Lessons from privatisation

IT'S NOT TOO LATE TO PRIVATISE ROYAL MAIL

Ian Senior[1]

In classical myth Cerberus was the three-headed dog that guarded the entrance to hell. The Royal Mail Group ('RMG'), as the holding company is currently called, is a three-headed dog that should be put down. This paper examines the problems underlying RMG's three businesses – letters, parcels and counters – and suggests that if Cerberus were privatised as three ordinary dogs and the holding company abolished, they would have much better prospects of profitable survival.

For many years there was the Post Office. Then, for two brief years it changed its name to Consignia and went downhill rapidly. Today the letters operation is called Royal Mail; parcels are called Parcelforce Worldwide; and counters are called Post Office Ltd ('POL'). They all come under RMG, the holding company. In addition, RMG owns GLS Holdings, a German and pan-European parcel service, which is effectively an overseas extension of Parcelforce.

The operations of the three services have surprisingly little overlap. Only a small proportion of parcels is handed in at counters and only a moderate proportion of counter transactions relate to mail or parcels. Mail and parcels are largely processed separately. Sorting and delivery are done by independent networks. Collection from post offices is done by the same van, and joint inter-depot trucking is combined where possible. However, the counter operations have been run as separate units for many years and used to publish separate accounts in the Post Office's annual report.

Management failure

For much of the twentieth century the then Post Office did its main tasks to the reasonable satisfaction of the public, its customers and its owners, the government. During the 1990s about 90% of first-class letters were delivered the next working day; there was a generous though declining network of post offices; and parcels were delivered fairly reliably, though always unprofitably. Thanks to the letter monopoly the Post Office overall was profitable and was required by the government to pass its surplus cash to the Treasury. By European standards it was a success story, particularly when compared with heavy loss-making postal administrations in countries such as Germany, France, Italy and Spain.

Suddenly, at the turn of the century, the Post Office unravelled. Quality of service fell and industrial relations deteriorated. Local unofficial strikes by postal workers became commonplace. Above all, the once profitable Post Office started to make huge losses. At this juncture the Post Office was renamed 'Consignia'. It was thought that this would be an easier brand name to market abroad. Whilst this was doubtful, it was certainly madness to use it in the UK.

From profits to losses; and back again?

Table 1 shows the operating results of RMG for the past four years. The accounts for 2001–02 were disastrous. The figures for mails and parcels were slyly combined in order to mask Parcelforce's losses. They should not have been so because Parcelforce competes directly with the private sector. Combined figures made it impossible to know the extent of the subsidy from letters to parcels, yet any subsidy is illegal under EU law. Together the two services moved from a profit of £237 million in 1999–2000 to a loss of £956 million in 2001–02. Counter services, which in the 1990s produced modest annual profits, made a loss of £238 million. Were it not for the cash reserves that the Post Office had been compelled to lodge with the Treasury in the 1990s, RMG would have been insolvent. These reserves were used to plug a vast hole in the side of the floundering ship. For a company with a near-monopoly of a valuable market – mail – to make massive losses resulted purely and simply from incompetent management.

A new team has been put in place to turn RMG around. The part-time chairman Allan Leighton is credited with turning round ASDA and lastminute, two previously struggling companies. He has been less successful with Leeds United. The new deputy

Table 1: RMG's results, 2000–01 to 2003–04 (£ million)

	2000–01	2001–02	2002–03	2003–04
External turnover	8,119	8,408	8,229	8,633
Mail profit (loss)	(a)	(a)	20	253
Parcels profit (loss)	(a)	(a)	–198	–102
Post offices profit (loss)	–38	–238	–198	–102
Group profit (loss)	–45	–1,186	–197	220

Note: (a) = no individual figures for mail and parcels.
Source: Annual accounts.

chairman, Elmer Toime, was head of New Zealand Post when the letter market was fully liberalised in 1998. Under him NZ Post continued to operate profitably despite the entry of a considerable number of competitors. Adam Crozier moved from the Football Association to become RMG's chief executive officer. A number of board members were eased out. Royal Mail announced that there would need to be 30,000 redundancies, and in December 2003 Crozier announced that 3,000 of these would be middle and senior managers. The turnaround was happening.

The improvement since the nadir of 2001–02 is clear in the case of mail, but the jury is still out on parcels and post offices. The latter are receiving a government subsidy of £150 million a year that will continue until 2008. The subsidy has plenty of political value – the closure of three post offices was an important factor in the Brent East by-election which Labour lost dramatically – but no economic merit. Many counter transactions are still for the government. It should pay a better rate for these specific transactions rather than a subsidy which can be indiscriminately applied to any of POL's operations. The group profit of £220 million is encouraging but is still far too low.

Impact of the Internet revolution

Royal Mail and others have sometimes laid part of the blame for the losses on the IT revolution, notably e-mails and texts. This holds no water. Until recently e-mails and texts have represented communications that are *additional to* traditional letters. Both were substitutes for telephone calls or were communications that would not otherwise have been sent.

Once you are connected to the Internet the marginal cost of e-mails is zero however many you send. The marginal human cost of sending an e-mail to numerous addresses is also zero once an address book has been set up. The result has been two-fold. Individuals communicate far more often by e-mail than they would have done by letter; and the explosion of spam. Offered a costless way of sending, literally, millions of e-mails daily 'spammers' require only a minute response rate to justify the effort. Two ways of stopping them are under consideration. The first is legal action based on new legislation. The second is to charge everyone for sending e-mails. The economic approach is clearly desirable. A charge of 1p per e-mail sent would not discourage bona-fide senders but would dramatically change the economics of spamming.

'Text messages' sent by mobile phone can be seen as a specialised form of e-mail. A 'text' costs around 10p depending on the carrier, and its price is falling. The most sophisticated mobile telephones are increasingly converging with miniature, hand-held computers.

What seems clear is that e-mails are now eating significantly into the traditional business of letter traffic as a means of one-to-one communication, and will continue to do so. A few years ago it became possible to attach documents of almost unlimited size to e-mails. The e-mail became the bearer of the covering message while the document replaced paperwork that historically would have gone by post. Documents can be in colour, with detailed pictures, tables and graphs. Personal letters, bids, minutes and reports are now sent as fully formatted e-mail attachments. Original paperwork may be necessary still for legally binding contracts and for invoices, but these represent only a tiny fraction of the traffic that can be delivered with certainty in seconds rather than with uncertainty in days. Further, e-mail costlessly gives an automatic warning of non-delivery. By contrast, a document sent by post that must be signed for by the recipient costs an additional 64p.

Today all professionals have e-addresses as do many tradespeople. The point of business saturation will be reached in a year or two when virtually *all* business-to-business communication is done by e-mail.

Business-to-consumer communication is moving in the same direction. The utilities already offer discounts to users who agree to forgo paper-based statements and instead check their account over the Internet. Bank statements can be viewed online. Payments can be made electronically by businesses and individuals. Electronic cash cards with chips have so far not got off the ground, but the arrival of pay-as-you-go mobile phones that can be replenished by credit card using the phone itself points the way.

Before long the only people not on the Internet will be the old, the badly off and the under-educated. This prospect for both traditional mail and for post office counters is alarming. For parcel delivery the Internet will stimulate home deliveries and be a boon.

What future is there for second-class mail when much of it is junk? At present the volume continues to rise in the UK and it may yet have some continued growth in prospect. However, once again the Internet presents a threat to junk mail. Surfing the Net has become dramatically easier thanks to search engines such as Google and broadband connections. Suppliers of innumerable products offer direct sales over the Net. Encryption processes for the use of credit cards have kept ahead of fraudsters, and so long as this remains the case Internet sales will continue to rise rapidly.

In summary, the future for physical mail as a means of one-to-one communication is bleak, and volumes are already stagnant or falling in some industrial countries. The jury is out on whether e-mails and the Internet will replace direct mail.

The impact of the Internet on post office counters is potentially just as dramatic. Traditional counter transactions such as paying state benefits have already been hard hit and other counter transactions will be replaced by Internet transactions from the office and home. For example, why pay a utility bill over the counter if you can do it at home from your PC?

The case for setting RMG's three operations free

Parcelforce Worldwide

The first candidate for full independence is Parcelforce Worldwide. It is a commercial operation that competes with several thousand other parcel carriers. Major competitors such as DHL (owned by Deutsche Post), UPS (a major US corporation) and TNT (owned by the Dutch post office) deliver to every address in the country. Their prices for doing so are varied only for a small number of areas such as the Scottish islands. They have no legal obligation to provide a universal delivery service, but they do so because their customers want them to do so.

If Parcelforce were fully independent it could still collect parcels from post office counters, as now, and pay POL for this facility. But post office counters would also accept parcels from other carriers. And filling-stations and other intermediaries could accept parcels too, for other carriers and from Parcelforce. Filling-stations, for example, could offer longer hours and would be more convenient for many customers than visiting counters on the high street. More generally, POL would be driven by the need to compete instead of to seek subsidies.

The general public would notice the change to independence because prices might rise by 17.5% given that an independent Parcelforce would no longer be VAT-exempt. However, the number of parcels sent by individuals is small. Parcelforce does not reveal its traffic volumes, but most individuals send only one or two parcels a year. The removal of VAT exemption could benefit Parcelforce as it would be able to reclaim VAT paid to its suppliers. Further, it could subcontract more of its operations because these would become cheaper as VAT could be reclaimed.

Given that Parcelforce has been a perennial loss-maker, can it afford to go independent? RMG has been making efforts to increase Parcelforce's efficiency and motivation, which may bear fruit. The managers of the business might welcome independence. They might recall the transformation in the fortunes of the then National Freight Corporation that was privatised in 1982 and went from weakness to strength.

Whatever the future for Parcelforce, the essential argument remains: delivering parcels is not a natural monopoly; no universal or social obligation is appropriate; it is a purely commercial function and governments should not own commercial operations. Parcelforce must be allowed to compete successfully as a stand-alone company. If it cannot it should be acquired or cease trading.

Royal Mail

The case for Royal Mail's independence requires more consideration. Two specific questions must be addressed: the likely extent of Royal Mail's dominance of the market when this has been fully liberalised in 2007; and the universal service obligation ('USO').

In 1993 the Swedish letter market was fully liberalised with the full support of the Swedish post office, Posten. Since then a hundred or so companies have entered the letters market, and many have left. Typically there have been 20–30 competitors at any time, offering mainly local services. Their combined share of the market is thought to be about 5%. Until the two most recent years Posten has been profitable, though much less so than before the market was opened. In 2002 and 2003 Posten made losses, and, like RMG, is in the process of restructuring its business.

By contrast, NZ Post remains conspicuously successful and has always made profits since liberalisation, though at lower levels than before. Its standard letter price is NZ45 cents (16p). This is exactly the price in 1989. For six or so years in the intervening period the price was NZ40 cents. It faces direct competition from about half a dozen companies who between them are thought to have captured only about 5% of the market.

On this experience, therefore, it seems likely that Royal Mail will retain about 95% of the letters market for at least five years after full liberalisation. Royal Mail has three particular advantages: sophisticated and expensive sorting machines that read bar-coding and even hand-written postal codes; a network of 1,700 offices that constitute the final-mile delivery network; and a strong brand-name even though it has

Table 2: Prices of a standard letter in Western Europe

Nominal price for a domestic standard letter			Letter price adjusted by purchasing power parity		
	€	£		€	£
Norway	0.75	0.53	Italy	0.71	0.50
Switzerland	0.66	0.46	Finland	0.64	0.45
Finland	0.65	0.46	Norway	0.61	0.43
Denmark	0.61	0.43	Greece	0.60	0.42
Sweden	0.60	0.42	Portugal	0.59	0.41
Italy	0.60	0.42	Austria	0.57	0.40
Austria	0.55	0.39	Germany	0.55	0.39
Germany	0.55	0.39	Sweden	0.54	0.38
AVERAGE	0.52	0.36	Belgium	0.53	0.37
France	0.50	0.35	AVERAGE	0.52	0.36
Luxembourg	0.50	0.35	France	0.52	0.36
Belgium	0.49	0.34	Denmark	0.51	0.36
Ireland	0.48	0.34	Switzerland	0.49	0.34
Greece	0.47	0.33	Luxembourg	0.49	0.34
Portugal	0.43	0.30	Ireland	0.45	0.32
UK	0.40	0.28	Netherlands	0.40	0.28
Netherlands	0.39	0.27	UK	0.37	0.26
Spain	0.27	0.19	Spain	0.33	0.23

Source: Deutsche Post, January 2004.

been badly dented by its recent performance and Channel 4's revelations about business practices in some of its London offices.

Royal Mail has reached agreements with some of its as yet embryonic competitors to accept mail sorted by post-code for delivery over the final mile. The rate is to be 13p an item. This should encourage upstream activity by competitors who will collect mail from smaller senders, bulk it, sort it and then pass it to Royal Mail for final delivery. A further development is that Express Dairies, for whom the delivery of milk continues to fall by 8–10% a year, has begun delivering mail and sees this as a natural way to redeploy its network of delivery floats.

It seems certain that even if more significant competition develops in the UK postal market under liberalisation than has occurred in Sweden and New Zealand, for a decade or more Royal Mail will easily be the dominant supplier. Is this a reason against giving it full independence? An unfettered supplier with 90% of the market could easily abuse its position. In such circumstances the accepted solution is to create a regulator to prevent such abuse and this is discussed below.

The second key issue is the universal service obligation. Under Royal Mail's licence from Postcomm it must deliver once to every address in the land every working day.

This obligation was the bulwark of the Post Office's defence of its letter monopoly for years, summed up by the two words 'cream skimming'. The assumption was that under liberalisation new entrants would take the easy work and leave delivery in the sparse areas to the incumbent. In fact the first serious study to cost the USO was that of Dodgson *et al.* (1998)[2] which estimated that the net avoidable cost of the British USO to be €20 million (£13.3 million) in a year when Royal Mail was making an operating profit of £470 million.

More recently the argument has been that far from being a cost burden to Royal Mail, the USO is required by its customers and is therefore a financial advantage over those who cannot provide universal delivery. It is pointed out that the big parcel companies give universal delivery without an obligation to do so.

I conclude that neither its future dominance nor the USO stand in the way of Royal Mail being given full independence.

Enter Postcomm

To ensure that Royal Mail does not abuse a dominant position and also provides the USO, the government created the Postal Services Commission ('Postcomm'). Unfortunately Postcomm has turned out to be an over-zealous regulator. For example, in May 2003 while Royal Mail was making substantial losses, Postcomm finally permitted Royal Mail to increase the price of a first-class and second-class stamp by just one penny. As table 2 shows, this still leaves British letter prices as the lowest real letter price in Western Europe with the exception of Spain. Also, a standard letter in the UK weighs up to 60g while in the other countries 20g is the limit. In essence, a standard (first-class) letter in the UK is the cheapest in Europe.

Postcomm's insistence on holding down letter prices in the UK is because the regulator believes that there is significant inefficiency in Royal Mail that must be squeezed out before price rises are warranted. There is truth in this. The most glaring example of inefficiency for years has been the second delivery which belatedly Royal Mail is now abolishing. Evidently it came as a surprise to Royal Mail's senior management to discover that the second delivery absorbed 20% of delivery costs and delivered only 4% of the mail. The obvious solution was to abolish it and to extend the hours of the single delivery up to 4.00 p.m. as argued in Senior (2002).[3] Postmen's walks would be organised to deliver to business areas first.

The huge benefit of the change would be that with a longer delivery period virtually 100% of first-class mail could be delivered on the next working day. Royal Mail is now slowly rolling out the new single-delivery system but without saying when the single delivery is supposed to finish.

Other examples of managerial incompetence in Royal Mail were graphically demonstrated by Channel 4's *Dispatches* programme (2004).[4] Secretly filming in several large London sorting and delivery offices, the undercover reporter revealed the regular use of totally untrained staff, many of whom were supplied by agencies and whose criminal records were not checked; staff being paid overtime in order to work their contractual hours; staff who knew how to steal credit cards from the mail and who thought that a year in prison was well worth it even if caught; staff who were sent out on delivery in London with no guidance; premises that were left open and unattended so that people could walk into them from the street unchallenged; and, above all, managers on the floor who were out of control and willing to turn a blind eye to these failings. London has always been a trouble-spot for staffing, but it is likely that similar failings occur in other major industrial centres. It is clear that Allan Leighton's new team still has much to do in clearing up the failings of its predecessors.

It is likely that Postcomm's overzealous approach to regulation is diverting Royal Mail's management from doing just that. For example, Royal Mail wants to change its tariff structure from one based on weight alone to one that takes account of the size of mail pieces. Size-based pricing is an eminently sensible change. Bulky but light items such as camera films must be manually sorted and some flat but thick items such as books and catalogues similarly cannot be sorted by machines.

Postcomm's dilatory response to Royal Mail's proposals has been to request more cost data from Royal Mail, and on 29 April 2004 to launch a public consultation process, in essence putting a brake on a move that clearly is in the right direction. While it is correct that a dominant supplier's tariff should be aligned to costs, Postcomm's approach to Royal Mail seems to be that of wishing to ensure that no profits shall be made that might conceivably be considered excessive. This is a clear case of the best being the enemy of the good.

A further example of Postcomm's heavy hand has been to threaten fines and to levy the first of these on Royal Mail for failure to meet targets, notably for quality of delivery. Fines are counter-productive. The quality target for next-day delivery of first-class mail, arbitrarily set at 92.5%, is far less important than allowing Royal Mail to root out the malpractices mentioned above.

In January 2004 Postcomm introduced a system whereby Royal Mail will have to pay compensation to major senders if quality standards are not met. Compensation to senders has more validity than fines that simply benefit the Treasury. Compensation would be reasonable if, for example, Royal Mail were to offer a day-definite delivery service at a premium tariff (which some senders would like), and then fail to deliver on the agreed day. Compulsory compensation should be based on evidence that firms do indeed suffer financially if, for example, 90% rather than 92.5% of first-class letters are delivered the next day. Postcomm has not yet made such a case. Instead, in September 2003 the regulator announced an arbitrary fine on Royal Mail of £7.5 million because the quality of first-class postpaid impression mail (i.e. with a printed rather than an adhesive stamp) and first-class response services were both 6% below the target of 92.5% for delivery on the next working day. The figure appears to have been pulled out of a hat, and the fine will pass straight through to the Exchequer rather than benefiting those firms or individuals who are supposed to have suffered. A better approach would be to open the market faster, allowing competing companies the opportunity to show they can do better.

In essence, many of the problems that Royal Mail is now addressing are the result of years of fighting to retain its letter monopoly at all costs. The difficulty of solving the problems is being compounded today by Postcomm's overzealous regulation.

Post office counters

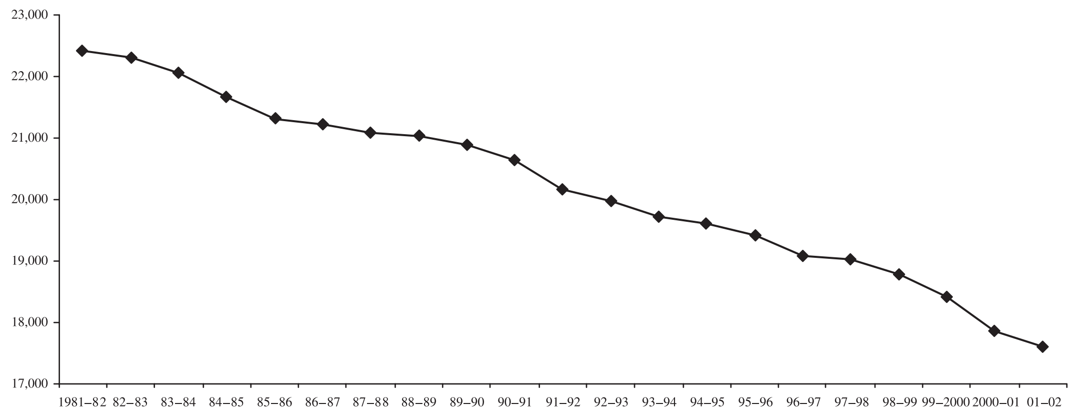
The number of post offices has declined steadily for decades. The most recent 20 years are shown in figure 1. Future years will show an even sharper decline. Post Office Limited ('POL') is in the process of closing 3,000 urban offices. Thousands of rural offices are at risk but have been reprieved by government subsidies of £150 million per year up to 2008.

From figure 1 it is clear that the decline in post offices was in train long before the Internet revolution began. The impact of the Internet and electronic transactions is still gathering momentum. In a recent paper[5] I suggested that 18 out of 25 forms of counter transaction were vulnerable to being transferred to the Internet.

Meanwhile, POL is trying hard to reinvent the network by offering a new range of financial products and services such as loans, credit cards, mortgages and insurance, and has formed an alliance with the Bank of Ireland to do so. Other European post offices and NZ Post have also decided to increase their emphasis on financial operations.

Entering these mature and competitive markets will not be easy. Certainly POL can offer the 'Post Office' brand-name which has value for building trust. However, sub-post offices are owned by their

Figure 1: Number of post offices in the UK, 1981/82 to 2001/02



proprietors who are independent and many of these proprietors do not seem obvious candidates for selling financial products. They will be in direct competition with independent financial advisers, specialist brokers and the big institutions. If POL has access to funds from other parts of RMG to launch and indeed subsidise the new activities in competition with the private sector, there will be market distortion and unfair competition. So long as POL continues to receive £150 million per year from the government it will be open to further claims of market distortion.

Even if POL succeeds in becoming a serious player in these financial markets, that will not save the network from further decline. The kind of staff and premises needed to meet clients and arrange loans, mortgages and insurance are quite different from those found in typical sub-post offices. There will need to be space, carpets, modern furniture and qualified specialist advisers. Few existing offices will be able to offer the required facilities, let alone the people. POL will need to modernise and redesign some hundreds of its largest, central offices, those that it staffs itself. The remainder will be untouched by the new financial business. They may offer application forms, but the real work will be done at the designated centres, at specialist telephone call centres and over the Internet. Footfall in the sub-offices will be unaffected.

Abolish RMG and privatise the three operations

In 1983 I made the case for privatising the Post Office.[6] This was in the early years of the Thatcher government when commercial concerns such as British Airways that clearly operated in competitive markets were being privatised. Thought was already being given to selling off services such as British Telecoms and the utilities despite arguments about their being natural monopolies. I argued then, as I do now, that letters are things to be carried, like parcels, and mail networks are not natural monopolies.

Today, the small market shares of competitors in Sweden and New Zealand may seem to have reinforced the view that letters constitute at least a market with large economies of scale if not a natural monopoly. That said, the impact of competition on both Posten and NZ Post has been beneficial.

Two post offices have been privatised. Sixty-five per cent of the shares in the Dutch post office, TPG, are in private hands. The government holds the balance and also a golden share which it has undertaken to use only in extreme circumstances. Deutsche Post has sold half its shares to the public. The government holds the other half plus one share. The partial flotation of its banking arm, Postbank, took place in June 2004.

On the other hand, the shares of NZ Post, the most successful incumbent operating in a fully liberalised market, remain with the government and there has been no move to sell them. The shares of Sweden's Posten are also still held by the government.

What case is there for privatising the Royal Mail Group and selling the shares to the public? I take for granted the usual arguments about motivating managers and encouraging efficiency. The key question is, what value is there currently in RMG and will that value increase in future?

From the earlier analysis we have seen that Parcelforce Worldwide can no longer be permitted to be subsidised by Royal Mail. It must make profits, be taken over or cease trading. Privatising it as a separate concern would be the simple, market-driven way to achieve this result. The privatisation of the National Freight Corporation in 1982, mentioned earlier, is a most successful precedent. The ailing publicly-owned concern became profitable and grew rapidly. In 2003, its turnover was £5.1 billion, operating profit was £154.4 million, it had around 74,000 employees and facilities in over 120 countries.

Royal Mail is turning round and made a profit in 2003–04. Once it is clearly on the road to recovery privatisation will be a potent driver and provide the stimulus for it to compete with Deutsche Post and TPG among others, both of whom have long-term licences to operate in the UK. However, a question-mark hangs over a black hole in its pension fund that has been estimated at £24 billion.[7]

The case for privatising POL is becoming clearer as its volume of government transactions falls and it develops a new strategy of being a financial services operation. If counters can run as a profitable business in the Netherlands and has been partly privatised in Germany, why not in the UK? If counter services can attract private capital in those countries why should POL seek government subsidies in the UK? A privatised POL could still undertake governmental transactions such as the payment of benefits, but it would be in a stronger position to negotiate with the government a commercial price for doing so.

To enable the three businesses to spread their wings the first requirement is for Postcomm to step back from its heavy-handed approach to regulating Royal Mail. Instead it should concentrate on making it easy for new entrants to come into the letters market. A major improvement would be for it to adopt a transparent, hands-off approach to how Royal Mail and others set their prices.[8] It should stop levying fines and leave in place the systems of compensation only if they reflect plausible estimates of losses incurred by Royal Mail's customers.

While advocating the privatisation of Royal Mail, I add one important caveat: in present circumstances it would be wrong to allow the purchase of Royal Mail by Deutsche Post. As shown, the German company has high domestic prices. In addition, it enjoys a full monopoly of the letter market (though not of direct mail) up to 100g and has the benefit of a soft regulator. As a result it continues to make huge profits from the domestic letter market. In 2003 its earnings before interest, tax and amortisation were almost €3 billion (£2 billion). Its monopoly profits have been used to finance an aggressive programme of takeovers, both domestic and overseas. Deutsche Post would have no difficulty in buying Royal Mail outright and, in so doing, it would acquire Royal Mail's prized final-mile delivery network. It would be wrong to permit Deutsche Post to use profits built up under a soft regulator to buy Royal Mail whose profitability has been undermined by an overzealous Postcomm.

Conclusions

The first step in reforming RMG's three operations is to set them free by abolishing RMG, the holding company. The operations are already beginning to compete against each other. For example, in November 2003 Royal Mail announced that it was to offer the following new services: philately services, travel insurance, foreign currency, safe Internet transactions and paying bills online. All these are transactions that are currently undertaken by POL.

The abolition of RMG would lighten the load on all three operations. They would continue to carry out operations for each other on an arm's-length basis but could use competing suppliers of services if they wished. For example, post office counters could accept parcels from competitors and Parcelforce would use alternative intermediaries. POL would then be driven by the need to compete instead of to seek subsidies.

A fatal mistake would be to follow the line of the John Major government that contemplated privatising the Post Office as a whole. Because the functions of the three operations are so different, the shares of a combined operation would be worth *less* than the shares of the three parts. For example, parcel operating companies would be deterred from bidding for Parcelforce's shares if they came tied in with counters.

While the lamentable fiasco resulting from the botched railway privatisation continues with no end in sight (see the article by Tyrrall, in this edition of *Economic Affairs*), there is likely to be initial public hostility to the concept of privatising what many still call 'The Post Office' by splitting up its three operations. But commonsense will prevail when it is realised that letters, parcels and counters have operated separately for two decades and that the modest overlap between the three operations can continue as before.

Cerberus needs to be put down. Its place should be taken by three independent, privately owned and potentially healthy dogs.

1. The author is grateful to comments received from Paul Jackson of Triangle on a draft of this paper.
2. J. Dodgson, I. Senior, *et al.* (1998) *Costing and Financing of Universal Services in the Postal Sector in the European Union. A Report to DGXIII of the European Commission*, London: NERA.
3. I. Senior (2002) *Consigned to Oblivion. What Future for Consignia?*, London: Adam Smith Institute, pp. 8–9.
4. 'Third Class Mail', 29 April 2004.
5. I. Senior (2003) 'The UK's Post Offices – Time's Up?', Keynote paper, UK Mail Show, Olympia, 19 November.
6. I. Senior (1983) *Liberating the Letter*, IEA Research Monograph 38, London: Institute of Economic Affairs.
7. *Sunday Telegraph*, 10 May 2004.
8. For a detailed description of my proposed price change limitation table see I. Senior (2002) 'Measuring the Success of Postal Regulators. What Should be Best Practice in Postal Deregulation?', Beesley Lecture, Royal Society of Arts, 12 November. Publication forthcoming, IEA, 2004.

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