

CONFIDENTIAL

De



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1

17 July 1980

Dear Keith,

During the recent discussion in E(DL) there was general agreement to my proposals for the introduction of private capital into the British Transport Docks Board (BTDB). I was asked however to give further consideration to a number of points raised in discussion and to circulate the terms of my draft statement. As you know, I was asked at this morning's Cabinet to wind up at next Monday's Supply Day Debate. I therefore purpose to include this statement in my speech. This will provide an ideal opportunity and I would be open to very considerable criticism if I did not - indeed I do not see how I could avoid announcing it on that occasion. It comes a few days earlier than I had planned and I am sorry that it means asking for my colleagues' agreement to the draft statement attached by noon on Monday.

CONFIDENTIAL

CONFIDENTIAL

I was asked to consider whether there might be room for a possible reduction in the proposed 51 per cent Government shareholding by making any sales of shares to employees from it. I have considered this carefully but I do not think that it would solve any problems. Any departure from the 51 per cent formula would prejudice the Board's support and the acquiescence of the unions over flotation.

But there are also practical objections. Although employees collectively might have the same interests at heart, they are not a homogenous group and there is no way in which one could guarantee that, having once become shareholders, they would not exercise their right to sell the shares on the open market. Apart from the technical difficulty therefore of mobilising the employee vote, if it still existed in the requisite numbers, there could be no guarantee that the original proportion of share holdings would remain static so far as they were concerned. The BTDB are quite clear that the unions would see such a proposal as a watering down of the Government's commitment to maintain a majority holding, and that this could prejudice the success of the whole operation. This has been confirmed by representations the NUR made recently to BTDB. I do not intend to mention this in my speech on Monday, but I thought colleagues would like to know the position here.

Although I am firmly of the belief that we must maintain 51 per cent of the shares in the short term, the Company will in due course need, no doubt, to raise further funds for expansion and since it is to be deprived of access to further

CONFIDENTIAL

CONFIDENTIAL

Government funding this would probably require the further issue of shares. In time therefore the importance of the 51 per cent original Government shareholding will be effectively diluted (and the adoption of a continuing employee share scheme would have a similar effect). These seem far better ways to ensure the eventual demise of a majority Government holding than to try to confront union opposition before flotation.

I was asked to review the proposed commitment not to sell further Government shares for some time after the initial sale. The main reason for such a commitment is, as I have already made clear, to avoid depressing the price of the initial issue. I have again consulted Kleinworts about this and they have agreed that the forecasts of sale proceeds they have quoted would probably still hold good if we committed ourselves to making no sales for only three years. A shorter period would in their view have a serious effect on the price. They do however agree that this is a matter which should be left to be settled in the light of market conditions much nearer the time of the flotation.

I was also asked to discuss with the Financial Secretary the terms of the statements relating to the degree of Government disengagement from the commercial activities of the proposed companies. A suitable point to make such statements will be at the Second Reading of the Bill and I will consult the Financial Secretary in due course. For the purposes of the next statement I would propose to say no more than that the Government would not propose to intervene in any way in the day to day operations of the Company.

CONFIDENTIAL

CONFIDENTIAL

DTDB: DRAFT STATEMENT

I told the House in March that I had asked the Chairman of the British Transport Docks Board to explore possible ways of introducing private capital into the Board's undertaking in consultation with the trade unions and others concerned and to report back to me. The Chairman has now reported and I have consulted merchant bankers.

On the basis of the information and advice I have received I propose to proceed with the preparation of legislation to make the necessary changes in the Board's constitution to transform it into a company and give me the power to sell shares in it. My plans envisage that the Board's undertaking will be maintained as a single management unit, ie that there will be no break-up and disposal of individual ports. Although the Government will retain a 51% holding this will not involve any intervention in the running of the business and existing controls under the Transport Act 1962 will be removed. I intend to introduce my proposals to the House at the earliest opportunity.

CONFIDENTIAL