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JAMES NAUGHTIE: What lies ahead for Royal Mail? The government faces a very difficult problem, one that's been explained in a review of Royal Mail operations now on ministers' desks, we'll know the outcome later this week. Financially, Royal Mail is in trouble, but to the public, efficiency in its operations is more than a better financial performance – for customers efficiency may mean a good public service, reliable deliveries, collections. The government has to balance the need to avoid serious financial difficulty for Royal Mail with the protection of the public interest in delivering a reliable postal service. Well, were joined by our business editor, Robert Peston. Robert, how unpalatable do you think this report's recommendations are going to prove for ministers?

ROBERT PESTON: Well it's certainly going to say that reorganisation has to be very radical indeed, and that's because its analysis of the problems facing Royal Mail make very worrying reading indeed for them. As I understand it, Richard Hooper, who is the former deputy chairman of Ofcom the media regulator, who's conducted this independent review for the government really highlights three very worrying trends at Royal Mail. First, that the volume of letters that it is carrying is declining at a pretty sharp rate and that decline could accelerate to something like 7% a year when you put together both what's the downturn in the economy, what everybody is describing as a pretty sharp recession here, plus the longer term pressures. And those longer term pressures are, to a certain extent, caused by the Internet. I mean, it is extraordinary how people are suddenly – at an extraordinary rate - using e-mail much more than they were, in place of letters, so that something like £500 million each year has been removed from Royal Mail, as a result of competition from those sorts of sources. And then there is just the colossal problem of the pension fund, which is causing enormous financial damage.

JN: Well, let's come back to the pensions in a moment. I just want to ask about the other point. I mean, from what you say, the guts of this report are about the future, because it's saying that if nothing is done, things will get worse.

RP: That's exactly right, Jim. I mean it is saying that some of the financial pressures have to be removed and that the business has to be reorganised. It looks, for example, at the pension services in places like Denmark and Belgium, where the private sector has got involved, and it sees profit margins there a multiple of the kind of profits that Royal Mail is making, which makes them much better able to provide what we think of as being the core of a postal service . . .

JN: Well that's the . . . .

RP: . . . a universal service which is, you know, delivering letters anywhere in the country, for a single price.

JN: Well, that's the key point, isn't it? I mean, politically, what the government's got to do is say, yes, we're going to run this in a financially responsible way, and it's going to make money and all the rest of it, but at the same time, they've got to say to people, efficiency to you must mean that your letters are picked up and delivered on time?

RP: That's right and so in order to protect this universal service, this chap Hooper is expected to say that the private sector has to come in and help out Royal Mail, both in the form of expertise and capital. Now, that is something that will desperately upset Labour's left, it will upset the trade unions, because it sounds a lot like privatisation. Ministers however are committed not to privatise, so there will be this fudge as I understand it, that it'll be that what they'll move towards is semi-privatisation, selling off less than half. Even so, that will very much upset Royal Mail's unions and many Labour backbenchers.

JN: A quick word here about pensions, because they've got a huge problem of pensions and the Conservatives ....

[*The interview finished on the Royal Mail's huge pension problem.*]