



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

3 July 1980

The Hon. Adam Butler, MP.,
House of Commons

Adam

SHARES FOR EMPLOYEES

You wrote to me on 24 June to suggest that it would be wrong, as I suggested in my minute to the Prime Minister, to apply a percentage ceiling in every disposal case on the amount of the proceeds to be devoted to encouraging employee shareholding. In the British Aerospace case, you want to retain the £7 million ceiling originally agreed, even though the estimated market value has fallen from £350 million to £300 million. John Nott has minuted the Prime Minister in similar terms on the general issue of a ceiling. (18/7/80)

I have to say that I think it important to have a clear policy settled in advance limiting the extent of the sale proceeds which we are prepared to devote to promoting employee shareholding. Not only is this important in securing consistency between individual disposal cases and between the employees in question but also in demonstrating the balance which we have to hold between the interests of employees and taxpayers. For these reasons we must have a figure fixed in advance which broadly relates expenditure on employee shareholding to the disposal proceeds. We cannot agree to spend any sum irrespective of the proceeds of sale.

My original proposal was intended in cases like BAe and BA where half of the equity is to be sold to buy an employee shareholding of between 2 and 4 per cent, depending on the make up of the arrangements. I see that John Nott agrees that 4-5 per cent of the disposal proceeds is a sensible rule of thumb. The precise percentage figure is clearly a matter of judgement and I would be prepared to raise the 4 per cent figure to 5 per cent. This would mean that your immediate problem is solved but I cannot accept that the £7 million figure for British Aerospace should be retained without reconsideration if the expected

/sale proceeds

CONFIDENTIAL



sale proceeds deteriorate further. If that were to happen, I think you would need to look again at the make up of the arrangements, perhaps restricting the free offer ~~to~~ employees with longer service.

In his minute to the Prime Minister John Nott made a more general point about the difficulties of scaling down the allocation of shares to employees if we succeed beyond our expectations in getting employees to put their own money into buying shares. I am not sure how great this risk is. But even if it were to happen, the employees concerned could still invest the same amount of their own money by buying shares at the full price, when their total purchase would still be at a substantial discount. Moreover, our position would not be as difficult as John suggests, if we had an announced general policy designed to secure a reasonable employee shareholding.

On balance therefore, although the sums involved are small, I think it would be right to retain a ceiling which might be 4-5 per cent of the proceeds.

I am copying this letter to the Prime Minister, to Keith Joseph, to other Members of E(DL), to Norman Fowler and to Robert Armstrong.

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath it.

CONFIDENTIAL

2 - JUL 1980

