty to supply; and making any cross-subsidisation more explicit (paragraph 85).

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E(NI)(83)1 proposes that studies on this basis should be set in hand by sponsoring Ministers for each of the industries for which they are responsible, and the results reported within six months for further consideration by E(NI). Treasury Ministers should also be invited to consider further the proposals for removing Government guarantees against bankruptcy and for encouraging joint ventures with the private sector. Finally, it is suggested in paragraph 7 of E(NI)(83)1, that there may be a need for greater coordination with current studies of privatisation and contracting out.

MAIN ISSUES

3. The main issues before the Sub-Committee are as follows:

- i. Do Ministers agree with the general tenor of the CPRS recommendations? Are there any points to which they attach particular importance?
- ii. How should further work be organised?

The recommendations

4. Your colleagues are likely to agree in general with much that is in the CPRS report. There are, however, a number of qualifications and complications which they may wish to bring out, for example:

- a. The relationship between the problem of state monopolies and the problem of excessive trade union power in these industries is not a simple one. Privatisation or regionalisation may help to reduce trade union power but cannot be guaranteed to lead to this result. The same trade unions are likely still to be involved when a concern has been privatised and may also be involved in new private sector enterprises set up to compete with the monopoly. Regionalisation will not necessarily put an end to national pay negotiations if the unions insist on organising themselves in this way. Structural and organisational changes may therefore be able to make only a modest contribution to the problem of reducing union power. This problem is


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probably therefore best dealt with, as now, partly in the context of changing employment legislation generally and partly by a series of specific studies (which are already in hand) of how to withstand or deter strikes in key industries through whatever means are appropriate (stockbuilding, duplicate facilities etc).

b. Although the report demonstrates that the present extent of state monopolies goes beyond what is strictly necessary on operational and economic grounds, there are undoubtedly some areas of activity where monopoly will be inevitable and the problem will be one of mitigating its adverse effects. There is therefore a wide range of different situations each requiring its own tailor-made set of remedies.

c. The proposal for removing Government guarantees against bankruptcy of state monopolies raises very difficult issues. As the report recognises there would be little to be gained where there is a strong monopoly which can ensure its own solvency at the expense of its customers. Where however the state enterprise is not commercially viable, removal of the Government guarantee would have much the same effect as cutting off the supply of Government funds; it could not continue trading. The problem is therefore essentially whether the Government is prepared to see extensive loss-making activities (eg uneconomic pits, large parts of British Rail's network, some of the BSC's major plants) brought to an end.

Future work

5. These points support the CPRS suggestion that the next step is for the possible detailed application of their proposals to individual industries to be studied. The CPRS paper envisages a report from each sponsoring Minister in six months. Depending on the discussion, this may not be the best way forward, and a more selective approach may be more productive. Mr Sparrow will be able to speak on this point. The right course might be to invite him to have a series of discussions with sponsoring departments (Ministers and officials) with a view to identifying for each department a few specific areas where one or more of the ideas set out in the State Monopolies report could usefully be applied.

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From this a well-defined and effectively targetted programme of work could emerge. This would avoid the risk of a large number of long, rather general and perhaps not very positive reports from sponsoring Ministers requiring collective consideration in July.

6. It may also be better to consider the possibility of removing guarantees against bankruptcy and encouraging joint ventures with the private sector in the context of individual industries rather than as independent general issues. You will wish to seek the views of Treasury Ministers on this point.

HANDLING

7. You will wish to ask Mr Sparrow to introduce the report. At some stage he may wish to give Mr Green (Head of the Nationalised Industries Staff within the CPRS) the opportunity to add a few comments. The Chancellor of the Exchequer may have some general points. You will then wish to ask the main sponsoring Ministers for their views.

CONCLUSIONS

8. You will wish to reach conclusions on the following points:

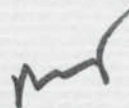
- i. whether the Sub-Committee endorses the general analysis in the CPRS Report, subject to any reservations brought out in the discussion;
- ii. how the Report might best be followed up, (for example by a series of discussions between the CPRS and sponsoring departments, designed to draw up a programme of action in some specific areas, as suggested in paragraph 5 above).

PLG

P L GREGSON

31 January 1983

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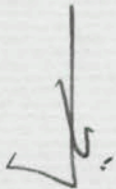
Prime MinisterPRIME MINISTERcc Mr Mount
Mr WaltersE(NI), 1 FEBRUARY: CPRS REPORT ON STATE MONOPOLIES

(attached) This report has an unhappy history. When you first saw it, last October, you said it had insufficiently clear proposals for action. We analysed the recommendations and suggested seven which the CPRS should take further. John Sparrow came back with a note in November saying that should be left to individual Departments. You saw him on 30 November, agreed to discuss the paper at a small meeting of Ministers, and asked him to consider circulating a note on points for action. The paper, unchanged, is now to be taken in the full E(NI), without further analysis by the CPRS of what can actually be done, and with the original recommendation for "specific studies" to be done on each nationalised industry. We are back where we were three months ago.

Our view remains that the best outcome of this meeting would be for the CPRS to be instructed to work up, in consultation with the relevant sponsor Departments, detailed and practical recommendations for action in the seven areas we identified earlier (these are described in my note of 26 October, of which I attach a copy). There is no point in asking Departments to make further generalised reviews of how to reduce the monopoly power of their industries: your colleagues will all say they have done that several times in various contexts already, and we wouldn't blame them for resisting another similar exercise. By contrast the seven suggestions we have picked out do have some prospect of action at the end of them, provided that responsibility for pursuing them is not left to the Departments themselves.

One new thought. The water industry is very much in our minds. Two of our suggestions - splitting monopolies into regional corporations,

and decentralised wage bargaining - are already relevant. But you may feel that this is the right context for work to be done on no strike provisions. As you know, Peter Gregson (and I) would not expect such work to produce helpful answers - no strike agreements mean offering either comparability or indexation as a quid pro quo; no strike legislation for particular groups is ineffective because the employer will not want to force his workforce to give notice. But in view of current circumstances and wide public interest in such provisions, it is right to make sure we have not overlooked some other way of keeping workers in essential jobs from striking.



31 January 1983