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The possibility of GM taking a minority holding in Land Rover, but all of the two problem areas of Freight Rover and Leyland Trucks, is good news. If Land Rover is indeed the jewel in the crown, then it will generate cash and never need the extra funds that will give GM the opportunity to increase their holding. On the other hand, if it is not a success then it will quickly need new funding, and GM will rightly take control.

There will be inevitable accounting difficulties on transfer pricing, use of the US franchises etc, but these should be superable - although it may be necessary to make provision for some independent arbitration. Greater difficulty could arise through Land Rover's use of common GM services such as marketing, production technology, and particularly R&D. If the full opportunity of Land Rover is to be exploited, it is essential that the big company benefits that GM can provide are made available to Land Rover. An agreement will therefore be necessary on how such common services can be charged out.

Much of the incentive for GM comes from the prospect of being able to take control of the company, so it will be essential that an issue of new shares for extra funding cannot be blocked. The counterpart is that there must also be an agreement on dividend policy. The British shareholders must have the assurance that they will get a fair return from their investment; but obviously the higher the return they seek, the greater Land Rover's need for new cash will be, and therefore the more quickly GM shareholdings will grow.

Because of the restrictions that will be placed on the shares, it is unlikely they could be listed on the Stock Exchange, therefore there can be no true market in the shares. This means that special arrangements will be necessary to determine the price at which shares can be sold and new ones issued.

On the assumption that the shares will initially be divided something like 60:40 between Britain and GM, the following questions arise.

1. Should it only be British financial institutions that can subscribe, or should industrial companies be allowed to participate? [Yes]. Should the employees be encouraged to buy shares? [Yes]. And should BL retain an element? [No, this defeats the object of the exercise.]

2. Should all the shares be ordinary or should, say, 10% be convertible into debt at GM's option in, eg 4 years' time? [Probably]. Should more than 10% be convertible? [No]

3. Should the British shareholders be prevented from reselling? [Yes, for at least 3 years.]

4. When new funds are required, should <u>all</u> shareholders have the right to subscribe to new shares, or just GM? [All shareholders, more funds may be required either because Land Rover is doing badly, or because Land Rover is doing so well that it needs to invest, for example, in new production facilities.]

5. Should GM have the right compulsorily to buy shares from the minority holders once it has gained 75% control? [Yes, it needs this carrot, and the minority could be obstructive, like BL's minority shareholders.]

6. Could GM gain the right to subscribe the new shares by, for example, the achievement of sale targets in the US? [Possibly, if an extra carrot is needed.]

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