

# Britain: Labour government steps up plan to privatise Royal Mail

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The Labour government of Prime Minister Gordon Brown is pressing ahead with plans to privatise the Royal Mail, Britain's state postal service. The government's agenda, put forward by Business Secretary Lord Mandelson in the Postal Services Bill, is to sell off a 30 percent stake in Royal Mail as a precursor to its eventual full privatisation.

Labour is continuing with its programme of closures of 2,500 local post offices. This is on top of the 4,000 that the government has closed since 1999. According to recent Royal Mail figures, the number of branches in England has dropped by 29 percent from the year 2000, from 14,292 to 10,324.

The legislation to begin the process of selling off the 30 percent stake is currently going through the House of Lords. The Postal Services Bill is set to be debated in the Lords before its third and final reading on May 20. The government will then bring the legislation to be voted on by Members of Parliament in the House of Commons.

The timetable for the legislation in parliament has been set for June, prior to the summer recess. However, such is the depth of the crisis affecting the Labour government that there is speculation that the vote may be put off until autumn—well after the June elections for the European Parliament and local UK authorities.

The proposals are based on the inquiry set up last year by the Labour government, under the chairmanship of Richard Hooper. In its report "Modernise or decline", it asserted that such was the economic crisis facing the Royal Mail and the rapid decline in the "quality" of its service that only by implementing unprecedented change could it survive. The report stated that the Universal Service Obligation (USO), which guarantees one price and next-day delivery throughout the country, could not be maintained.

The Hooper report claimed, "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".

Rejecting continuing state support, the report stated that

further liberalisation and privatisation was the only solution. "Returning to the days of statutory postal monopolies is not a policy option in the European Union", it maintained.

Royal Mail faces a challenge from email and competition from international and British firms, following the government's opening of the service to private postal operators in 2006. In just two years this resulted in rival companies now carrying more than 40 percent of bulk mail delivery, with Royal Mail left with the high costs and less profitable sectors such as personal letters.

In 2007, a £3.7 billion rescue package was put together for the company. But Royal Mail's market share has continued to decline, leading to a loss of £100 million in its delivery service—the first time this has ever happened.

Last week Postal Services Minister Pat McFadden revealed that for every one percent drop in post volumes, the Royal Mail lost £70 million. He claimed that this year's predicted fall would be 7 to 8 percent.

Almost 150 Labour MPs have signed a motion opposing the Royal Mail sell-off as set out by the government, having understood that supporting a deeply unpopular measure could help lose them their seats at the next election. It is expected that about half of these would actually vote against the proposals. This would mean that the government will be reliant on the support of the opposition Conservative Party to pass the legislation, unless it is able to reach an agreement with its rebel MPs.

But Brown has refused to make any concessions to what the May 12 *Financial Times* described as the "most serious back-bench rebellion of his premiership".

The government has even stated that ministers will agree Royal Mail's "business plan and future strategy" with the new shareholder, therefore enabling it to have direct input into "modernisation of working methods". The *Financial Times* stated that this "modernisation" was merely a "code for future job losses".

Deutsche Post withdrew from the bidding because of concern over the bill's future, leaving Mandelson's department in negotiations with other firms including TNT,

the Dutch company, and CVC, the private equity firm.

### Compass advises Labour on sell-off

It was left to the Compass group, which advertises itself as a centre left pressure group, to offer the government a life-line and avoid any embarrassing parliamentary rebellion.

In a document entitled *Modernisation by Consent*, Compass calls for the transformation of Royal Mail into a “not-for-profit dividend company” similar to Network Rail and the BBC Trust. This would then be allowed that will raise money from the capital markets that “does not count as government borrowing”.

Compass pleads with the government to implement its changes with the assistance of the Communication Workers Union bureaucracy. It states, “Royal Mail is not like the print industry, for example, which was reconfigured by breaking the power of the print unions through the implementation of new technology. Clearly there needs to be investment in new IT, and some jobs will inevitably be changed and lost. We think the union accepts this”.

It reassures Brown that the CWU has a long record of collaborating with the restructuring of the Royal Mail and is fully prepared to impose further “modernisation” and rationalisation. The document reminds Labour that “past history shows that the management and the union are quite capable of negotiating the substantial changes that the new generation of technology brings. Major agreements covering technology were secured with the union in the 1970s through the Letter Post Plan, in the 1980s with the Revised Revision Procedure, in the 1990s with the Way Forward Agreement, and in 2007 with the Pay and Modernisation Agreement. The union now says it is prepared to make a further modernisation agreement to cover the next generation of machines, and the rationalisation of the mail centres and delivery offices”.

Compass argues that the creation of a Network Rail type model would allow the new company to access “both government and private financing”. Aside from the window dressing of a “non-profit” company, the proposals call for the transformation of Royal Mail into a private operation. It lauds Network Rail as being a success due to it being, “operationally free from government” and having “the efficiency of a united and holistic infrastructure, with strong private sector managements and the ability to borrow on the open market without affecting the government debt”.

Network Rail was established following the crisis that engulfed Railtrack, the private company that took over

running infrastructure following privatisation in 1994.

Railtrack went into administration in 2001 and was wound up in 2002, but not before borrowing heavily from the government and using £137 million to pay a dividend to its shareholders. Its assets were transferred to Network Rail.

The rosy picture of Network Rail painted by Compass is far removed from reality. Network Rail is currently postponing 28 percent of its track renewal programme, which has serious implications for the safety of staff and the travelling public. In June last year 330 station staff struck for 24 hours against compulsory redundancies. The following month 12,000 maintenance staff struck to demand the equalisation of pay and conditions across the company.

In a nauseating paean to former Prime Minister Tony Blair who, together with Brown, orchestrated Labour’s transformation into an open party of big business, Compass states that the acceptance of its proposals would prove that “far from being exhausted” the government “understands that traditional values need to be delivered in a modern setting. What could be more New Labour?”

Compass leader Neil Lawson said that his proposals would give the government “everything they want and which would go through with the enthusiastic backing of Labour MPs”.

But the document did not go far enough for the government. Despite Lawson revealing that he had held “very constructive” talks with officials in Downing Street and the Business Department, Postal Affairs Minister Pat McFadden stated that the government considered the Compass proposals as “unworkable and not under consideration”.



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