P.01266

PRIME MINISTER

The Privatisation of Jaguar
(E(A)(84)18)

BACKGROUND

On 15 February E(A)(84)5th Meeting), the Ministerial Sub-Committee on Economic Affairs agreed that proposals should be brought forward for the flotation of 100 per cent of Jaguar, in a way which would provide for the possibility of blocking an attempt by an overseas company to gain effective control. The preferred alternative was a discretionary golden share mechanism: but consideration was also to be given to a blocking 25 per cent shareholding which would be wholly owned by the managers and employees of Jaguar. If the latter option were not pursued, arrangements should be made to introduce share option and incentive schemes.

2. A report on the alternative mechanisms for blocking an overseas takeover prepared by the Interdepartmental Official Group on British Leyland (BL) is attached to the memorandum from the Secretary of State for Trade and Industry (E(A)(84)18). Also attached at Annex III is a summary of Jaguar's business plan and projections, as requested by E(A)(84)5th Meeting.

3. In his memorandum, Mr Tebbit supports the conclusion of the Official Group that a blocking employee shareholding is not practicable. He is however satisfied that an adequate golden share provision can be devised. He proposes that the golden share should last for a minimum of 10 years, rather than no more than 5 years as recommended by officials.

4. Mr Tebbit also recommends that the proposed share option and share incentive schemes should be endorsed; the share option scheme will however need to be revised to bring it into line with the Inland Revenue's new requirements.

5. Finally Mr Tebbit points out that a substantial UK company has expressed an interest in acquiring Jaguar. (We understand that the company concerned is Rothmans but this is of course commercially sensitive information.) He recommends that the preparations for flotation on 24 July should proceed as planned, but that if a substantially higher offer is received, it should be put before the Sub-Committee for consideration.

MAIN ISSUES

6. The main issues are:

i. should the idea of a blocking employee shareholding now be rejected?

ii. should the 100 per cent flotation of Jaguar therefore proceed on the basis of a golden share provision?

iii. what should be the time limit on the golden share provision?

iv. are the proposed share option and incentive schemes acceptable?

v. what should be the response to an outright bid for Jaguar in the period up to flotation?

Blocking employee shareholding

7. The maximum shareholding which might be subscribed by the

8,000 employees and the management of Jaguar seems to be about 5 per cent of the total. Devices to boost this to 25 per cent (around £50 million) would burden Jaguar with extra debt, damage its financial position and depress the flotation price. The shareholders in any trust established to hold the 25 per cent block cannot be forced in law to vote the same way when faced with a takeover bid. Treasury Ministers share Mr Tebbit's view that a blocking employee shareholding is not practicable.

Golden share provision

8. The Official Group are satisfied that the issue of a golden share to the Secretary of State can be justified by BL as in its own interests and those of Jaguar in the short term. The risk of legal challenge from a BL minority shareholder is thought to be low.

9. There is unlikely to be any dispute about the general specification of the golden share provision. It follows broadly the format employed in the previous flotations and that planned for British Telecom. It is thought likely in practice to deter foreign bids. It could not be used to block a bid from a Community company in favour of a lower bid from a British company, but this risk will have to be accepted.

10. There is a difference of views about how long the golden share provision should last. Mr Tebbit believes that the period should be 10 years, with the Secretary of State having power to redeem at any time after that. The Official Group recommended that the share should lapse without qualification after 5 years. The Chancellor of the Exchequer favours sticking to the strict 5 year limit.

11. Mr Tebbit argues that it cannot be known when Jaguar could

be sold (implicitly to a foreign owner) without political embarrassment and that the share ought to run until the idea of Jaguar as a public company fades. The Sub-Committee will need to weigh these political considerations against the possibility of reduced sale proceeds and some greater risk that a golden share provision of longer duration might attract legal challenge. If a compromise is sought it might be possible to reach agreement on a 5 year period, with a power to redeem after that date. The golden share provision would still in practice last as long as the Government wanted but reference to 5 years rather than 10 years might be better presentationally.

Employee share schemes

12. It is proposed that 5 per cent of the shares be set aside for preferential allocation to the employees; and that there be an employee share incentive scheme. This should have a beneficial impact on floation and help secure the commitment of the workforce. A share option scheme for management is also proposed. As originally drafted it was considered generous by the Official Group; it is now being modified in the light of budget changes. Subject to approval of this revised option scheme by the Chancellor, the Sub-Committee will wish to approve the proposals for share subscription, incentive and option schemes.

An outright bid

13. Mr Tebbit proposes to bring any outright bid for Jaguar in the period up to flotation before the Sub-Committee, if it is likely to result in "substantially higher proceeds than flotation". But sale proceeds and the need to encourage wider ownership of shares are only two relevant aspects to any such bid. The potential commercial and technological advantages which a link between Jaguar and a major UK company might create,

should also be taken into account. The Sub-Committee may therefore wish to suggest that any firm bids for Jaguar should be brought before them for consideration.

HANDLING

14. You will wish to invite the Secretary of State for Trade and Industry to introduce his proposals. The Chancellor of the Exchequer will wish to comment on how the proposals fit into the privatisation programme. The Secretary of State for Energy may wish to comment on the rejection of his proposal for a blocking shareholding held by employees. The Foreign and Commonwealth Secretary may wish to comment on the EC reaction to a golden share provision.

CONCLUSIONS

15. You will wish the Sub-Committee to reach conclusions on the following:

i. whether the option of a blocking shareholding to be held by Jaguar employees should be rejected;

ii. whether plans for 100 per cent flotation of Jaguar should now proceed on the basis of a golden share provision;

10 years.

iii. what time limit should apply to the golden share provision;

iv. whether the share subscription, incentive and option schemes should be approved, subject to Inland Revenue requirements;

v. the handling of approaches from potential UK purchasers before flotation.

PG

P L GREGSON

3 April 1984