DN.

There seemed no point arranging for this to go down the box tonight. I had already told Cab Off that we were not expecting anything from them, or briefing or attendance. MEA 28/5

MR NORGROVE

You asked Brian Unwin for a brief for tomorrow's meeting on the BGC floatation. Brian and everybody else in the Economic Secretariat are on leave this week, but I have prepared the attached note which may be of use.

I have agreed with Mark Addison that Cabinet Office will not be represented at the meeting.

J E ROBERTS

Cabinet Office

28 May 1986

4 CB/UP.

PRIME MINISTER

BGC PRIVATISATION
(Meeting at 5.15 pm Thursday 29 May)

[Minutes of 20 May from the Secretary of State for Energy and from the Chancellor of the Exchequer.]

MAIN ISSUES

1. Decisions are required on two aspects of the floatation of the British Gas Corporation (BGC):

1. Should there be a preferential scheme for BGC customers, with a guaranteed minimum allotment of shares and preferential treatment above the guaranteed minumum?

2. How generously should the employee share scheme be pitched?

Customer Share Scheme

2. Rothschilds and the other city advisers have proposed a scheme aimed at encouraging BGC's customers to become shareholders. There would be a guaranteed minumum allotment of shares, perhaps of £200, and preferential treatment above the guaranteed minumum. It should be possible to secure a significant level of early registrations from customers in the run-up to the sale. (In addition there will be incentives for small shareholders on the same lines as the BT floatation, but these would be open to customers and non-customers alike and are not at issue.)

3. The proposal is intended to tap the potential for creating a substantial number of new shareholders, to give further impetus to the privatisation programme and to wider share ownership. Treasury Minister have, however, argued that the 22 per cent of

households who are not gas customers will critise the Government for putting them at a disadvantage. Of these, 13 per cent in remote areas are unable to get gas. Non-customers will of course be able to apply for shares in the normal way, and indeed will have a degree of priority over the institutions. There will be no direct financial advantage to customers, but on the assumption that the shares will open at reasonable premium (this is particularly likely if the institutions are discriminated against in the initial allotment) the guarantee of a allotment is clearly valuable.

3. In the case of the TSB floatation existing customers are to be given preference. But that case is not on all fours with BGC, because the TSB is a mutual organisation and ownership was unclear. In the case of BGC, the customers are clearly not the owners.

4. The issue for decision is whether the opportunity for stimulating a significant boost to share ownership is worth the possible criticism from the minority who will be excluded from preferential treatment.

Employee Share Scheme

5. Annex B to the Energy Secretary's minute sets out the alternative packages proposed by the Treasury and by the Department of Energy for the employee share scheme. Treasury Ministers are concerned that the more generous package proposed by DE represents a substantial increase on what was offered to BT employees, and will effectively bid up what has to be offered for future privatisations. The Energy Secretary argues that it is crucial to create a sizeable employee shareholding, to undercut union opposition to privatisation and to ensure workers' commitment to the future prosperity to the company.

6. In practice there is only £70 difference in the maximum value per employee between the two departments, and only £60 in the cost per employee. The sums involved are small in relation to the total proceeds from privatisation. The main structural difference is that the DE proposal provides more free shares for each year of service, whereas the Treasury proposal has a flat-rate offer. The DE proposal is substantially more generous to pensioners, offering £70 free shares plus a further £2 for each year of service, compared with a flat-rate offer of £50 suggested by the Treasury.

7. There is clearly every advantage in securing support from the workforce for privatisation, but not at such a price that the Government's hand will be weakened in future floatations. The water industry is the clearest parallel case (the unions are the same), and what applies for Gas will be argued for here also.

HANDLING

8. You will wish to invite the Secretary of State for Energy to introduce the discussion, and the Chancellor of the Exchequer to respond.

J E ROBERTS

Economic Secretariat
Cabinet Office

28 May 1986