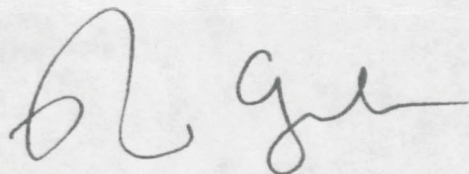


01 211 6402

The Rt Hon John Moore MP  
Financial Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

✓ BPN

14 January 1986



**GAS PRIVATISATION: SPECIAL SHARE AND RELATED ISSUES**

Thank you for your letter of 16 December.

I entirely agree that it must be possible for institutional shareholders to put real pressure on British Gas should this be necessary to improve on an inadequate performance. A BT-type 15% limitation on shareholdings would allow for this. It would prevent any one individual or connected group who co-operate in the buying of shares from owning more than 15%. But it would not prevent shareholders acting together after acquiring their shareholdings in order to influence the British Gas Board. For example, it would be possible for a group of institutional shareholders to get together to bring about Board changes as has sometimes happened with private sector companies in recent years. A BT-type special share, while protecting against takeovers, would therefore not inhibit general shareholder pressures on British Gas to perform efficiently.

I also appreciate your argument that the Government should have some flexibility to agree to an acceptable takeover. But I do not accept that such flexibility does not exist with a BT-type special share since it is always open to the special shareholder to agree to a change in the Articles to modify or abolish the 15% limit. The support of shareholders owning 75% of the shares represented at the general meeting called to consider such a change would also be needed. But Rothschilds believe this support would be likely to be forthcoming given that such a change would, particularly in the context of a proposed takeover, be likely to be to the shareholders' financial advantage.

The Britoil/Enterprise approach involves the special shareholder gaining a voting majority, and hence temporary control of the company, in the event of someone acquiring, or intending to acquire, more than 50% of the shares. This is entirely appropriate when the trigger limit is 50%. But it clearly becomes completely inappropriate, and highly draconian, with a trigger of 15% and would be particularly severe for the general shareholder who would be suddenly deprived effectively of his general voting rights by the action of another, without any of the



protections which apply under the Panel Rules. I cannot see, therefore, how we could adopt the kind of approach you suggest without also adopting a 50% shareholding limitation, rather than one of 15%. I could not agree to such a higher limitation for a company of the nature of British Gas since it would offer inadequate protection against an oil company building up a substantial shareholding in order to seek to influence British Gas' affairs.

Finally, outside commentators will compare what we do on the British Gas offer with what was done in the case of BT, not Britoil or Enterprise Oil. So there are presentational arguments for following the BT precedent.

Drafting of the special share provisions now needs to proceed urgently so that I can be in a position to table them, if necessary, when the Commons Committee reaches the relevant part of the Bill. I hope therefore that, in the light of the points made above, you are now able to agree to this being on the basis of the approach set out in my letter of 26 November.

I am copying this letter to the Prime Minister and other members of E(A), Geoffrey Howe and Patrick Mayhew.

A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by a 'W' and a flourish.

PETER WALKER

NAT IND

CAS

PT 12





Treasury Chambers, Parliament Street, SW1P 3AG

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

*NSP*

*16* December 1985

*Dear Peter...*

**GAS PRIVATISATION : SPECIAL SHARE AND RELATED ISSUES**

Thank you for your letter of 26 <sup>P11</sup> November to the Chancellor. I have also seen Norman Tebbit's letter to you of 27 November and Leon Brittan's letter of 10 December. *← P12* *← P11*

I do of course recognise the strategic importance of the gas transmission system and the need to avoid foreign control of British Gas. But so far as the threat of takeover or undue pressure by large UK shareholders are concerned, the best way of avoiding this must surely be for British Gas management to maintain a level of efficiency and profitability which ensures an adequate market price for British Gas shares. I am concerned that an automatic limit on individual shareholdings would mean that it would not be possible for institutional shareholders to put real pressure on British Gas should this be necessary to improve on an inadequate performance.

It is clearly right to have a special share to avoid undesirable influence or control being exerted on British Gas. I however would prefer a share which leaves the Government some flexibility as to whether to activate its voting rights. A special share of the type used with Britoil and Enterprise would permit the Secretary of State to outvote a shareholding above a certain level (50% in the two companies in question). The Secretary of State would not, however, be required to trigger the special share whenever a shareholding reaches a critical size. This means the door is kept open for an acceptable takeover. I believe we need an arrangement of this sort to help keep up the pressure for efficiency on BGC.

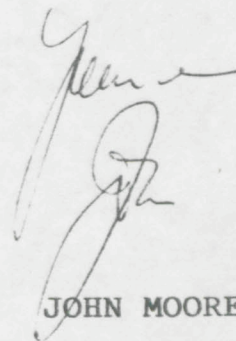
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As to the level at which the powers of the special share come into play, I am prepared to go along with 15 per cent as Leon and Norman suggest. Patrick Mayhew considers that this would seem to be safe under the Listing Directive. I certainly see no reason for going below 15 per cent.

I appreciate that this represents a departure from what we did with British Telecom. You have said yourself that there is limited scope for competition to develop in much of BGC's business. This means we need to look for other ways of promoting efficiency.

Subject to any further views of the Law Officers, I am content with your other proposals on time limits, nationality of directors and Government directors.

I am copying this letter to the Prime Minister and other members of E(A), Geoffrey Howe and Patrick Mayhew.



JOHN MOORE

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Not ind; Gas; Pr/12



CCBG



DEPARTMENT OF TRADE AND INDUSTRY  
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Secretary of State for Trade and Industry

Rt Hon Peter Walker M.P.  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
LONDON SW1

10 December 1985

Dear Peter,

NBM

PRIVATISATION OF BRITISH GAS

A 11

Thank you for sending me a copy of your letter of 26 November to Nigel Lawson, about measures to safeguard British Gas' independence after privatisation. I have also seen Norman Tebbit's letter of 29 November.

*will request if required*

I am content with what you propose but, like Norman, believe you should insist on a 15% limit on individual shareholdings which is not only the figure for BT but for previous privatisations as well.

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

*Leon*

LEON BRITTAN

KJLABX

NAT IND

GAS + ELECTRIC

LT 12.

