

# Britain: Labour prepares ground for privatisation of postal service

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A supposedly independent inquiry set up by the Labour government, under the chairmanship of Richard Hooper, is preparing the privatisation of the Royal Mail postal service.

A preliminary report published last month by the panel of three leading business people says the only way the huge economic crisis facing Royal Mail and the rapid decline in the “quality” of its service can be overcome is by carrying out an unprecedented change in the way it operates. It warns that, without it, the future of Royal Mail and the Universal Service Obligation (USO), which guarantees one price and next-day delivery throughout the country, is in doubt.

Just a year ago, a £3.7 billion rescue package was put together for the company, but analysts are saying it was too little, too late. The year 2006 was a high tide for the number of letters delivered, but over the last two years they have been increasingly displaced by Internet traffic. Royal Mail’s market share has decreased, leading to a loss of £100 million in its delivery service—the first time this has ever happened. Competition has been cut-throat and larger than expected following the opening of the service to private postal operators two years ago who now carry 40 percent of bulk mail. The company also has a £3.6 billion pension deficit, which some analysts say could be revalued at £7 billion next year and cost £1 billion a year to service.

Technically, Royal Mail is insolvent. The Hooper report claims, “There is now a substantial threat to Royal Mail’s financial stability and, therefore, the universal service. We have come to the conclusion, based on evidence submitted so far, that the status quo is not tenable.”

From the start, the report makes clear, “Returning to the days of statutory postal monopolies is not a policy option in the European Union” and that further liberalisation and privatisation is the only solution.

A chorus has broken out praising Hooper’s report, with the government, the regulator Postcomm, Royal Mail and its rivals using it to demand more-rapid privatisation.

John Hutton, the business secretary, said, “The initial findings from the review team paint a stark picture of the huge changes in the postal market.... [D]espite progress in recent years, I am now clear that to be successful the Royal Mail must undergo radical change.” He called on Hooper to “urgently bring forward ideas, including changes to the system of regulation.”

Royal Mail welcomed the report, saying it “identifies the ways in which the open postal market is clearly not working and Royal

Mail looks forward to submitting its further views on the changes that are required in the market.”

The company has applied to the High Court to have the USO judicially reviewed and reversed and called for the lifting of all restrictions on its operations—leaving only the prices of stamps to be set by Postcomm. The company claims the regulator’s current price controls have resulted in a £2.6 billion shortfall because it assumed the mail market would grow, whereas it has fallen.

Royal Mail also wants to retain its exemption from Value Added Tax, which is being challenged by non-exempt competitor TNT in the European courts. It also wants to be allowed access to equity capital.

Postcomm Chairman Nigel Stapleton went further, calling for “a partnership approach with the private sector” and for the government to split Royal Mail, and privatise the sorting and delivery business whilst keeping the Post Office under state control. He warned that the introduction of private capital would require the government to “consider more radical options for addressing Royal Mail’s pension deficit.”

As pension consultant John Ralfe explained, “No private equity firm will be interested in taking a stake as long as it has the pension deficit.... It would only work if the UK taxpayer takes on the deficit.”

Postcomm has promoted the postal services in Denmark and Sweden as a possible model for the UK. Hooper visited Copenhagen earlier this month to meet Post Danmark, which sold a 22 percent stake to private equity company CVC Capital Partners in 2005 and is soon to merge with Sweden’s Posten. His report forgets to mention the massive job losses and destruction of working conditions that have accompanied such privatisations in Europe. Sweden was the first industrialised country to end its national postal monopoly in 1983—a full two years before the country joined the European Union. Posten was completely restructured in order to compete with its main rival, Citymail, leading to a halving of the workforce to 38,000 and a rapid increase in the number of part-time workers.

Although Sweden privatised its postal services relatively early, few others followed suit until the EU Postal Services Directive was published in 1997 demanding all European countries open up their national postal services to competition. Hoping to steal a march on its future competitors, Britain’s Labour government passed the Postal Services Act in 2000 giving effect to the requirements of the directive well ahead of the 2012 deadline.

As MP David Drew, who sat on the committee scrutinising the Act at the time, told parliament recently, the Labour government thought it would allow Royal Mail “to see off its main competitors in the British market but also become strong enough to work in France, Germany, Italy and everywhere else in Europe. Its reputation and prowess would be such that it would succeed.”

It was not to be. Drew complained bitterly, “Clearly, on those measures, we have a complete disaster. We have no imprint on Europe, and our competitors—the Dutch, Germans and French—in one guise or another, are rampant in our homeland.”

He concluded, “Liberalisation was a nice term, and we used to bandy it around as though it were the answer to everything. In essence, in this respect, it has been an unmitigated disaster.”

Companies like TNT and UK Mail now handle more than one letter in five in the UK, and some analysts predict they could soon handle half of all letters. Using the latest technology and with workers paid a quarter less than those employed by Royal Mail, they have cherry-picked the most profitable business—the collection and sorting of posts from large business users in the cities. Instead of setting up their own delivery services as the government claimed they would, they just hand it to the Royal Mail to deliver to customers’ doors, which is the most expensive part of the business to operate.

According to the Hooper Inquiry, the government’s liberalisation of the postal market over the last decade has provided “no significant benefits” for consumers and smaller businesses. In fact, the service has gotten worse, seeing the ending of Sunday services, the reduction to one daily delivery and the delivery times for mail becoming much later in the day—in some cases, as late as 7:00 p.m. The price of sending letters has risen steadily. The price of a second-class stamp went up by 12.5 percent last month, well above the rate of inflation. Postcomm has denied rumours that it advocates an end to Saturday deliveries or relaxing the overnight delivery deadline for first-class mail.

Some 48,000 postal workers have lost their jobs since Labour came to power in 1997. At least 5,000 sub-post offices have disappeared, and the government is saying that it has to close 2,500 more. The future of the Post Office card account, a vital source of income, is uncertain and could lead to a further 3,000 post office closures. This week, Royal Mail announced the closure of its sorting centres in Oxford and Reading, and dozens more are threatened.

Royal Mail operates one of the biggest pension schemes in the country, with more than 450,000 retired and working members. The crisis in its funding arose because successive governments, like many private companies, took a “pensions holiday” when the pension fund was in surplus for 12 years from 1988.

Like virtually every company, Royal Mail has begun an attack on pensions, seeking to transfer existing and new staff from the current final salary scheme with defined benefits to a scheme linked to “career average” earnings without defined benefits, subject to the vagaries of the stock market. The basic retirement age will be raised from 60 to 65 from 2010.

What is being proposed for the postal service will make previous attacks on postal workers pale into insignificance. Faced with this, the general secretary of the Communications Workers Union

(CWU), Billy Hayes, has limited his criticisms to Postcomm, saying, “This is another bad decision by Postcomm following their many bad decisions which have led to the problems in the industry.” He brushed off the threat of privatisation saying, “At the end of the day this is only Postcomm’s opinion and it is the opinion of the review team and ultimately the government that will count.... There is currently no political support for this and privatisation has been regularly opposed by parliament.”

The response of Unite, the union representing managers at Royal Mail, is to call on the government to “review” the current management team. Paul Reuter, Unite national officer, says, “Royal Mail’s financial performance is disappointing and whilst the negative regulatory regime has to take part of the blame, the main fault lies with the top team. They seem unable to implement change in a sensible way and appear always to revert to conflict. We call upon the government to review these positions and put in place a team that can lead change.”

Hayes has made it clear that he will not countenance a political struggle against the Labour government. He seems to think that postal workers have forgotten that it was a Labour government that set up Postcomm to carry out privatisation.

Hayes presides over an organisation that has been deeply discredited by its past betrayals. It cannot be allowed to proceed as if it has no responsibility for the present situation. Last autumn, postal workers were involved in a bitter dispute over pay and conditions that escalated into a series of wildcat strikes threatening to get out of the bureaucracy’s control. The CWU leadership stepped in and abruptly ended the strike without consulting the membership. For days, no one knew why the strike had been ended or what had been agreed with the company. Since then, the CWU has accepted the pension reforms suggested by Royal Mail, which amount to legalised robbery. It is abundantly clear that the bureaucracy will help pave the way for the privatisation of Royal Mail. If postal workers are to advance their struggle against the ongoing privatisation of Royal Mail and further job losses, it is necessary to carry out a political rebellion against the CWU leadership.



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