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Confidential Filing

British Aerospace: Shares for Employees.

AEROSPACE

MARCH 1980

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**Cabinet / Cabinet Committee Documents**

Reference	Date
E(DL) 80 1 <sup>st</sup> Meeting, Minutes	10.03.80
E(DL) (80) 4	08.05.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB (CABINET OFFICE) CLASSES**

Signed           *B. Wayland*          

Date           28 August 2014          

**PREM Records Team**



10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

29 July 1986

It was good of you to write to the Prime Minister with advance notice of your intention to run down your Weybridge factory. The Prime Minister has asked me to send you her thanks.

(David Norgrove)

Sir Austin Pearce, C.B.E.

BM

# British Aerospace

PUBLIC LIMITED COMPANY

100 Pall Mall  
London SW1Y 5HR

Telephone: 01-930 1020  
Telegrams: Britair London  
Telex: 24353

From the Chairman,  
SIR AUSTIN PEARCE, CBE

The Rt Hon Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
London, S.W.1.

28th July, 1986.

*mt*

Prime Minister 2  
I have thanked.

*JP*  
29/7.

*Dear Prime Minister.*

I am writing to give you advance warning of the Company's decision to run down and then cease manufacturing and certain operations at our Weybridge factory. As you will see though, the site is not to be closed completely.

I enclose an advance copy of the statement to employees which will not be made public until 3.30 p.m. on Tuesday, 29th July. Naturally we would not wish this information to be released until the employees have been advised.

You may be assured that given the co-operation of our workforce there will be no adverse impact on national programmes - the Company is determined to honour in full its contracted commitments to its customers.

I would particularly want to draw your attention to the Company's aim that no employee will be compulsorily out of work and we have made wide-ranging plans in this context.

The aerospace business is getting progressively more international and competitive, and we believe this action will lead to a long run improvement in our position with beneficial effects on the whole aerospace industry.

Yours sincerely,

*Austin Pearce*



# **BRITISH AEROSPACE**

## MILITARY AIRCRAFT DIVISION

### DIVISIONAL NOTICE 2/86

#### MILITARY AIRCRAFT DIVISION RATIONALISATION

Since the formation of the Military Aircraft Division in January 1986, a detailed review has been undertaken of the Division's workload, manufacturing capacity and competitiveness. Forecasts show that the Division must reduce its costs to become more competitive.

Rationalisation is the key to improving our competitiveness, and thereby securing an increasing share of Ministry of Defence and worldwide business.

The Weybridge manufacturing facility is underloaded at its current level and, as a result, is a high cost site. There is no work from within the Company which can be economically transferred into the Weybridge site and recent bids for new work have failed on price. Equally the substantial investment necessary to modernise the plant and its facilities cannot be justified against the option of better utilisation of facilities at other sites. Without a manufacturing base at Weybridge it would be uneconomical to retain its existing full range of engineering facilities.

The Division has therefore decided that activity at the Weybridge site will be run down over the period from now until the end of 1987.

The Division is determined to minimise the disturbance and insecurity that this announcement will create to employees of the Military Aircraft Division at Weybridge. It therefore wishes to consult and discuss with staff and their representatives a number of measures with the aim of ensuring that no individual will be compulsorily out of work:-

- a. There are immediate opportunities for transfer to Kingston and Dunsfold for approximately 200 production employees, 250 technical staff and 175 other staff.
- b. All apprentices will be offered transfers to nearby locations.
- c. Product Support activities and associated staff for Harrier and Hawk will transfer to Dunsfold.
- d. The establishment at Weybridge by Civil Aircraft Division of a Spares Logistic Centre and the retention of a Civil Aircraft Design Support Centre.

In total these measures will provide continuity of employment at Weybridge, Kingston or Dunsfold for a significant number of the current Weybridge workforce. The precise number will depend upon the level of design support required long term by the Civil Aircraft Division.

Employees who are prepared to relocate, and where necessary to retrain, will be offered employment at another British Aerospace site where there are vacancies. Relocation and retraining assistance will be available.

British Aerospace will continue to locate its out-of-London Headquarters activity at Weybridge alongside the Military Aircraft Division's Headquarters.

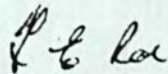
Other initiatives, aimed at ensuring that no individual will be compulsorily out of work, will include:-

- Job placement services
- A local Job Creation programme
- Retraining programmes
- Voluntary Severance Scheme, including  
Special Early Retirement Plan
- Individual financial advice

These measures are designed both to assist those individuals affected by this decision and also to ensure that the interests of our customers are fully protected and that the long term prospects of the Division are improved.

It is our intention to consult fully concerning the manner in which these measures can best be implemented and discussions are being arranged immediately.

The Company regrets the necessity for this action but believes that the measures outlined above will minimise the impact of this decision on employees, their families and the local community.



F.E. ROE  
Managing Director

29th July, 1986

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TOTAL COPIES ..... 6

COPY No. .... 1

2



Prime Minister<sup>2</sup>  
MS 28/3

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/Secretary of State for Industry

28 March 1983

Tim Flesher Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

Dear Tim

BRITISH AEROSPACE RESULTS

We now understand that the preliminary announcement of BAe's 1982 results, about which my Secretary of State minuted the Prime Minister on 23 March, will be made at 11.00am tomorrow. It therefore seems likely that there may be references to the loss BAe have made in the course of Prime Minister's Questions tomorrow afternoon. You may find it helpful to have the enclosed background note and notes for supplementary questions. As you will see, some of the figures in the background note are slightly different from those given in my Secretary of State's minute; this is because they are based on more up to date information.

Yours etc  
Steve Nicklen

STEPHEN NICKLEN  
Private Secretary



## BRITISH AEROSPACE

British Aerospace, which was consistently profitable as a nationalised corporation, now makes a loss post-privatisation

I agree that British Aerospace's results for 1982, as announced today, are disappointing. But they reflect the sharp downturn in world demand for civil aircraft which is affecting all aircraft manufacturers. (Boeing's net earnings fell 62% in 1982 for the same reason). British Aerospace continues to do well in the fields of military aircraft, missiles and satellites: the company is also well placed to take advantage of the upturn in the civil market when it comes.

Those who purchased shares in British Aerospace have been misled: privatisation will cause them to lose money.

I do not agree. Investors were aware that British Aerospace operates in an internationally competitive environment where it is dependent upon the level of world demand for its products. The criticism from the PAC was that the Government sold the shares too cheaply.

What will the Government do to help British Aerospace (oblige British Airways to purchase BAe products, launch aid for A320 etc)?

British Aerospace itself will wish to take any necessary commercial action. The Government will not direct British Airways to purchase any particular type of aircraft. As regards launch aid for the A320, the Government still needs to be satisfied that the project can earn a commercial rate of return. The British Aerospace application remains under consideration.

Will the Government now abandon privatisation?

No. It remains the Government's view that companies will perform best in the medium and long-term when exposed to the disciplines of the market place.

## Background

The preliminary announcement of British Aerospace's 1982 results takes place on 29 March. We understand that the profit before taxation will be £80 million (compared with £70 million in 1981)

but that this will be more than offset by a write-off of £100 million to reflect such exceptional factors as the increased risk of cancellation of orders during the current recession in the civil aircraft market. The net result will be a final loss of £20 million.

This will be the first ever BAe loss. Market reaction will be adverse and the share price will decline. But the results reflect the fact that the civil aircraft market has been severely depressed. BAe have secured only 18 sales (6 of which are rather uncertain) plus 14 options for the new 146 airliner. Airbus sales showed a negative net balance last year (ie cancellations exceeded new orders). Prospects for the current year are not much brighter. BAe's military sales continue buoyant - as do its activities in the missile and space fields.

BAe's shares were floated at £1.50 in February 1981. They have never fallen below that level and reached a peak of £2.55 in September 1982 before declining to their present level of around £2.30.

AIR DIVISION  
DEPARTMENT OF INDUSTRY  
MARCH 1983



PRIME MINISTER

*MS*  
Prime Minister <sup>2</sup>

To note.

ML 23/3

BRITISH AEROSPACE

The preliminary announcement of British Aerospace's 1982 results is due to take place on 29 March. The results will, I fear, be disappointing. Sir Austin Pearce has warned me informally that, while the profit before exceptional items will be £80 million (compared with £70 million last year), his auditors have insisted on an additional write-off of £100 million. This is to reflect, inter alia, the increased risk of cancellation of orders during the current recession in the civil aircraft market. The net effect is that BAe will show a final loss of £20 million. This will be the first time that BAe (either as a nationalised corporation or as a private sector company) has made a loss. The market reaction will inevitably be adverse. Although BAe will pay a dividend out of its reserves, we can expect the share price to decline.

2 BAe's business remains buoyant in the fields of military aircraft, missiles and space technology: but the market for its civil products has become severely depressed. Neither the 146 airliner nor the wide-bodied Airbus aircraft (for which BAe makes the wings) are selling well. BAe is not alone in facing this problem. The US manufacturers are likewise faced with sharply reduced demand - although they have managed to dispose of a reasonable number of narrow-bodied aircraft through severe

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MARKET SENSITIVE



price cutting and leasing (and they enjoy the "cushion" of massive US military orders). The upturn in the civil market may not come until 1984 or 1985, so that BAe's 1983 results may also be affected.

3 None of this will be helpful in the context of our broad privatisation objectives. There will be criticism from our political opponents - not least because BAe will have to envisage site closures (certainly Hurn, possibly Prestwick and one of the Manchester works) in order to reduce outgoings. But some rationalisation of BAe's plants is probably overdue: and increased cost-consciousness will ultimately be beneficial. I fear, however, that for the time being we shall have to abandon any thought of selling more of the Government's shareholding in BAe.

4 I am copying this to Sir Geoffrey Howe.

PJ

P J

23 March 1983

Department of Industry

W. Rickett, Esq

CS? NT



CS?

WITH  
THE COMPLIMENTS OF THE  
PRIVATE SECRETARY

MINISTRY OF DEFENCE, WHITEHALL

Telephone: 01-218 9000

01 218 - 6312.

E18,

Aerospace



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6666 (Direct Dialling)

01-218 9000 (Switchboard)

PARLIAMENTARY UNDER SECRETARY OF STATE  
~~FOR DEFENCE FOR THE ROYAL AIR FORCE~~  
for Defence Procurement

US of S(DP) 3/8

18th June 1982

H J Deller Esq  
Works Convenor  
British Aerospace PLC  
Aircraft Group  
Kingston - Brough Division  
Richmond Road  
Kingston upon Thames  
Surrey KT2 5QS

2

Dear Bert

You wrote on 27th May 1982 to the Secretary of State about the war role conversion of Hawk aircraft, and also sent a copy of your letter to the Prime Minister for her personal attention. You also sent a copy of your letter to me and as this is a procurement matter I have been asked to acknowledge and reply to these letters.

As you know, although development work was largely completed last year we had to delay going ahead with the rest of the programme because of cash limits on the defence budget. We have however now just given authorisation for the manufacture of the modification kits to proceed and this should provide some immediate work for the Aircraft Group of British Aerospace.

The question of the embodiment of the modification kits into RAF aircraft is more complex. This embodiment work could be undertaken either in industry or in RAF Support Command. In assessing where to place it we must have regard to a number of factors, not least of which is cost, but the points you make in your letter about the Kingston and Dunsford factories and their work-loads will, of course, be given full weight in the assessment. I must point out that similar considerations also apply to RAF Support Command. I expect a decision on this matter shortly.

You mentioned also the Falklands conflict. John Nott and I are very much aware of, and grateful for, the exceptional

response of the workforces both at British Aerospace and elsewhere, in support of our Forces in the South Atlantic. The welcome and successful outcome has been assured by a truly magnificent national effort of which all involved can rightly be proud.

*John*

*Geoffrey Pattie*

---

(GEOFFREY PATTIE)

25 JUN 1962

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B/F for copy reply.

11 June 1982

I enclose a letter to the Prime Minister from Mr. H.J. Deller, Works Convenor at the Kingston Division of British Aerospace. He encloses a letter which he has written to your Secretary of State. I should be grateful if your reply could acknowledge his letter to the Prime Minister.

B/F

W. F. S. RICKETT

D.T. Piper, Esq.,  
Ministry of Defence.

A

Jur

11 June 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 4 June.

This is receiving attention and a reply will be sent to you as soon as possible.

**W. F. S. RICKETT**

H.J. Deller, Esq.

**British Aerospace**  
PUBLIC LIMITED COMPANY

ADFL:d1h

4 June 1982

The Rt Hon Mrs M Thatcher  
Prime Minister  
10 Downing Street  
London

**Aircraft Group**  
KINGSTON-BROUGH DIVISION

Richmond Road  
Kingston-upon-Thames  
Surrey KT2 5QS

Telephone: 01-546 7741  
Telegrams: Britair Kingston-upon-Thames  
Telex: 23726

lio CF  
APS

Dear Prime Minister

I am enclosing, for your personal information, a copy of a letter I have sent to Secretary of State for Defence, Mr John Nott.

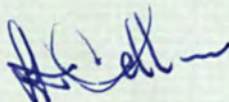
As Works Convenor at Kingston, where we manufacture Harrier and Sea Harrier, I am very conscious of how busy you are because of the Falklands crisis.

We hope you will have some little time to give consideration to the points raised in my letter to Mr Nott which seeks support from the Defence Ministry to urgently place the RAF Hawk Sidewinder programme in Industry (as opposed to being undertaken by the RAF) which would greatly help preserve jobs.

This Division of British Aerospace - the Corporation's second largest, and is involved almost 100 per cent in defence equipment manufacture - is undergoing the run-down of two of our six factories due to the curtailment of RAF support contracts. Understandably, there is a great deal of nervousness and uncertainty amongst all our employees about the future.

Perhaps you could give some little time to consider our case.

Yours sincerely



H.J. Deller  
Works Convenor

27/5

# British Aerospace

PUBLIC LIMITED COMPANY

ADFL/HJD/d1h

27 May 1982

The Rt Hon John Nott, M.P.  
Secretary of State for Defence  
Ministry of Defence  
Whitehall  
LONDON  
SW1

Aircraft Group  
KINGSTON-BROUGH DIVISION

Richmond Road  
Kingston-upon-Thames  
Surrey KT2 5QS

Telephone: 01-546 7741  
Telegrams: Britair Kingston-upon-Thames  
Telex: 23726

Dear Mr Nott

We all appreciate the pressures and strains for you personally at this time of national crisis and I am very conscious of this in asking for your consideration of our industrial difficulties and for help in alleviating them.

You may already be aware from your colleagues in Government and the Conservative Party of the grave concern in the Kingston and Dunsfold factories of British Aerospace, about the worsening employment position.

We have sought the assistance of our local M.P.s (Messrs David Howell, Toby Jessell, Norman Lamont, Cranley Onslow, Mr A Hamilton and Sirs Anthony Royle and Nigel Fisher) in making a convincing case for these two factories to undertake the war-role conversion of RAF Hawk aircraft.

The next 18 months to two years will be a critical period in terms of work-load for this Division of BAe and an early decision to allow industry to carry out the conversion programme will provide us with a vital work input to sustain present employment levels.

Already this Division is faced with a loss of 1200 jobs and the closure of two factories by next April. The two sites concerned, Bitteswell near Coventry and Holme on Spalding Moor, North Humberside, have been severely affected by the reduction in defence expenditure on maintenance and refurbishment programmes such as Vulcan, Shackleton, Phantom and Buccaneer.

As Convenor of the Works Unions at Kingston and Dunsfold, may I again stress to you the importance of fresh work for these two Surrey factories.

A decision now to return RAF Hawks to us for the Sidewinder conversion programme would sustain employment until the expected upturn in export orders and, particularly, the future work from the UN Navy's selection of Hawk for the VTXTS programme.

Cont'd/ . . .

# British Aerospace

PUBLIC LIMITED COMPANY

ADFL:HJD:dlh

27 May 1982

Aircraft Group  
KINGSTON-BROUGH DIVISION

Richmond Road  
Kingston-upon-Thames  
Surrey KT2 5QS

Telephone: 01-546 7741  
Telegrams: Britair Kingston-upon-Thames  
Telex: 23726

Letter to Rt Hon J Nott, M.P. Cont'd/ . . .

World recession and the slump in world sales has hit us badly. Even recently, an imminent contract for Hawk from Venezuela was suddenly affected by the Falklands crisis and we are now bitterly disappointed that this order could be lost.

While we realise your thoughts must be almost totally concentrated on the South Atlantic, we would ask you to sympathetically consider our case.

In the matter of the Falklands conflict, you can be assured that my members involved in Harrier manufacture and direct support of the Task Force will continue to react promptly to whatever demands are made by the situation.

In the past seven weeks or so, the workforce at Kingston and Dunsfold have worked evenings, weekends and holiday weekends to ensure supplies to our Forces; this support will continue to be guaranteed.

I take this opportunity, Mr Nott, to thank you in anticipation of your consideration of our case. Our thoughts are with the Task Force and we hope for the crisis to be brought to a speedy and successful conclusion.

Yours faithfully

H.J. Deller  
Works Convenor

Aerospace  
Minister of BA

SE Mr Ingham  
Aerospace 2.



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~331 7022~~ 218 6169

D/S of S/4576C

22nd March 1982

*MS*

*Prime Minister*

*Dear Mike,*

*MP 23/3*

British Aerospace are announcing today a rundown in the work-force at three of their sites with a view to closure over a period of approximately 12 months. The sites in question, the constituencies where they are situated and the numbers to be made redundant are as follows:-

- (1) Bitteswell, Blaby (The Rt Hon Nigel Lawson MP) About 1000  
near Coventry
- (2) Bracebridge Heath, Grantham (The Hon Douglas Hogg MP) About 150  
near Lincoln
- (3) Holme on Spalding Haltemprice (Sir Patrick Wall MP) About 100  
Moor, near York

British Aerospace say that the sites can no longer be maintained on a commercial basis and that the closures should lead to greater efficiency and lower costs.

British Aerospace seem likely to blame the closures on a reducing defence workload for their Aircraft Group. There is substance in this claim as far as the aircraft servicing, repair and modification work which constitutes a substantial part of the workload of these three sites is concerned, but the Aircraft Group's total workload has increased substantially since 1979 and should remain at or near the present level for the next two or three years.

British Aerospace have told us that they will be informing local MPs in advance of any public announcement. I attach a line-to-take, in case this is raised during Questions tomorrow.

*Yours ever*  
*Alfred PIPER*

(D T PIPER)

M A Pattison Esq

The organisation of British Aerospace's facilities is a matter for the company themselves. The amount of airframe servicing, repair and modification work required by the Services will decline over the next few years with the phasing out of older types of aircraft. This must, however, be seen in the context of the totality of Ministry of Defence expenditure with BAe's Aircraft Group, which has risen substantially in real terms since 1979/80 and, with the Tornado production programme close to its peak, is expected to continue close to this new level for the next two or three years.

PRIME MINISTER

e BI  
DH  
Avery  
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Sir Austin Pearce rang me yesterday to warn us that British Aerospace would be announcing a number of closures over the weekend. These closures will involve 1,200 redundancies, largely at their plant near Leicester, but also near Hull and Lincoln. British Aerospace blame these closures on the cutbacks in the MOD's programmes, especially the bomber programme. Sir Austin tells me there are unlikely to be any redundancies at the Kingston plant which you will be visiting on 23 April.

WM

mi

18 March 1982





**CONFIDENTIAL**

PRIME MINISTER

SHARES FOR EMPLOYEES

*mt*

*Prime Minister*

*Aerospace 2*

*The Treasury accept that there may be a problem for with the NFC (see x below). No need to comment.*

*P.*

*22/7*

Geoffrey Howe wrote to you on 18 June proposing that employees should benefit from the flotation of nationalised industries through free issue or "two for the price of one" schemes, but subject to overall financial limits of 4% of the gross proceeds and £50 per employee. I have seen the later exchanges, in the course of which Geoffrey agreed to raise the percentage to 5.

I support the Chancellor's proposal. I think it will meet our objectives of ~~setting an overall limit on issue of shares~~ while offering reasonable terms to employees.

But it may not be possible to provide free shares for employees in all the industries to be sold. I face difficulties with the National Freight Corporation. Although I would want to do some form of distribution of employee shares I shall need to devote part of the proceeds to making good a deficiency in the pension fund. The amount left for the Exchequer is likely to be small, and I may be unable to agree to a free distribution of shares to the employees.

X

I am sure that, if we are to succeed in our objectives, we must show the workforce that there are advantages to them in moving to the private sector. Employee shareholdings are one way of doing this; but I hope that any statement will make it clear that the terms will depend on the circumstances of each case.

**CONFIDENTIAL**



**CONFIDENTIAL**

Copies of this minute go to Keith Joseph, the other members of E(DL) and to Sir Robert Armstrong.

NORMAN FOWLER

14 July 1980

**CONFIDENTIAL**

CONFIDENTIAL



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State

The Hon Adam Butler MP

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer,  
Treasury Chambers  
Parliament Street  
London  
SW1

10 July 1980

Dear Geoffrey,

R  
10/7

SHARES FOR EMPLOYEES

Thank you for your letter of 7 July.

I recognise that you cannot agree to forgo a particular sum irrespective of the expected proceeds and I am grateful to you for suggesting that 5% should be the ceiling on the proportion of expected gross proceeds to be devoted to employee shareholdings. As you say this would enable me to implement my original proposals for British Aerospace if the present estimates are not significantly reduced, and I am content to leave the matter on that basis. I hope you will agree, however, that the 5% guideline should not preclude E(DL) from considering a higher figure in a particular case in the future, whether British Aerospace or any other, if this was necessary to secure the objective of a substantial and wide-spread employee shareholding and if this was thought likely to confer special advantages. Equally, of course, there may well be cases where a smaller figure is considered appropriate.

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

Yours  
Adam

ADAM BUTLER

LH

*cc Mr Dwyer*

C O N F I D E N T I A L

*Aerospace*



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: H/PSO/15123/80

Your ref:

*r 8/7* 4 July 1980

*See briefing*

*12/17*

SHARES FOR EMPLOYEES

I wish to comment briefly on your minute to the Prime Minister of 18 June.

We can agree that a consistent and flexible policy is needed to deal with these cases. But your suggested £50 per head limit for free issue of shares is so much of a token as to expose us to grave risk of adverse reaction amongst employees whose sense of responsible ownership we aim to evoke. Moreover, the £50 sum creates a rigidity, where flexibility is needed to cope with the different staffing and conditions in each industry.

In my view, the wider the shareholding is amongst employees, and the more significant the sum, the better our general objectives will be served. This argues for giving emphasis to the free offer component of the various deals. It would follow that whatever the overall limit should be - and in my view this should be at least 5%, possibly more - Ministers should be able to push up the free offer element well above the £50 levels as circumstances warrant. I do not think that we need worry too much about comparisons of free offers as such between industries, because we can always argue that the total packages are of broadly equivalent cash cost in each case.

A copy of this goes to the Prime Minister, Keith Joseph, other members of E(DL) and Sir Robert Armstrong.

*Yours truly*

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

C O N F I D E N T I A L

0861 TUN 8-



Aerospace

2

PRIME MINISTER

cc Mr. Hoskyns  
Mr. Wolfson

Shares for Employees

The Chancellor has minuted you at Flag A proposing that there should be a ceiling on shares for employees from public sector disposals - 4% of the expected gross proceeds in each case.

Mr. Butler at Flag B has argued that a rigid percentage would be wrong; and so has Mr. Howell at Flag C.

The Chancellor has now written at Flag D. ~~Secondly~~ He is prepared to raise the figure to 5%. His argument against going any higher is that this would mean forgoing too much revenue - any scheme for employees must mean selling at a discount.

I hope you will not need to adjudicate on this, and that the Chancellor and ~~sponsored~~ Ministers will be able to reach agreement. But I thought you ought to be aware of the correspondence.

*mf*

*TL.*

3 July 1980



C

2 P/P'sPRIME MINISTERSHARES FOR EMPLOYEES

I have seen John Nott's proposals for employee shareholding in British Airways, Geoffrey Howe's minute to you of 18th June suggesting a general approach for such cases, and Adam Butler's letter of 24th June to Geoffrey Howe.

I am content with the approach they outline for British Airways and for other industries. But as I said in my letter of 10th March, I remain convinced that it is important to decide each privatisation case on its merits. I think it would be a mistake to consider that we must be bound for the future by all the details of cases now under consideration. Like John Nott and Adam Butler I believe that Geoffrey Howe's guidelines are a useful starting point, but we must be ready to consider adapting them to the circumstances of individual industries, (taking account of the numbers and nature of the workforce, and, for example, any comparable arrangements in competing firms in the private sector).

For the industries in the energy sector which are candidates for privatisation (BNOC, TRC, and - possibly - a BGC oilfields subsidiary) no definite proposals on employee shareholding have yet been formulated. It may well be that in some or all cases I would wish to follow the sort of pattern Geoffrey Howe proposes; but I am sure that it is important to preserve as much flexibility as possible.

I should mention that TRC are now looking into more detailed proposals for employee shareholding, and will be reporting their views to me in due course. When these are available I will ensure that details are circulated to colleagues.



I am copying this minute to Keith Joseph, other members of E(DL), Norman Fowler and Sir Rober Armstrong.

MA.  
2

SECRETARY OF STATE FOR ENERGY

3 July 1980

CONQUEROR

MA



CONFIDENTIAL

FBI JUL 1960





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

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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.

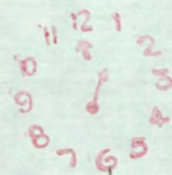
I am copying this letter to the Prime Minister, to Keith Joseph, to other Members of E(DL), to Norman Fowler and to Robert Armstrong.

GEOFFREY HOWE

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

CONFIDENTIAL

2 - JUL 1980





Reospace

10 DOWNING STREET

Tony 26/6  
Martin Hall rang.

Tsy think this really  
shouldn't require PM's  
adjudication. They hope to  
sort it out direct, &  
suggest you needn't  
trouble PM

MR 26/6.



B

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State

The Hon Adam Butler MP

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
H M Treasury  
Treasury Chambers  
Parliament Street  
London SW1

24 June 1980

Dear Geoffrey,

MBM

JL

#### SHARES FOR EMPLOYEES

Thank you for sending me a copy of your minute of 18 June to the Prime Minister. I am very glad that you have recommended arrangements that will enable a free offer of shares to be made as well as a "one for one" offer. I accept the need for some consistency between schemes, but I am sure that because company circumstances can vary so widely, we must allow for flexibility and variety within guidelines. I am therefore concerned about the cash ceiling you propose equivalent to 4% of the gross proceeds from a flotation. I believe this would impose an unacceptable rigidity and might well preclude an offer in the British Aerospace case on the scale I put forward in my letter of 27 February.

In that letter I proposed a free offer of £50 per head, which would cost about £3.5 million, and the allocation of an equal amount to the "one for one" offer, producing a total cost to the Government of £7 million, if all the latter were taken up. £50 seems to me and to British Aerospace to be the smallest reasonable figure for the completely free offer - anything smaller would be considered derisory - and I think it would be undesirable for the Government to allocate more to the completely free offer than to the offer designed to encourage employees to buy shares. In other words the total package represented the minimum I considered necessary to make the employee share scheme a success. In his minute to the Prime Minister recording the outcome of the E(DL) discussion Keith Joseph said that John Biffen and Nigel Lawson did not object in principle to the total cost of the measures which

/ ... I proposed.



I proposed. When I said in my letter that this would represent around 4% of the proceeds from the flotation I emphasised that the estimated market value on which it was based, £350 million, was subject to a very wide margin of error. The latest advice from our merchant bank suggests that £300 million is nearer the mark. If the 4% ceiling were applied to this, a £50 free offer would leave only £2.5 million, or an average of £35 per head, for the one to one offer. But even £300 million is a rough estimate for an early flotation. If flotation is delayed for a year or more, and if major material decisions are taken in the meantime, it could be very wide of the mark.

All this leads me to the view that it would be wrong to apply a rigid percentage ceiling in every disposal on the amount of the proceeds to be devoted to encouraging employee shareholding. I think we must recognise that the promotion of employee shareholding is a central aspect of the Government's policy and this should be taken into account, together with the important financial considerations in determining the amount to be allocated in each disposal. I believe that sufficient consistency of treatment can be achieved without the imposition of a blanket ceiling, which failed to distinguish between capital and labour intensive industries. Where there are a large number of employees, for instance, a 4% ceiling might prevent the introduction of a scheme on a scale large enough to achieve the benefits that we are seeking; and British Aerospace might be an example of this.

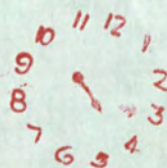
I hope therefore that for British Aerospace you will be able to agree to the figures I originally proposed in my letter of 27 February, and that in other disposals the amount to be allocated should be considered on the merits of the case.

I am sending copies of this letter to the Prime Minister, Keith Joseph, other members of E(DL), Norman Fowler and Sir Robert Armstrong.

Yours in  
Adam.

ADAM BUTLER

24 JUN 1980







CF MM M.

B

MSM

PRIME MINISTER

SHARES FOR EMPLOYEES

247

I have seen a copy of Geoffrey Howe's minute to you of 18 June, which was largely in response to my letter to him of 6 May. I am grateful for his general agreement to my proposals, which gives me enough for the debates on the Report Stage of the Civil Aviation Bill.

There is however one point which I am not happy about, which is the proposal to set a firm cash ceiling on the amount of the disposal proceeds which can be utilised in getting shares into the hands of employees. I agree that when we are making estimates of the likely cost of possible schemes for offering shares to employees, we must have some figure in mind as a rule of thumb, and 4-5% of the expected gross proceeds seems to me the right order magnitude. But to impose a firm ceiling in advance makes the offer more complicated and more open to suspicion, and thus to the possible hostile propaganda of trade unions. If in the event we should succeed beyond our expectations in getting employees to put their own money into buying shares, this would be a considerable political victory, and give great encouragement to the private sector to follow our example. It would be a great pity in these circumstances if we had to scale down the allocation of shares to employees, and return to them some of the money which they were willing to invest.

The limitation of £1,000 per employee in the Finance Bill was primarily designed for regular annual free issues of shares in the private sector, and it would surely cast doubt on our sincerity if we were to impose a lower limit in a once for all sale of shares in an enterprise by the Government itself when employees are prepared to pay up an equivalent amount of their own money, thus demonstrating their support of our policy against the scepticism of the trade unions and identifying themselves with the fortunes of the new company.

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I think that all this must be considered in the context not only of privatisation of State enterprises but as a major contribution to the change in attitudes among employees throughout British industry and commerce which is needed for British industrial recovery. Against this background, the sums of money involved are very small indeed. We should be prepared to take the risk of success.

I am copying this minute to Keith Joseph, other Members of E(DL), Norman Fowler and Sir Robert Armstrong.

*JN*

Department of Trade  
1 Victoria Street  
London, SW1H 0ET  
23 June 1980

JN

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24 JUN 1980



COMMUNICATIONS

CLASSIFIED

A

A. D. [Signature]



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

PRIME MINISTER

MBAM [Signature]  
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SHARES FOR EMPLOYEES

In his minute to you of 13th March Keith Joseph reported on the deadlock which had been reached in his E(DL) Sub-Committee on the arrangements for an employee shareholding scheme on flotation of BAe. The issue - whether there should be a free offer of shares to all qualifying employees - was never resolved because the immediate urgency evaporated, with the decision to postpone the BAe flotation. We agree that in the Lords Debate on the BAe Bill, the Government spokesman should take a holding line.

behind

2. In a letter to me of 6th May, John Nott has now raised the question of what should be said about employee shareholding during the later stages of the Civil Aviation Bill. He too wants to announce a free share issue to employees, combined with a "one for one" offer. I have therefore been considering what our general approach should be in the light of the specific proposals from Adam Butler and John Nott, the earlier E(DL) discussions and the changes in the current Finance Bill. There are a number of considerations. First, we want arrangements which are a practical demonstration of our aim of encouraging wider share ownership, especially among employees. But there are significant differences between the corporations which we propose to float in terms of attractiveness to the market, number of employees, likely net disposal proceeds. We cannot therefore have entirely uniform arrangements. On the other hand we need enough consistency

/of treatment



of treatment to avoid any differences giving a lever to those within the industries opposing privatisation. Second, the arrangements must be secured at a cost to the Exchequer which is reasonable in terms of preserving the benefits to the PSBR of flotation.

3. To meet these points, I suggest that our general approach should be to set a cash ceiling on the amount of the disposal proceeds to be devoted to encouraging employee shareholding, equivalent to 4 per cent of the expected gross proceeds. Where 50 per cent of the equity is to be sold, this should buy a minimum 2 per cent employee shareholding and this figure could be increased reflecting on the distribution between free offers and one for one schemes. It is essentially Adam Butler's original proposal for BAe and would cover John Nott's recent proposals, although with the imposition of a cash ceiling. I believe that a monetary limit other than the limit of £1,000 under the Finance Bill is necessary. Without it we risk a considerable part of the disposal proceeds being swallowed up, especially where employee numbers are large in relation to the expected value of the equity.

4. Within the cash figure the precise balance between free offers and one for one offers would lie with the sponsor Ministers concerned. They would want to take account of the likely impact of each in the particular circumstances of each industry, although there would be an incentive for one for one schemes to maximise employee shareholding within the ceiling. However, I think we must accept that any free offer will set a precedent which will be difficult to avoid in subsequent cases. To avoid the costs of these offers escalating, we must therefore confine

/them to



them to £50 a head, even in cases where a much higher figure would be consistent with the 4 per cent ceiling. The fairness of our treatment of individual cases is likely to be judged on this point.

5. Finally there is the question of the timing of setting the ceiling. The merchant bank's estimate of market capitalisation may change significantly in the period before flotation. This is especially relevant in the BA case where John Nott wants agreement to his scheme now in order to announce it during the later stages of the Civil Aviation Bill, although flotation is not expected before 1981 at the earliest. We can of course agree on a rough figure now, related to the latest estimate of market capitalisation, but I think we should agree a final figure only at the point at which we give the go ahead to flotation, having satisfied ourselves that the expected yield is acceptable.

6. I am copying this minute to Keith Joseph, other members of E(DL), Norman Fowler and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

18 June, 1980

SECRET (S)

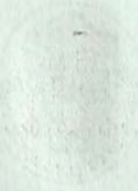
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18 JUN 1950





DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State

The Hon Adam Butler MP

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

6 3 May 1980

Dear Chief Secretary,

You wrote to David Howell on 18 April about the prospects of securing a contribution of £100m from the BAe disposal and also seeking colleagues' views on other disposal prospects in 1980/81.

As you know, we will be dealing with BAe separately: a paper will be coming forward to E(DL) in due course. Of the other disposals that are in my field there are, first, those which the NEB expects to make. I think that the NEB should have no great difficulty in disposing of Ferranti and Fairey at some time over the next few months, and certainly before the end of the current financial year. There are a number of uncertainties about both companies, but I think that we could certainly expect at least £75 million. In addition, as you know, the NEB will surrender the proceeds of the ICL disposal, although the £38 million that was realised has in fact been invested in Treasury Bills since it was secured so that the PSBR has had the benefit of the disposal effectively since it was made.

When these three major disposals have been completed no more of significance is to be expected from the NEB until the new high technology companies have developed sufficiently to be attractive to buyers - perhaps in two or three year's time. The miscellany of other small companies, in which the NEB has holdings, will be sold as appropriate but can be ignored in the scale of sums we are seeking.

/ ... Secondly, there





Secondly, there is the sale of shares in Cable and Wireless (C&W) from which we still hope it may be possible to raise between £75 million and £100 million during the current financial year. We have, as you know, been having great difficulty in finding a new Chairman to whom we might look to re-assess the C&W Court's opposition to sale of shares in a Hong Kong subsidiary (which would not require legislation and might therefore be completed comparatively quickly). Meanwhile, however, Lord Glenamara has told us that he and the Court would welcome and give their full backing to a sale of shares in the main company. We consider that this route may now offer the best chance of obtaining a contribution from a C&W disposal during the current financial year.

Achieving a sale of shares in the main company during 1980/81 will, however, depend on:

- a) successful negotiation of an extension of C&W's Hong Kong concession beyond 1987 on reasonable terms (without which we are advised a successful flotation would not be practicable). We understand that the Hong Kong Government will not be ready to open negotiations until June at the earliest. The indications are that the negotiations could be difficult and protracted. (Extension of C&W's Bahrain concession beyond 1982 would also be desirable but is likely to be impossible to negotiate within the timescale; in which case the proceeds of a sale of shares will be reduced).
- b) introduction of a short Bill, taking powers to sell C&W shares, as early as possible in the next session, following consultation with the various interested overseas governments about this intention. Keith Joseph sought a contingent slot for this legislation in his letter of 28 April to William Whitelaw about the legislative programme. But we cannot introduce this Bill, or carry out the necessary international consultations beforehand, until we are sure that the Hong Kong negotiations will be successful enough to allow disposal.
- c) preparation of audited half year accounts for the six months to 30 September 1980 in order to meet the Stock Exchange new issues requirement that audited accounts must be available within the previous six months. This will require a special exercise which will be expensive and difficult to mount because C&W has not previously prepared comprehensive accounts for its worldwide business other than on an annual basis.

In view of these difficulties the contribution from C&W disposal during 1980/81 for which we are aiming must still be regarded as possible rather than certain; although the timing problems could be eased, and the amount realised from a sale of shares increased, if the Hong Kong Government were to insist in local participation



- 3 -

in a C&W Hong Kong subsidiary or if the new Chairman were to persuade the Court (who have expressed unanimous opposition to the idea) that this was the most advantageous course.

I am sending copies of this letter to recipients of yours.

*Yours sincerely,*

*Jonathan Hudson*

for ADAM BUTLER (Approved by Mr Butler  
and signed in his absence)



3 P.S.

*From the Secretary of State*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
H M Treasury  
Parliament Street  
SW1

MBM

6 May 1980 TR

Dear Geoffrey,

EMPLOYEE PARTICIPATION IN BRITISH AIRWAYS LIMITED

During the Second Reading Debate on the Civil Aviation Bill, I said that, when the Government sold a minority of the shares in British Airways, it would make provision for a genuine, attractive and substantial shareholding for the staff and employees of the airline (Hansard, 19 November 1979, Col 39). When Norman Tebbit was pressed in Committee to explain how this would be done, he defended his lack of precision by referring to the need to wait for the Budget (Standing Committee B, Eighth sitting, Col 397-408). This excuse is no longer available, and I should like to be a good deal more explicit in the later stages of the Bill.

The reason for this is not only defensive. I do not think enough has been made of the valuable concessions you made in your Budget. I believe that wider employee shareholdings can make a valuable contribution throughout the private sector to the change of attitudes which is needed for the regeneration of British industry. The Government has an opportunity to set an example to the private sector in the arrangements it proposes for the privatisation of British Airways and British Aerospace. I should therefore like to set out my current intentions in relation to British Airways, and be assured that my colleagues are content with them.



The principle offer I should like to make is "two shares for the price of one" on the lines of the recent BP offer, and as also envisaged for British Aerospace. The statutory limit under the Finance Bill is £1000 worth of shares for each employee, and in practice the limit will be £950 (see below). I would not want to impose any lower limit on this offer, since in my view the more shares we can get in the hands of the employees, partly paid for with their own money, the better. It will have a greater effect on attitudes, and have more political impact, and also provides some insurance against any moves within the Labour Party towards expropriation without adequate compensation. But realistically, especially since British Airways' shares are a far less attractive investment than BP shares, and because we must also expect the opposition of the trade unions, one could scarcely expect more than 20% of the employees to subscribe for an average of £500, or 10% for the full £950, so that the cost of these free shares might amount to some £4 million, if the offer is made to British Airways UK based staff with more than 2 or 3 years service. Of course all these shares would be held by trustees on behalf of the employees in accordance with the taxation rules.

Secondly, I can see the force of the argument about the divisive effect of some employees being shareholders and others not. There is advantage in getting a few shares into the hands of all employees with more than 4 years service, especially since this fits in with present intentions of the British Airways Board for a continuing profit sharing scheme for an annual free issue of shares to employees in profitable years. But I doubt whether we should afford to give away more than something like £50 worth of shares to each employee on this basis. This would cost less than £2 million.



Thirdly I would like to take advantage of the new provisions on share options which you have put into the Finance Bill. I have not yet worked out the details of such an offer, but in principle it would cost nothing at the time of the sale of shares. There would of course be some cost if and when the options are exercised five years later but this will only happen if the Government is itself making a much larger capital gain on its own shareholding.

Fourthly, of course there should be a system of priority allotment for as many shares as employees care to subscribe for at the full price.

I think that if we can say something in Parliament on these lines at the later stages of the Civil Aviation Bill, it will show that we mean business in encouraging employee shareholding, and it is not a matter of mere window-dressing.

I am copying this letter to the members of E(DL) and to Sir Robert Armstrong.

*Done see  
John*

JOHN NOTT

Aerospace

SECRETARY OF STATE  
THAMES HOUSE, SOUTH  
MILLBANK, LONDON SW1  
01 211 6402

Rt Hon John Biffen MP  
Chief Secretary  
Treasury Chambers  
Parliament Street  
London SW1

R  
21/4

29 April 1980

De John

DISPOSALS PROGRAMME 1980-81

Thank you for your letter of 18 April.

Once the Coal Bill has had its Second Reading I shall, as promised, ask Sir Derek Ezra to review urgently the NCB subsidiaries and report to me on possibilities for sales. I shall write to you again about this as soon as possible, although it clearly cannot be by the end of this month.

Before then I do however hope to be circulating a note about TRC. This is a good candidate for sale, though I doubt whether this can sensibly be achieved until 1981-82. First, it will require enabling legislation. Second, because of the expected improvement in its profit position during the course of 1981, any earlier sale of shares could mean sacrificing a significant part of their realizable worth.

As I have said in earlier letters, I believe we must work out our approach to the public trading sector industry, bearing in mind all our policy objectives, not only immediate PSBR considerations. In the case of the gas industry I believe that increased competition and co-partnership with private enterprise is likely to constitute a more rewarding approach than simple chopping off of profitable bits. Attempted sale of Wytch Farm under duress, for example, could well - unless we wanted to introduce competition from prospective overseas purchasers - depress the sale price considerably below the full potential value of the asset. I do however intend to pursue with the Corporation, along with the other matters in train between

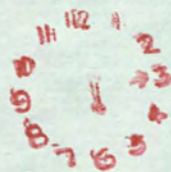
us, the idea of possibly establishing a subsidiary company to which BGC's oilfield assets could be transferred, and in which shares could then be sold. Both this and the broad approach to BGC indicated here will be in line with our medium-term ideas for reducing state ownership on which the Secretary of State for Industry is taking the lead and which I do not wish to undermine.

I am copying this letter to the Prime Minister, members of E(DL), the Chancellor of the Duchy of Lancaster, Lord Ferrers, Lord Trefgarne and Lord Cullen and Sir Robert Armstrong.

*Yours  
Doris*

D A R HOWELL

29 APR 1980





CONFIDENTIAL

*Aerospace*



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALING 01-218 2111/3

MO 26/8/1

18th April 1980

*Dear Keith,*

*mt*

*Pennie Amulet* ②

*kg. Amulet*

*Amulet*

THE DEFENCE PROGRAMME AND BRITISH INDUSTRY

Thank you for your letter of 2nd April about the implications of defence programme adjustments.

I recognise that the need to adjust the Defence Programme is untimely for our plans for the privatisation of British Aerospace. We must, however, keep this in perspective. We are not engaged in a "defence review" of the sort embarked on by our predecessors, and, incidentally, I should prefer to avoid such terminology altogether. We are looking at our future programme, which is not based on binding commitments with British Aerospace or any other company, beyond contracts already let. We must not allow "privatisation" to be used as a handle to commit us now to projects which were at an early planning stage and not all of which would have matured.

As you imply, the timetable which I at present envisage should allow us to reach conclusions on the broad shape of the future programme before the summer recess. I had hoped that your decision that flotation should be deferred to the autumn would give some leeway. I am bound to say that I have reservations about involving your Merchant Bank advisers at this stage - even on the necessarily confidential basis you suggest. The plain fact is that some of the possibilities we are looking at will almost certainly not form part of our revised programming and, conversely, other possibilities may well emerge in the course of our work.

I understand, however, that you would not want to continue to have staff prepare for an autumn flotation if it could be shown now that this would be unrealistic even if only some of the proposals were to be implemented: and for that purpose you

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The Rt Hon Sir Keith Joseph MP



need the views of your financial advisers. I recognise this concern and provided that an autumn flotation is, in other respects, still a sensible objective - and I believe E(DL) will shortly be considering this - I suggest that your officials and mine agree a document which your advisers can consider. This consultation would of course be for the sole purpose of deciding whether it was worth continuing to contemplate flotation in the autumn. I would be opposed to any suggestion that, while I am still considering how best to shape the defence programme, the implications of particular measures for the timing of flotation should be taken into account. Finally, I assume that it will be possible to answer any queries from Parliament or the public about the likely timing of the flotation without making reference to our look at the defence programme.

While I hope this meets the specific problem raised in your letter, I should welcome a more wide-ranging discussion about procurement policy and your ideas about privatisation. The handling of the ~~CAA~~ radar and the Jetstream cases leaves me uncertain as to what we are trying to achieve and whether we are applying consistent guidelines. On privatisation, I have seen your recent minute to the Prime Minister which refers to my internal study of the Royal Dockyards. We here were not responsible for the long drawn out Ministerial consideration of the proposed new dockyard efficiency scheme and should have been happy to have backed our judgment from the outset. Moreover, I am not sure of the basis for your assertion that ideally the Royal Dockyards should be in the private sector. The Dockyards perform essential support for the Royal Navy including the Polaris force and our other nuclear forces. I am not sure that a change is operationally acceptable in many areas. Even if a structure on broadly present lines were to be "privatised", would we find it any easier to deal with a monopoly private Royal Dockyards than with the present organisation with its responsibility for Naval operational capability? Would we end up paying more for the same service? There are other highly complex questions to which there is no simple answer. This is not to say that changes may not be both desirable and necessary - that is why I set up the review.

Could I suggest you and I might get together, with Peter Carey and Frank Cooper also present, and go over some of this broader ground? I am asking my office to get in touch with yours.



I am copying this letter to the Prime Minister and the  
Chancellor of the Exchequer, and to Sir Robert Armstrong. ✓

*Yours ever,*

*Francis*

Francis Pym

18 APR 1960

12 11 10 9 8 7 6 5 4 3 2 1



Aerospace

cc A. Duguid  
Econ Pol (Disposals) Pt 3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1

RWH

18 April 1980

#### DISPOSAL PROGRAMME 1980/81

In Geoffrey Howe's absence abroad, I am writing about the next steps on this matter.

As you know from Adam Butler's letter of 8 April to Nigel Lawson our plans for an early flotation of BAe have run into trouble and postponement of a sale from the June window is now unavoidable. I agree with Adam Butler that this does not require any public announcement but it considerably increases the need to take urgent steps to identify sufficient other candidates for disposal in 1980/81 to ensure that we meet the £ $\frac{1}{2}$  billion target in last month's White Paper: a target which in cash terms is £630 million and which experience this year suggests that we should plan to over-achieve.

I understand that Keith Joseph should be able to let us have an assessment of his revised proposals for disposing of BAe in early May. I hope that this will cover both the revised timetable (and whether it is still realistic to envisage a satisfactory flotation in 1980/81) and also what options are available to the Government for changes in BAe's business which might increase the likely proceeds from an eventual flotation. It is particularly important that we should establish soon whether we can still expect a contribution of £100 million from this source or must look elsewhere.

Whatever his answer, we ought clearly to have an early discussion in E(DL) to reach decisions on additional candidates for disposal, since the current programme, including the BAe contribution, falls well short of the target. I hope that you will therefore be able to let us have by the end of the month the proposals which you promised the Prime Minister in your minute of 20 March, covering National Coal Board subsidiaries,

the Radio Chemical Centre and BGC, in particular the disposal of Wytch Farm. Incidentally, it is my understanding that the Attorney's view is that though there is some risk of challenge, we would be justified in using existing legal powers to compel BGC to sell Wytch Farm after you have carried out the statutory consultations with the Corporation. I hope you will also cover the suggestion in Nigel Lawson's letter to John Moore of 9 April that the NCB should reduce its holding in Staveley Chemicals.

It would also be helpful to have an up to date assessment of the position on the other firm candidates - on new towns from Michael Heseltine, George Younger and Nicholas Edwards and on NEB and MSAs from Keith Joseph and Norman Fowler - together with any new suggestions.

I am sending copies of this letter to the Prime Minister, members of E(DL), the Chancellor of the Duchy of Lancaster, Lord Ferrers, Lord Trefgarne and Lord Cullen, and Sir Robert Armstrong.

*Yours*

*John Biffen*

JOHN BIFFEN

Ireland. It is part of the programme of consolidation resulting from the passage of that Act.

This Bill deals with appeals against conviction and sentence on trial by indictment before the Crown Court and with appeals against certain sentences passed by the Crown Court otherwise than on trial by indictment. It is pure consolidation. It makes no changes in the existing law and, if given a Second Reading this afternoon, it will be referred in the usual way to the Joint Committee on Consolidation Bills. My Lords, I beg to move.

Moved, That the Bill be now read 2<sup>a</sup>.  
—(The Lord Chancellor.)

Lord BLEASE: My Lords, I wish to thank the noble and learned Lord the Lord Chancellor for the very concise and lucid way in which he has explained the provisions of this consolidation Bill. As well as the matters concerning criminal appeal, I understand that this Bill completes the principal provisions of the Judicature (Northern Ireland) Act 1978, which has effected the much-needed modernisation of the courts and the related procedures in Northern Ireland. This in turn has led to the more efficient working of the courts and the availability of justice. This consolidation Bill is warmly welcomed by this side of the House.

The LORD CHANCELLOR: My Lords, I am very grateful indeed to the noble Lord for his kind reception of this Bill. My attention was momentarily diverted at the moment when he was speaking part of his kind words. I will study them in *Hansard* and see whether there is anything that I ought to add to my words of introduction. But I heard the greater part of what the noble Lord had to say and I thought he had got it exactly right.

On Question, Bill read 2<sup>a</sup>, and referred to the Joint Committee on Consolidation Bills.

#### CONSULAR FEES BILL

Lord TREFGARNE: My Lords, I understand that no amendments have been set down to this Bill and that no noble

Lord has indicated a wish to move a manuscript amendment or to speak in Committee. Therefore, unless any noble Lord objects, I beg to move that the Order of Commitment be discharged.

Moved, That the Order of Commitment be discharged.—(Lord Trefgarne.)

On Question, Motion agreed to.

#### BRITISH AEROSPACE BILL

Report received.

Clause 1 [*Vesting of property, etc., of British Aerospace in a company nominated by the Secretary of State*]:

Lord TREFGARNE moved Amendment No. 1:

Page 2, line 21, at end insert—

(" ( ) Without prejudice to subsection (3)(b) above, any proceedings on an application made by British Aerospace before the appointed day under section 31(3) of the Act of 1977 may be continued on and after that day by the successor company, and any order made under subsection (9) of that section with respect to any loss resulting to British Aerospace from the transaction to which the application relates shall be made in favour of the successor company.")

The noble Lord said: My Lords, this is a technical amendment. Under Section 31 of the Aircraft and Shipbuilding Industries Act 1977, British Aerospace has been enabled to seek compensation for so-called "onerous transactions" undertaken by any of the vesting companies before nationalisation. At the moment, arbitration proceedings under the section are in hand in respect of one alleged "onerous transaction". After the day appointed for the vesting of the undertaking in the successor company the right to continue those proceedings under Section 31 will vest, along with the other rights, in the successor company. However, Section 31(9), which enables the arbitration tribunal to make an order for compensation in respect of an "onerous transaction", provides that the order may only be made in favour of the corporation and not the successor company. Because Clause 1(3) (c) specifically exempts enactments from the general provisions of Clause 1(3) that references to the corporation are to be taken after the appointed day as references to the successor company, this would mean that, if proceedings were

[Lord Trefgarne.] still pending after the appointed day, they would be carried on by the successor company but any order for compensation could only be made in favour of the "shell corporation". An amendment to Section 31 is therefore necessary to ensure that, after the vesting, an order for compensation is made in favour of the successor company and not the corporation, so that the right to compensation will vest, with all other property rights, liabilities and obligations of the corporation, in the successor company.

This short amendment therefore proposes to add a new subsection to Clause 1 of the Bill. We believe that it is necessary because the arbitration proceedings to which I have referred are of uncertain duration, and there is a risk that an order for compensation would not be made until after the appointed day. What the amendment does is very simple. It makes clear that proceedings on an application made by British Aerospace before the appointed day under Section 31(3) of the 1977 Act may be continued on and after that day by the successor company and provides that any order made under Section 31(9) with respect to any loss to British Aerospace shall be made in favour of the successor company.

I hope your Lordships will agree that this is a sensible and equitable amendment. As I have said, it is a technical one and is fully in accordance with the Government's overall policy. I beg to move.

Lord PONSONBY of SHULBREDE: My Lords, may I thank the noble Lord for explaining this amendment to the House? As he says, it is a technical amendment and we have no objection to it.

On Question, amendment agreed to.

Clause 7 [*Target investment limit for Government shareholding under sections 3 and 5*]:

3.8 p.m.

Lord PONSONBY of SHULBREDE: moved Amendment No. 2:

Page 6, line 47, leave out (" and ").

The noble Lord said: My Lords, for the convenience of the House I should like to speak to this amendment, which is a paving amendment, and to Amend-

ments Nos. 3 and 4 together. Although the subject matter of Amendments Nos. 3 and 4 is different, the reason behind these three amendments on the Marshalled List today is the same. The contents of Amendments Nos. 3 and 4 are Government policy.

Ministers in this House and in the other place have reiterated on more than one occasion that it is their intention that the Government shareholding in British Aerospace shall not fall below 25 per cent. and that foreign ownership in British Aerospace shall not be allowed to exceed 15 per cent. We believe that the Government shareholding should not drop below 51 per cent. and we proposed an amendment to that effect at the Committee stage, but it was rejected on a vote by the Committee. I am not pressing that amendment again today, but we are pressing that the undertaking which the Government have given concerning the 25 per cent. and the 15 per cent. should be included in the Bill.

Throughout our discussions on the Bill the Government have used the argument that British Aerospace should be a normal commercial enterprise and that it must make its way in the rigours of the market place. Let us examine for a second this thesis of the Government. If British Aerospace were to be a normal commercial enterprise, then there would not need to be any statement that there should be a Government shareholding of 25 per cent., and there would be no need for a limitation to be included in the articles of a maximum of 15 per cent. foreign ownership. By the very nature of its business, British Aerospace will not and never can be an ordinary, normal public company.

In these circumstances, I feel that it is only right that Parliament should be asked to approve any variation in these percentage figures. A future Government could well have different ideas from the present Government as to what should be a minimum or a maximum percentage of ownership, and I think it is essential that there should be Parliamentary approval if there is to be any change in these particular percentages.

I should say that there is some public concern about this matter. The noble Lord, Lord Trefgarne, may have glanced at the pages of *The Times* of 24th March



and seen a letter there from Squadron Leader Bedford concerning the future of British Aerospace. In his letter Squadron Leader Bedford said that

"as an employee (in fact, as a manager) of British Aerospace, and, hence, likely to be affected by the detailed application of the Bill as it stands, I wish to express my concern about the future of aerospace in Britain".

Then he continues:

"While I accept that denationalisation seems now to be inevitable, I am concerned about two major deficiencies in the Bill: (a) there is no defined minimum per cent. of Government shareholding; (b) there is nothing which prevents the possibility of foreign ownership (or dominance) of this vital national industry. Such omissions are potentially dangerous in that they do not protect the national interest. If the omissions are deliberate, then I ask why; if they are by default, then surely they must be rectified".

I hope that the noble Lord will give sympathetic consideration to this batch of three amendments and to including the subject matter within the Bill. I would not for one minute say that the wording of the amendments is absolutely correct in Parliamentary terms. What I am seeking from the House this afternoon is a decision that the content of these two matters of vital importance shall be included within the Bill. I beg to move.

The LORD CHANCELLOR: My Lords, the Question is that Amendment No. 2 be agreed to. The noble Lord has spoken also to Amendments Nos. 3 and 4, but I understood from him that he would wish to move them separately when the time comes. The Question is that Amendment No. 2 be agreed to.

3.12 p.m.

Lord TREFGARNE: My Lords, I certainly agree with the noble Lord that we should take these three amendments together because although, as he said, they are not precisely identical points they do hang together conveniently and I will speak to all three now.

By tabling the substantive amendment, Amendment No. 3, which is of course paved for by No. 2, the noble Lord is seeking, as he said, to make statutorily binding the Government's undertaking to maintain their shareholding of at least 25 per cent. But before coming on to the other points made by the noble Lord I want to say that his amendment would not achieve that purpose and as I shall

explain in a moment, it is in any event not necessary.

It might help your Lordships if, first, I explain the workings of the target investment limit embodied in Clause 7. Any order made under Clause 7 will set a target investment limit, which is to say a limit that must not be exceeded, for the Government's proportionate shareholding in the successor company. The limit will therefore set a maximum but not a minimum level. A first limit will be required to be set by order as soon as the successor company ceases to be wholly owned by the Government and at the level of the Government's proportionate shareholding at that time. Thereafter, the Government's shareholding may be less than, or equal to, the limit but may not exceed it.

If the Government's proportionate shareholding in the company were to fall from the initial level—through, for example, a rights issue for which the Government chose not to subscribe—it would not require any change to the limit; there would be no necessity for a new and lower target investment limit to be set. All that Clause 7(4) does is to enable the Secretary of State to set a new limit, which must be lower than the last limit, if he so decides. If a lower limit is set, however, it will become the new ceiling on the Government's proportionate shareholding in the successor company. Since the Government's proportionate shareholding may never exceed the limit at any time in force, setting a new limit will either reduce the target level so that it equals or more nearly coincides with the actual proportionate shareholding at that time, or it will require a disposal of shares so that the shareholding conforms with it.

The vital point is that the limit is a maximum—not a minimum. Thus, even if by law the Government were required to maintain a target investment limit above 25 per cent., there would nevertheless be nothing in law to prevent the Government from reducing their shareholding below 25 per cent., even though the target investment limit in force was in fact higher than that. I hope that from this it is clear that the proposed amendment would not serve its purpose.

However, I wish now to move away from theory towards fact and to the

[Lord Trefgarne.]

Government's undertaking to maintain a shareholding of at least 25 per cent. It is this which will prevent the shareholding from falling below that level—not an amendment such as that which is before us now. This undertaking, as I am sure your Lordships are aware, was given by my honourable friend the Minister of State for Industry, Mr. Butler, in another place during consideration of the Bill in Committee. The undertaking was given in the context of the Government's willingness to vote their shares to prevent the election to the board of the successor company of a director representing foreign interests or to prevent prejudicial changes to the articles of association of the company providing for United Kingdom control. I reaffirm that undertaking here and now. The Government have made it clear that they have set a minimum limit on their proportionate shareholding in the company and I have re-stated that also. Therefore, once more I ask your Lordships to accept that undertaking.

The noble Lord, Lord Ponsonby, questioned the efficacy of ministerial statements and thus deduced that it was necessary to write these requirements into the Bill. Even supposing that the amendments before us were effective—which I fear they are not—let us suppose that the Government were compelled by law, somehow, to hold 25 per cent. of the company's shares, there would be no guarantee that a future Government would use the voting powers attached to their shares in any particular way. In theory they might simply refuse to vote their shares. It is impossible to secure the ends that the noble Lord is advocating by means of legislation, since the use of the minimum shareholding that is desired cannot be determined by legislation. I must therefore put it to your Lordships that the amendments are doubly defective: first by reason of misunderstanding of Clause 7, and, secondly, and more importantly, by a misconception of what can be achieved by this means.

I wish now to make a reference to the last amendment in this group, Amendment No. 4. There is another, particular reason why this amendment could not be agreed to. It stems from the fact that the company is to be like any other private sector company—which is a point that I

have made from this Box several times during the passage of this Bill. The noble Lord said that it could not be argued of the successor company because the foreign ownership article would prevent it operating on all fours with other companies. That is really not so. Many companies have restrictions in their articles of association on the proportion of shares that may be foreign owned. Examples may be found in the articles of Cable and Wireless, P. & O. and Rolls-Royce Motors Limited.

What we propose is, therefore, entirely in line with precedent, which has been shown through long usage to be effective. On the other hand, the amendment before the House would prevent a company being treated on all fours with other private sector companies, for it presupposes that the Secretary of State should have the duty to set a statutory limit on the proportion of shares that could be owned by foreigners and to provide that any issue or transfer of shares which could cause the foreign investment limit to be breached, should be void. This would lead to an ability for the Secretary of State to intervene in the affairs of the company that is quite contrary to the Government's intention.

What the Government have done is to draft provisions in full consultation with the present board of British Aerospace that will ensure that the successor company will not fall under foreign control. The directors of the company will have duties to see that the provisions of the articles are enforced and will obtain declarations from people to whom shares are issued or transferred so that foreign-owned shares can be identified and registered separately. Where foreign-owned shares exceed the 15 per cent. limit, the excess shares will be disenfranchised and unless they are transferred to the United Kingdom ownership will be sold by the directors as necessary. These provisions of the articles cover the intention of the noble Lord's amendment, but they impose duties on the directors not upon the Secretary of State. The Government are clear that this is the right way. It is consistent with the Government's policies that the company should be like other companies and that the Government should not intervene in its day-to-day management. In view of this full and detailed reply, I hope that the

noble Lord will not press his amendments, but I confess I am not hopeful.

3.22 p.m.

Lord WYNNE-JONES: My Lords, the noble Lord, Lord Trefgarne, has entertained us to one of those beautiful exhibitions at which he is becoming extremely skilled. One used to have the time when the scholiast would argue about how many angels could dance on the point of a needle. The noble Lord is trying to demonstrate to us how many needles on whose points he can dance at the same time without getting impaled. The noble Lord repeats the statement made previously in another place by the Minister; that it is not the Minister's intention to allow the percentage to fall below 25 per cent. The noble Lord repeats it himself and gives us his guarantee. But he knows perfectly well, as was pointed out to him repeatedly at Committee stage and at Second Reading, that no such ministerial statement or guarantee is worth anything at all, except for the Minister concerned; it does not bind anyone in the future at all. In other words, we are asked to accept the statement, made I have no doubt in good faith; I have not the slightest doubt that the noble Lord makes the statement in good faith. Will he also tell us if he is certain that he will be equally responsible for dealing with this subject in one, two, three or four years' time, because unless he can make such a guarantee to us this statement is of no significance at all? It does not tell us one little bit about what will happen to British Aerospace.

The reason why we are worried about the whole situation is that British Aerospace happens to be, as the noble Lord knows perfectly well, one of the most important industries in this country; it happens to be an industry with an enormous export sale. If our motorcar industry were as successful, then we should be jubilant about it. It so happens that British Aerospace is extremely successful, and it is successful because of the way in which it has been operated. It was operated originally as a number of private industries, but private industries with enormous Government support and with continued Government direction. They were not industries which acted absolutely on their own with no direction at all. Now the noble Lord comes along and

says, "Ah, but we have a better prescription. We have now got an infallible prescription which will guarantee that what has been done so successfully may continue to go on successfully, if it is lucky. What we are saying is that this industry is not to be treated any longer as it has been throughout its whole history, as an industry of a special character, but is to be left to be exactly like an industry that produces boots or shoes or slot machines, or anything else you like".

It is no longer to be an industry which is guaranteed to be an industry directed towards aerospace. I am able to show that perfectly clearly. If noble Lords would wish to go to the Library and get the memorandum and articles of association of the company—and there is not a word in the Bill as to what they are to do; it does not say in the Bill they are to produce aircraft—one finds that there are 28 purposes for this company. It starts by saying that the object is:

"... to invent, design, develop, manufacture, construct, assemble, test, repair, maintain, buy, sell, hire, let on hire, operate, import, export, and deal in aeroplanes *et cetera*".

That is one, and it goes on like that. But when we come towards the end we find that they may:

"... sell, lease, grant licences, easements and other rights over, and in any other manner deal with or dispose of the undertaking, property, assets, rights and effects of the company".

In other words, we reach the point where we find that this company by the memorandum and articles of association can get rid of itself. It is under no obligation to continue in existence, under no obligation at all. All this in order to preserve the grand myth that it would be done better under private control. Of course it will, because under public control it would not be disposed of like that. If one wants to dispose of it here we have a Bill which guarantees that they can do so under the very articles of association which I have here. They have these 28 articles and they are not bound to carry out any of them. Well, I am sorry; they are bound to carry out some of them, but they are so widely drawn that they include dissolving the company, getting rid of the assets of the company; they include, in other words, not manufacturing aircraft, not manufacturing anything concerned with aerospace. It is precisely because of

[Lord Wynne-Jones.]  
that that we ask for a degree of precision in the Bill which defines something.

I know the noble Lord has pleaded all the way through Committee stage that we should not put a single thing in the Bill which binds the company to do anything at all. Why? Because, he says, in that case it is no longer an independent free company. My Lords, this is a national asset. It is something which has been built up not only by people owning shares in the company; it has been built up by tremendous Government effort. You look round the country and you find Government research associations built up entirely by national money. Without those research associations there would be no aircraft industry today. Without Farnborough there would be no aircraft industry in this country. It is the contribution from the people of this country which has built up the industry. We are now asked to hand the thing over with no guarantee at all.

This is pure fantasy. If the Government want to do this sort of thing, why do they not come out frankly and say, "We don't care a damn about the people of this country or the industry of this country. We will fling it all away. Anyone else can take it; so long as they give us some money for it, they can have the whole industry"? That is not our idea of what an aerospace industry should be. We urge that this amendment is absolutely vital to preserve a little—only a minimum but a little—control over what happens to this industry in the future.

Lord TREFGARNE: My Lords, that was an extraordinary speech, if I may say so, of the noble Lord, Lord Wynne-Jones. First of all, I think it was better addressed to one of the later amendments standing in his name; I do not think it had too much to do with this amendment which relates to the percentage shareholding.

This is the argument that the noble Lord, Lord Ponsonby, has put. The other cornerstone of the noble Lord's speech was, as I understood it, that this enterprise, having been built up over all these years, should not now be returned to private ownership. But I would remind him that it has been a public corporation for only two years or a little more. It was a group of separate private companies for many, many years before that. I do not deny that it has been not unsuccessful under public ownership, but I firmly believe, as I said at length at Second Reading, that this process of "privatisation", as we have called it, is the right thing to do. The fundamental concepts advanced by the noble Lord, Lord Ponsonby, and supported here to a certain extent by the noble Lord, Lord Wynne-Jones, are quite contrary to Government policy and I hope your Lordships will not agree to these amendments.

Lord PONSONBY of SHULBREDE: My Lords, the noble Lord has reiterated, in his initial speech from the Dispatch Box, the undertakings which have previously been made elsewhere. He has also told us why it was unnecessary to include these undertakings within the Bill. But he has not given us a full reason as to why we could not give statutory force to these particular undertakings. I would have thought that the ingenuity of parliamentary counsel could have provided a means for giving a statutory force to these undertakings. In view of the noble Lord's attitude, I have no option but to force this particular amendment to a Division.

3.33 p.m.

On Question, Whether the said amendment (No. 2) shall be agreed to?

Their Lordships divided: Contents, 65; Not-Contents, 77.

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Resolved in the negative, and amendment disagreed to accordingly.

[Amendments Nos. 3 and 4 not moved.]

## IRAN: AMERICAN HOSTAGES

3.42 p.m.

Lord CARRINGTON: My Lords, with your Lordships' permission, and with the connivance of the noble and learned Lord on the Woolsack, I should like to make a Statement about Iran which the Prime Minister has made in another place. The Statement is as follows:

"President Carter has asked the friends and allies of the United States for their help and support in the serious situation over the continued illegal detention of the American hos-

tages in Tehran. This illegal act by Iran is now in its sixth month.

"The United States' Administration and the American people have exercised remarkable patience and restraint in the face of the greatest provocation. Time and again their reasonable hopes of progress have been dashed. It has become clear that the prospects for the early release of the hostages through diplomatic action have markedly diminished.

"The United States' Administration have put up with the flouting of international law and established diplomatic practice by Iran for several months in the hope of securing the release of the hostages. But naturally they now feel obliged to demonstrate that the continued detention of their people will carry increasing penalties. They under-

[Lord Carrington.]

standably expect solidarity from their allies and we, for our part, have been giving, and will continue to give, them our utmost support.

“At an early stage in the crisis we agreed on certain measures in the financial and commercial fields, on which we have been co-operating with the United States. These remain in force. No arms or defence equipment has been sent from this country to Iran since the hostage crisis arose in early November. In December we made a substantial reduction in the size of our Embassy in Tehran.

“The European Foreign Ministers met in Lisbon last week. The Foreign Ministers of the Nine expressed their solidarity with the United States and the American people and instructed their ambassadors to make an immediate approach to the President of Iran to urge the release of the hostages and to seek precise assurances about the dates and methods by which their release would take place and then to report back in person. Our Ambassador in Tehran, Sir John Graham, is due to arrive in London this afternoon.

“The Americans have asked us to consider a wide range of measures. These include applying the economic sanctions which the Russians vetoed at the United Nations in January. They also include an eventual break in relations with Iran if there is no progress. It is important that whatever we do should be effective and should be capable of commanding a broad measure of international support.

“We are now in close and urgent consultation with our European Partners as well as with other friendly countries about how best we can together respond to President Carter's appeal to us to intensify our efforts. When the Foreign Ministers of the EEC meet on Monday of next week, I hope the necessary decisions will be taken. This therefore can only be an interim Statement and a further report will be made to the House after next week's meeting, or sooner if required”.

3.46 p.m.

Lord GORONWY-ROBERTS: My

Lords, may I thank the noble Lord, Lord Carrington, for making this Statement to the House this afternoon. May I also join with him in reaffirming our own unreserved condemnation of the Iranian action in taking and holding these hostages. I want to make the position of the Opposition abundantly clear once more by saying that we regard this action as being contrary to international law, in defiance of the Security Council and the International Court, as well as a persistent cruelty to the hostages themselves and their families at home. We therefore support what the Government have so far done to help the Americans to get the peaceful return of their fellow nationals from Tehran.

As regards the proposals or suggestions lately made, I assume, by the American President to our own Government, the noble Lord has been more forthcoming than I thought he might be about that matter. I shall not press him any further about what the Americans have suggested to us, except to ask whether, in fact, a time-scale has been proposed to us and to other friends of America, about these proposals. There are various suggestions in the Press and on the media about this.

However, perhaps more importantly, may I refer to what, I think, is page 4 of the authorised version of the Statement—if that, in fact, is the final version—where the Foreign Secretary refers to the American request to us to consider “a wide range of measures”. May I say on behalf of the Opposition that we fully agree with what he says, and I shall quote it again:

“It is important that whatever we do should be effective and should be capable of commanding a broad measure of international support”.

For that reason discussions with our European partners as well as with other friendly countries, not necessarily confined to the West, would seem to us to be the right way to go about this. Indeed, may I ask the noble Lord to consider the possibility, which we would welcome, of a meeting of the Americans, their friends and allies, not only in the West and not only in Europe, with a view to concerted action to try to bring home to the Iranian Government and people the enormity of what they have done and what they persist in continuing with. Indeed, a meeting on that basis at the highest level would seem to us to be justified because this

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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 MINISTERBritish Aerospace: Shares for Employees

The letter from Department of Industry at Flag A is tiresome. We had understood that the proposals for a holding statement in the Treasury letter at Flag B had been agreed with the Department, but they are now suggesting that the spokesman in the Lords should go a great deal further in the Lords' debate on Monday.

There are three points in the letter:-

- (i) They want Lord Trefgarne to speak "enthusiastically" about employee shareholding.
- (ii) They want him to volunteer that the Government are considering whether to go beyond the matching "one for one scheme" whereby employees buying shares should receive a matching number free of charge.
- (iii) They want him to indicate that employee shareholdings of some 2 to 3 per cent of the total shares is what Ministers have in mind.

*Figures should be avoided  
Prefer "small but significant"*

There is no difficulty with (i). On (ii) the Treasury have told me that they would prefer it if Lord Trefgarne would only say that Ministers are considering additional measures if he is pressed. This would leave more open the possibility of a decision not to go further - as you know, there has been disagreement amongst Treasury Ministers, which is still not settled, as to whether there should be a totally free offer of shares.

On (iii) the Treasury see no difficulty in saying a "small but ~~not insignificant~~" shareholding by employees; but they would much prefer to avoid any figure at this stage.

Since the free offer idea and the size of the total employee shareholding has to be discussed further in E(DL), I think the Treasury points are valid. Shall we reply accordingly?

*See above*

*S.J. Pike Duty Clerk  
IP. TPL*

11 April 1980



Mr T. P. Lankester, No 10 Downing St  
We spoke.

JW

CHANCELLOR OF THE EXCHEQUER

11/4

cc Chief Secretary  
Financial Secretary  
Mr Ryrie  
Mr Monck  
Mr Hansford  
Mr Kerr

R  
11/4

#### BRITISH AEROSPACE: SHARES FOR EMPLOYEES

The letter of 10 April from Mr Butler's Private Secretary to Mr Lankester seeks to go further in three respects than the deal set out in Mr Hall's letter of 3 April about what should be said in Monday's Lords Debate. The three proposals are:

- (a) First, they want Lord Trefgarne to speak "enthusiastically" about employee shareholding.
- (b) They want to volunteer that the Government are considering whether to go beyond the matching "one-for-one" scheme.
- (c) If possible, they also want to specify that an employee shareholding of some 2 to 3 per cent is what Ministers have in mind.

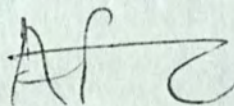
No 10 would like a Treasury reaction today.

2. There is clearly no difficulty about (a). So far as (b) is concerned, I believe it would be better to stay with the formulation in paragraph 2 of Mr Hall's letter, saying that Ministers were considering whether any additional measures were justified only if pressed. This would leave more open the possibility of a decision not to go further and might avoid the obvious question about what additional schemes were under consideration.

3. On (c), again there can be no difficulty in talking of a "small but not insignificant" shareholding by employees but it would seem prudent to avoid giving a figure, even a conservative one. Treasury Ministers at E(DL) agreed to a concession of

£7m on an assumed market value of £350m: a different figure might be appropriate if the share proceeds were to be very different.

4. I attach a draft Private Secretary letter on these lines.



A F CASE

11 April 1980

DRAFT LETTER TO

T Lankester Esq  
Private Secretary  
No 10

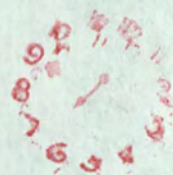
BRITISH AEROSPACE: SHARES FOR EMPLOYEES

Peter Stredder's letter to you of 10 April suggests that in the Debate on 14 April the Government Statement about employee shareholding should go beyond the Chancellor's suggestions recorded in my letter to you of 3 April.

2. The Chancellor would of course wish the Government spokesman to speak enthusiastically about employee shareholding but he considers that the uncertainties now attaching to the BAe flotation argue for caution in "putting flesh" on the bare bones. For that reason he continues to feel that it would be better not to volunteer any statement about whether schemes other than a matching one-for-one were envisaged and to retain the formulation suggested in my earlier letter for use, if pressed. To be more forthcoming might only serve to prompt questions about what further measures were under consideration.

3. Similarly, he would prefer not to volunteer any figure however cautious at this stage about the size of the small but not insignificant shareholding envisaged. A final decision on this must await a further E(DL) discussion of the disposal plans and merchant bank advice on the scale of likely proceeds.

111 APR 1954



RESTRICTED

A



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State's Office

The Hon Adam Butler MP

T Lankester Esq  
Private Secretary  
10 Downing Street  
London  
SW1

10 April 1980

Dear Tim,

BRITISH AEROSPACE: SHARES FOR EMPLOYEES

- 1 Mr Butler has been considering the letter of 3 April from the Chancellor's Private Secretary, on which you recorded the Prime Minister's view in your letter of 8 April.
- 2 He is concerned that the Government, by adopting the restrictive line proposed by the Treasury, will appear defensive and lacking in commitment to the idea of employee shareholding when questioned in the Lords. This would be doubly unfortunate. There has already been criticism of the Government's proposals in the Lords, and a vote at Committee Stage led to opposition from all sides of the House, including the Government benches. If the Government is unable to make clear its commitment to employee shares on Report on Monday 14 April these criticisms will be the more trenchant. Second, there has been widespread interest in the many meetings with British Aerospace employees held up and down the country about employee shares, in the course of which Mr Butler has stated the Government's determination to promote the idea, and its willingness to consider new and effective means of achieving this end. It would be quite incompatible with this for the Government to adopt a restrictive attitude in the Lords.
- 3 Mr Butler would therefore wish to see the Government spokesman speaking enthusiastically about employee shareholding. He would need to support his remarks with selective facts, putting some flesh on the earlier rather bare bones. Mr Butler would then like to see an indication given of the approximate percentage shareholding we are looking to achieve by means of concessionary offers. At



- 4 E(DL) Treasury Ministers did not object to the scale of the concession for employees (although others thought it too low), and Mr Butler believes that the Government's intention could be made clear, without waiting for future advice we may receive on the flotation proceeds, by expressing our concessions as an (approximate) percentage of the issue. For example, E(DL) discussed concessions of £7 million on an assumed market value for the company of £350 million - equivalent, depending on whether this was all "matching one-for-one" or included some free offer, to between 3 and 5 per cent of the shares. He therefore sees advantage in a statement which indicates that the Government is looking for a small but not insignificant shareholding by employees and he believes that our spokesman should be prepared to specify that about two or three per cent of the shares is what Ministers have in mind. This would not go beyond - and is in fact conservatively within - what E(DL) agreed.
- 5 For the Government's statement to have conviction, Mr Butler believes our spokesman should firmly and from the outset - without waiting to be questioned - make clear that there will be a "one-for-one" scheme, subject to conditions and limits, and in addition that the Government are considering whether to go beyond this with additional measures. To leave the latter to be wrung from the Government spokesman would be singularly ineffective as a means of demonstrating our commitment to employee shares. Indeed, since it would fall short of Ministerial statements already made, it would be potentially damaging, since it would cast doubt on the reality of the Government's commitment to employee shares.
- 6 Mr Butler therefore hopes that, even if there is no agreement on a statement about the scale of proposal arrangements (which he would much favour being made) there can be a firm statement on the lines he has proposed in 5 above. My Secretary of State agrees with him on the need for this, as well as the benefits of making clear the likely scale of concessions.
- 7 I am copying this to Martin Hall.

*Yours ever,*

*Peter Sredder*

PP Mrs E A Riley  
Private Secretary

RESTRICTED

B/P 15.4.80  
John's Hand

*File 6*

*Aerospace*

8 April 1980

British Aerospace: Shares for  
Employees

The Prime Minister has now considered your Secretary of State's minute of 13 March reporting on the E(DL) discussion on the above subject. She has also read Martin Hall's letter of 3 April reporting that the Chancellor is disposed to a further E(DL) discussion before final decisions are taken, and suggesting a holding statement by Lord Trehearne in the Report Stage Lords' Debate on the BAe Bill on 14 April. She is content for this matter to be carried forward in the way proposed.

I am sending a copy of this letter to Martin Hall (H. M. Treasury).

*L. P. LANKESTER*

I. K. C. Ellison, Esq.,  
Department of Industry.

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*TUC*

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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 6401  
SWITCHBOARD 01-212 7676

From the  
Minister of State

The Hon Adam Butler MP

Nigel Lawson Esq MP  
Financial Secretary  
HM Treasury  
Parliament Street  
London SW1

8 April 1980

*on the Saffin*

*MBM*

*Dear Nigel,*

*TL  
4/4*

BRITISH AEROSPACE LTD

I am writing to let you know formally that it has now become clear that the company, British Aerospace Ltd, in which the business of the present statutory corporation will eventually be vested under the British Aerospace Bill, will not be able to be floated, as we had originally hoped to do, in the short summer "window", allowed by Stock Exchange regulations. Although we have been working very hard towards this end, a number of uncertainties have now occurred which make it impossible to proceed as we had originally intended. In particular, it has become clear that the Government, as the vendor, could not proceed without making clear the effect of various possible defence decisions which we are not yet able to make public. I shall write again to you setting out my proposals for the vesting and subsequent flotation of British Aerospace Ltd once these and other uncertainties which affect the issue are clearer.

In the meantime, I think it important to consider carefully how to treat the question of public presentation of the timing of the issue. No formal statement has ever been made that the issue will take place this summer, and the most clear statement as to timing is that which appears in the Budget Statement and Financial Report, where the absence of figures for British Aerospace is explained by "the assumption, subject to the passage of the British Aerospace Bill, of a sale of shares in a successor company in 1980/81". I intend to make no statement to the effect that the issue will not take place in the summer: the reality is that, although we have been working towards this timing, no decision had been made to adopt it. Formally, our position and policy remains unchanged, namely that the sale of shares in British Aerospace Ltd will take place at the earliest appropriate time after Royal Assent. I think it important that we should keep up

/ ... the pressure





the pressure within Parliament, so that our opponents cannot claim that we are slackening off or having second thoughts.

I am copying this to the Prime Minister, other E(DL) members, the Minister of Transport, the Chancellor of the Duchy, Earl Ferrers, Lord Trefgarne, Lord Cullen and Sir Robert Armstrong.

*Yours m*

*Adam*

ADAM BUTLER

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3 2 1  
11 12 1

-8 APR 1980

Om - fr - m



Pamir <sup>B 1</sup>  
The reason for the delay  
in putting Sir Keble's  
minutes to you is that  
I have been awaiting the

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

3 April, 1980  
Tracy. The Chancellor  
has been at odds with  
his junior ministers on  
the issue. He now  
suggests another discussion  
in E(DL).

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

Dear T.,

Are you content with  
what is proposed below?

Yes pls. TL  
2/4

BRITISH AEROSPACE: SHARES FOR EMPLOYEES

Flag A

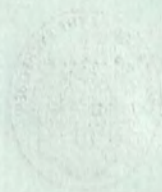
The Chancellor has been considering the issues described  
in the Secretary of State for Industry's minute of 13th March  
to the Prime Minister. Their urgency has of course evaporated  
with the decision taken in OD on 20th March that the BAE  
flotation should be postponed, and the Chancellor believes  
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.

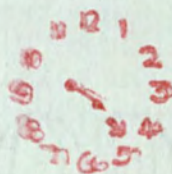
Yours ever,  
MA

M.A. HALL  
Private Secretary



Library Chambers, Parliament Street, SW1P 3JQ  
01-233 3000

3 APR 1980



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DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

Secretary of State for Industry

2. April 1980

The Rt Hon Francis Pym MC MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
London SW1A 2HB

*Handwritten notes:*  
1.5  
M.D.  
Prime Minister  
P.M.

*Handwritten routing slip:*  
PS/Prime Minister 2  
PS/Chancellor 3  
PS/R Armstrong 4

*Dear Francis.*

*Record not received yet*

*3/4*

REVIEW OF DEFENCE REQUIREMENTS

At last Thursday's meeting of OD I set out some of the implications for industry which would flow from the sort of measures you indicated might be required to bring defence plans within the target limits. I am now writing to describe these in greater detail, in relation both to defence suppliers in general and to the privatisation of British Aerospace in particular.

I think you appreciate the general point that cuts in procurement of defence equipment from certain home suppliers could have a drastic and lasting effect on a number of them, and on the country's industrial capacity to continue to compete internationally in a number of sectors where we have strong companies with good export records. Nor are the implications confined to military products alone; civil products made by companies in the electronics industry, for example, often owe much to military developments. These considerations reinforce the need, already discussed between Adam Butler and Euan Strathcona, for the Department of Industry to be fully engaged in the defence review, in order to ensure that the various alternatives put forward for decision take full account of industrial implications.

Although the options for cuts in the defence programme are not fully defined, it is already clear that retrenchment on the scale being contemplated would have a particularly damaging effect on British Aerospace and put the country's capability to produce high technology defence equipment seriously at risk. It could, for example, mean the end of our capability to produce major new combat aircraft. The effect of changes in procurement of existing missiles and of reconsideration of new missile developments could be severely damaging to the British Aerospace Dynamics Group. In the long

/term ...



term we could be left with a shadow of the successful industry that exists today.

This would be serious at any time. It is particularly worrying when it is realised that the first of the privatisation measures to which we attach great weight, and in which we have invested much political capital, affects British Aerospace. I reported at OD that the present uncertainty about the defence review makes it impossible for us to proceed with our plans, to which a great deal of work has been devoted, of making an issue in May or June. (The OD minutes incidentally do not record my reference to the other considerations which affect the flotation). My firm legal advice is that, without disclosing what is at issue, it would be wrong for the Government to attempt to sell shares in a company which might be subject to the radical and harmful changes you now propose. The very existence of these plans has, in fact, caused me to draw back from a summer flotation.

This delay is regrettable and it is all the more important that the defence review should not prevent us from proceeding with the flotation at the next opportunity open to us, which will fall in late October, November or December this year. For this flotation to be possible, we need to do two things. First, we must have concluded the defence review in good time, so that uncertainties are removed. I believe your present timetable will make this possible, but I must underline the need to adhere to it. Secondly, we must take decisions which, once made, will still enable British Aerospace to be privatised. It is already clear that the flotation will not be easy, and some of the contingencies being considered would almost certainly make a flotation impossible during the life of this Parliament. It will, therefore, be essential to consider the effect on the flotation of the various measures being considered.

If we are to do this effectively, I consider it necessary to be able to expose to my merchant bank advisers, the Bank of England and Kleinwort Benson, what is under discussion. If we were not to seek their advice we would run the considerable risk that we should not appreciate fully the effect of some possible decisions on the flotation. I should, of course, consult on a basis of extremely limited involvement in either the Bank or Kleinwort Benson, and I would make clear the need for complete secrecy. Those with whom I believe it necessary to discuss these issues in the two banks have in the past proved themselves utterly reliable in their respecting of confidential information. I would arrange for my officials to clear with yours the acceptability of the individuals in the Banks who would be consulted. I see great advantage in starting these discussions as soon as possible: the more we delay, the greater the risk that we shall be prevented from taking any measure

/to ...



to privatise British Aerospace this year.

I am copying this letter to the Prime Minister, the Chancellor and Sir Robert Armstrong.

*Yours*

*Kew*

25 APR 1960





R. E. D. L. 80 (1st Meeting),  
Aeropace

B. Aeropace Ltd  
Privatization.



PRIME MINISTER

Tim.

The give-away scheme is  
a potential minefield.

British Car?

B.N.O.C. ?

Compensation for Civil Servants  
who don't work in Public  
Corporation which can be  
Privatized.

Dave



PRIME MINISTER

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 preceded 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.

K J

13 March 1980

Department of Industry  
Ashdown House  
123 Victoria Street



13 MAR 1980

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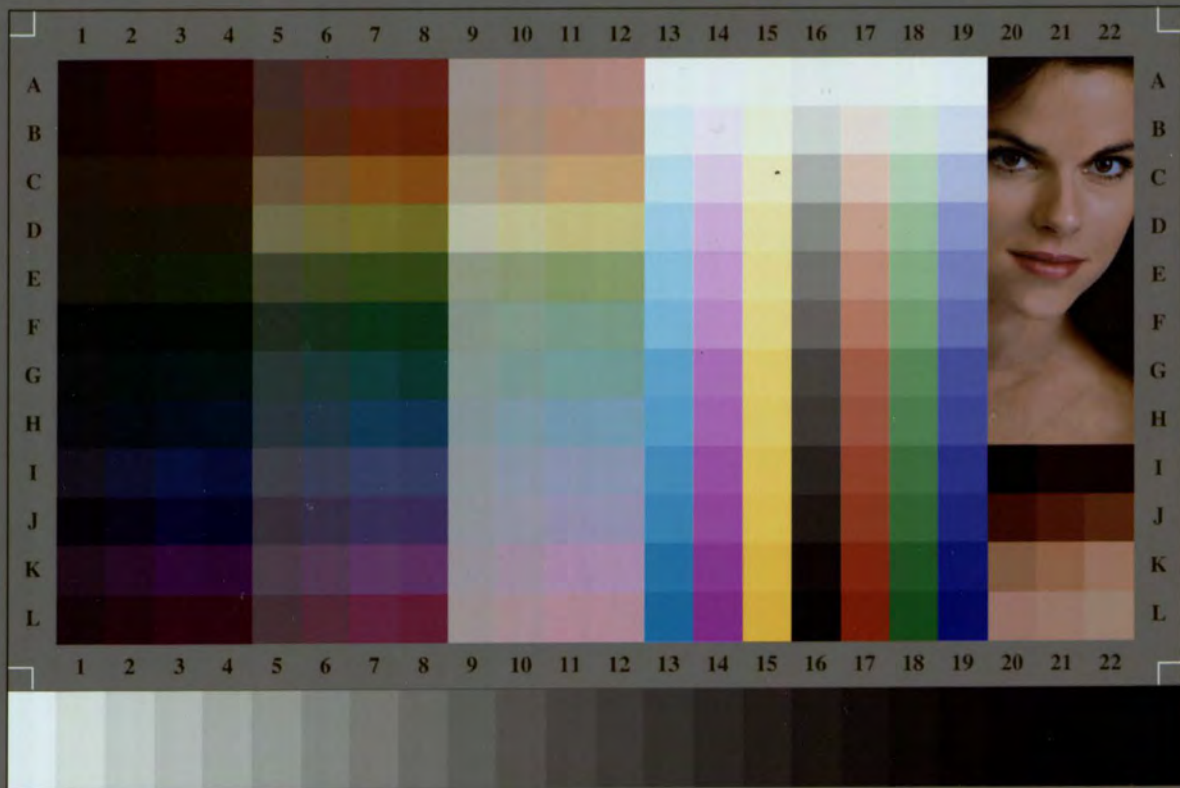
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