

BGC PRIVATISATION

We are six months from the world's largest equity flotation. In spite of lower oil prices and more competition in the energy market, we are on course for proceeds close to £8 billion. The regulatory framework for British Gas plc is almost complete - and attracting growing interest and favourable comment from initially-critical commentators in the US. BGC's management are enthusiastic and the staff are mostly positive.

Following recent difficulties over the privatisation of BL and BA, the Government has the chance of a record-breaking success to restore the reputation of the privatisation programme and re-awaken popular interest in share ownership. From now on, the difference between success and triumph depends on the marketing of the flotation. That is primarily what lies behind the two outstanding issues covered in Peter Walker's paper.

Customer Share Scheme

The proposed scheme should appeal to the public's nose for a bargain and stimulate early interest in the flotation. How could a Government committed to popular capitalism pass up the opportunity to sell British Gas shares to 5 million small shareholders rather than 3 million?

In practice, the 24% of non-gas customers should not be significantly disadvantaged in the final allocation of shares. They won't be able to set BT-type vouchers against future gas bills, but they will have the equally valuable option of bonus shares (or perhaps premium bonds). Resentment should be minimal.

Employee Share Scheme

BGC have 90,000 staff, who view the prospect of privatisation with anything between indifference and enthusiasm. Mobilised by an attractive employee share scheme, they will effectively become an additional sales force for the flotation; and the value of their contribution to the market effort should outweigh the cost. Moreover, the higher the take-up of shares by employees the better will be the prospects for the business.

The Treasury are worried about the precedent of generous terms for future privatisations. The best precedent we can have is an eager scramble for shares by 5 million small shareholders and 90,000 motivated British Gas staff.

Conclusion

We would support Peter Walker on both the customer share scheme and the more generous version of the employee share scheme.

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