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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