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Secretary of State for Trade and Industry

17 December 1985

CONFIDENTIAL

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

NBSM

*D. Nigel,*

COMPETITION ACT 1980 SECTION 11: NATIONALISED INDUSTRY REFERENCES  
TO THE MONOPOLIES AND MERGERS COMMISSION

As you know, we had hoped to meet our publicly announced target of making six section 11 references a year. The sixth reference is due to be made at the end of the month, and our intention has so far been that it should concern Post Office Counter Services. I have concluded it would now be right to drop this reference and to substitute another.

I have done so with considerable reluctance since the Counters reference has already been postponed from the 1984 programme to allow the Post Office to recover from the effects of the DHSS strike. A 1984 reference of Counters would have made an invaluable contribution to the Post Office's preparation of a corporate plan for Counters and to our consideration of it. But as you know, in response to our criticisms following the discussion of its Counters plan in E(NI) in July, the Post Office has now been preparing a new plan and aims to let us have it within a matter of days. Given that the plan is likely to be of a fundamental character and that we shall be considering it in the early part of next year it does not make sense to make the Counters reference as planned: the MMC would be investigating a situation already under detailed examination by Ministers and likely to be subject to substantial change before the investigation was completed. Moreover, the strain on the small Post Office Counters management of simultaneously implementing the



plan and dealing with the MMC would be too great.

I therefore believe that we should postpone the Counters reference until any post-plan changes have bedded down, probably late 1987.

In the meantime I am concerned not to lose the opportunity to make six references this year and I therefore propose another Post Office topic - supplies and purchasing. I recognise that this subject is not of the same order of magnitude or visibility as the previous Post Office references or the Counters reference. Nevertheless, it is far from being a negligible area for investigation. Until 1980, prior to the split in the corporation, all Post Office purchasing was by Telecoms. The Supply Department is now involved in a total spend of £350 million, and is solely responsible for commissioning some £170 million of supplies and contracts. It employs some 700 staff and apart from its £350 million of purchases there is another £200 million reflecting accommodation, overseas postal administrative work and banking. Having established a central supplies and purchasing organisation the Post Office is in the early stages of developing a computer based regional and head office organisation. Not only is the amount of expenditure involved important in relation to Post Office profitability (and of course to suppliers of goods and services throughout the country) but the Department itself is at an interesting stage of development. All these factors would make an examination by the MMC particularly timely and of possible benefit to the Post Office.

We need to move very quickly if we are to make this change in time for the new reference to be made by the end of the year. We shall also need to announce the change before the Commons rise on 20 December, and I enclose an appropriate draft Question and Answer. My officials are ready to discuss with yours and the Post Office the terms of reference for the Supplies investigation.

In view of the urgency of this matter I should be grateful to receive comments by the close of play on Wednesday 18 December, so that the statement may - if agreed - be made later in the week.

I am sending copies of this letter to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

LEON BRITTAN

*Len,*



DRAFT ARRANGED PARLIAMENTARY QUESTION AND ANSWER

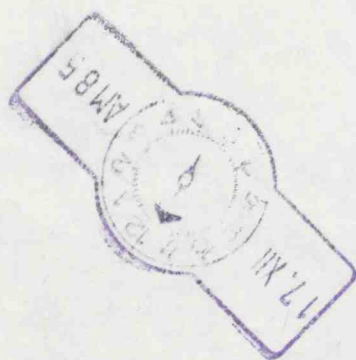
To ask the Secretary of State for Trade and Industry whether he will make a progress report on the 1985 Programme of referring nationalized industries to the Monopolies and Mergers Commission for efficiency investigation.

Suggested answer

During 1985 the Monopolies and Mergers Commission have completed two enquiries (on the north of Scotland Hydro-electric Board and the British Airports Authority) and are currently investigating three other references (the South of Scotland Electricity Board, Water Supply in the Southern Water Authority Area and the British Steel Corporation).

The final reference in this year's programme of six investigations was to have concerned the Post Office Counter Services.

However, the Government are considering with the Post Office its plans for modernizing counter services and I believe that it would not be sensible to distract management from that important work at this stage. I have therefore decided to substitute a reference to the Post Office's arrangements for the procurement of goods and services.



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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Leon Brittan QC MP  
Secretary of State  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1W 6RB

19 December 1985

*Dear Leon,*

**COMPETITION ACT 1980 SECTION 11: NATIONALISED INDUSTRY  
REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION**

*non request is required*  
Thank you for your letter of 17 December which proposes that the Section 11 reference of Post Office Counters should be replaced by a reference of supplies.

I too am disappointed that this opportunity for a thorough and overdue examination of Counters' efficiency and costs will be missed but I appreciate the reasons which have led you to this conclusion. I am also disappointed that you have apparently been unable to formulate a more substantive reference to substitute for Counters. I am prepared to go along with your proposal but only on the understanding that your written answer is modified to state explicitly that the Counters reference is being postponed and will be made as soon as practicable.

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

A handwritten signature in dark ink, appearing to read "John MacGregor".

JOHN MacGREGOR

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