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Aerospace

14 April 1980

British Aerospace: Shares for Employees

The Prime Minister has seen your letter to Tim Lankester of 10 April.

She is content that Lord Trefgarne should this afternoon speak enthusiastically about employee shareholding, and that he should volunteer that the Government are considering whether to go beyond the "matching one for one" scheme. She would, however, prefer him not to mention any specific figure for the scale of employee shareholdings. She would prefer him to say that we envisage a "small but significant" degree of employee shareholding.

I am copying this letter to Martin Hall (H.M. Treasury).

N.J. SANDERS

Peter Stredder, Esq.,
Department of Industry.

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Prime Minister

The reason for the delay in putting Sir Keith's minute to you is that I have been awaiting this advice from the Treasury. The Chancellor has been at odds with his junior Ministers on the issue. He now suggests another discussion in E(DL).

Are you content with what is proposed below?

Yes AT. TL 2/4

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

3 April, 1980

T. Lankester, Esq.,
Private Secretary,
10, Downing Street

Dear Tim,

BRITISH AEROSPACE: SHARES FOR EMPLOYEES

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The Chancellor has been considering the issues described in the Secretary of State for Industry's minute of 13th March to the Prime Minister. Their urgency has of course evaporated with the decision taken in OD on 20th March that the BAe flotation should be postponed, and the Chancellor believes that it would now be sensible to await a further E(DL) discussion of the BAe disposal plans and merchant bank advice on the likely proceeds, before deciding how generous the Government can afford to be on employee shareholding schemes.

The Chancellor however recognises that the Government spokesman (Lord Trefgarne) will have to say something about employee shareholding in the Report Stage Lords Debate on the BAe Bill on 14th April. He would be content that the Government should then announce that there will be a "one-for-one" scheme whereby employees buying shares should receive a matching number free of charge subject to the maximum allowed under the 1978 Finance Act, and to an overall aggregate limit, which would not be specified at this stage. This scheme was accepted in E(DL). If asked whether any further scheme was envisaged, Lord Trefgarne could say that Ministers were indeed considering whether any additional measures would be justified, but the Chancellor would not wish him to describe the proposal for a free offer of shares worth £50 to all qualifying employees on which E(DL) was deadlocked.

I understand that, for the purposes of the Debate on 14th April, DOI officials would be content with an interim solution along these lines. A copy of this letter goes to Ian Ellison.

Yours ever,

MAT.

M.A. HALL
Private Secretary

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PRIME MINISTER

PM seen

BRITISH AEROSPACE : SHARES FOR EMPLOYEES

E(DL) Sub-Committee considered this subject on 10 March under my chairmanship, on the basis of an exchange of letters between Adam Butler and Nigel Lawson, dated 27 February and 6 March respectively.

The flotation of British Aerospace shares is planned for the early summer. There is a manifesto commitment to give the employees an opportunity to purchase shares.

Adam Butler proposed that we should adopt two schemes to give employees a chance to acquire shares on favourable terms, subject to a qualifying period of one year's service:

i. a "one-for-one" scheme whereby employees buying shares would receive a matching number of shares free of charge subject to the maximum of £450 under the 1978 Finance Act - take up is expected to average £200 of free shares per head; and

ii. a free offer of shares worth £50 to all qualifying employees.

The gross cost of these schemes would be about £3½ million each, total £7 million.

Adam Butler explained that he had at first intended to propose only the first of these schemes, which is precedented in our sale of BP shares. However, the management of British Aerospace were strongly in favour of having the second scheme as well, and he had become convinced that they were right.

The attractions of the free offer are these -

i. It is the only way of ensuring a really wide spread of shareholdings among employees. The main unions in British Aerospace are opposed to the whole principle of employee shareholdings, and if we have only the one-for-one scheme, with shares being bought by only a minority of employees, the unions can plausibly claim that the scheme is "divisive". Widespread holdings will cut this ground from under their feet.

ii. A situation where all or most employees hold shares and some have actually bought them will be a significant obstacle to any plans by a future Labour Government to renationalise British Aerospace on penal terms. The knowledge of this would tend to improve the price we could expect to get for BAe shares. Adam Butler was confident that the flotation could be a success without the free offer of shares. He did not claim that its effect on the share price would be more than marginal. But a marginal effect would reduce and conceivably even eliminate the cost of the scheme.

The merchant bankers handling the flotation, Kleinwort Benson, have advised that the key factor in assessing the likely impact of an employee shareholding scheme on the outcome of the flotation is the scheme's likely acceptability to the employees. They have not previously asked for the inclusion of a free offer but welcomed Adam Butler's proposals.

Adam Butler was strongly supported at the meeting by Norman Fowler. He was also supported in correspondence (letters dated 10 March, 1980) by David Howell, and by Michael Heseltine who indeed argued that a £50 free offer did not go anything like far enough.

The Treasury Ministers present, John Biffen and Nigel Lawson, were opposed to the free offer. They did not object in principle to the total cost of the measures which Adam Butler proposed. Indeed, in order to reach agreement at the meeting, they would have been prepared to accept a "one-for-one" scheme costing as much as £7 million. Their main reasons for objecting to the free offer were -

i. They felt that it would not be an effective obstacle to later renationalisation on penal terms. Share purchases by employees would be more effective.

ii. On the other hand, it would create a precedent for future share flotations, such as those for British Airways and the National Freight Corporation, when it would be hard to resist pressures not only for free offers but also for more generous free offers on the lines which Michael Heseltine had suggested.

Thus they felt that the free offer could involve unacceptable costs, not in the British Aerospace case itself, but by virtue of the precedent which it would create. They were supported at the meeting by Norman Tebbit on behalf of the Department of Trade. Adam Butler replied that in not following the BP precedent his proposals pointed the way to different treatment of different cases.

Thus there were two clearly established positions, and no compromise position between them. At the meeting, neither side was willing to reach agreement on the basis of the other's position, and we agreed that the issue should be referred to you for decision. As time is pressing, however, all those present hoped that you would feel able to reach a decision yourself without waiting for a meeting of the full E Committee. I allowed myself although chairman to add in the summing up that, other things being equal, the views of the Minister responsible for the Bill should have some special weight.

I imagine that you will want to consult the Chancellor of the Exchequer before reaching a decision. I am therefore copying this minute to him, as well as to our colleagues on E(DL), and to Norman Fowler, Adam Butler, and Sir Robert Armstrong.

KJ

13 March 1980

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