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CCBG
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

The Rt.Hon. Peter Walker MBE. MP.
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

NBP
4 December 1985

Dear Peter,
PRIVATISATION OF BRITISH GAS

Thank you for sending to me a copy of your letter of 26 November to Nigel Lawson.

I have considered the question of compatibility with the EEC Admission Directive of a percentage limitation on the holding by any individual or group of individuals acting in concert of shares in British Gas. In the very short time available I have only been able to conclude that there are very respectable arguments that a limit of 15% would not be contrary to the requirement in the Directive that the shares must be "freely negotiable". (This conclusion has been expressed in detail to your officials). I have also indicated that it is not possible for me to specify the lowest percentage limitation on the size of individual or group shareholding which would still avoid the jeopardy of infringing the requirement of free negotiability or of non-disturbance of the market (the criterion for the grant of a derogation by The Stock Exchange). All I can say on the basis of past precedent is that a limit of 15% would seem to be safe. The further one moves downwards from this percentage the greater will be the jeopardy.

I note that your Legal Advisers believe that a provision in the Articles requiring the Chairman, or a majority of the BG plc Board, to be British nationals would be unlikely to be compatible with the requirements of the Treaty of Rome. My initial reaction to this, on the basis of what you say, is that the advice seems to be correct; but you will appreciate that I do not have detailed information as to the

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nature of BG plc or of the circumstances surrounding the BT exemption, and consequently cannot express any firm view.

I am copying this letter to the Prime Minister, Members of E(A) and Geoffrey Howe.

Sam van

J. L. H.

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GAS

PT 11



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2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:

Your ref:

5 December 1985

Dear Sir,

NS17

PRIVATISATION OF BRITISH GAS

Thank you for sending me a copy of your letter of 26 November to Nigel Lawson.

I am content for you to proceed as you propose.

I am sending copies of this letter to the Prime Minister, other members of E(A), Geoffrey Howe, Patrick Mayhew and Sir Robert Armstrong.

Kenneth Baker
[Signature]

KENNETH BAKER

The Rt Hon Peter Walker MP

NAT IND: Gas & elec. PE 11

