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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

