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cc: HMT ✓

PRIME MINISTER

BL : PRINCIPLES OF A DEAL WITH GM

We decided last night not to proceed with the GM deal on the basis available - i.e 100 per cent ownership of Land Rover subject to "entrenched rights". It was agreed that we would offer GM a compromise based on their having 49 per cent voting control for 4 years and a high probability of full control thereafter.

2 I have now consulted my merchant bank advisers. Their firm advice is that the package proposed last night would not be practicable as it would not attract UK institutional support. This is for two reasons:

- (i) the institutions would require the potential to exercise effective ultimate control if GM management took steps which the institutions perceived as being against their interests.
- (ii) with effectively only one potential buyer at the end of 4 years, the institutions would not be assured of a reasonable return on their investment.

3 The essential differences between the principles we discussed last night and those now proposed are summarized below:

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- (i) In order to limit the amount required to be raised from UK institutions they would take only approximately 20 per cent economic interest.
- (ii) GM's right to manage the business would be subject to the overriding control of the Board and, thus, the majority shareholders.
- (iii) These would be no special constraints (other than the 49 per cent voting limit on GM) in relation to the raising of new capital by rights issues.
- (iv) GM would not have a right of first refusal over the UK investors' shares.

4 Before I put this proposal to GM I must make clear to colleagues that there is little prospect of their agreeing to it. It is just possible that GM might prefer the total exclusion of Land Rover from the deal. If GM will not accept either, colleagues must recognize that we shall have ruled out a GM solution for Trucks and Vans as well as for Land Rover. I cannot seek a compromise from GM except on the basis that I have firmly decided that I cannot recommend to colleagues the full deal with "entrenched rights".

6 I should be grateful for colleagues confirmation as urgently as possible (and by no later than 3.00pm) that I am authorized to proceed in this way.

On solution for Trucks & Vans - LR

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7 Copies of this minute go to the Lord President, the Chancellor of the Duchy and the Chief Whip.

John Plogg

PP PAUL CHANNON
21 March 1986

(Approved by the Secretary of State and signed
in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

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PRINCIPLES OF A DEAL WITH GENERAL MOTORS

1. General Motors to have no more than 49 per cent of the voting shares, and around 80 per cent of the non-voting economic interest in Land Rover, the balance of the respective shares to be held in British hands for at least four years.
2. General Motors to have no contractual assurance of majority voting control but arrangements will be made which would prevent any other party gaining majority control for at least four years.
3. This will be achieved by:
 - (i) a bar on GM acquiring more than 49 per cent of voting shares whether by acquisition or on a rights issue for the first four years;
 - (ii) after four years, British holders of 51 per cent of voting shares would be free to sell their shares to GM or third parties;
4. General Motors to have management control of Land Rover subject to the ultimate control of the Land Rover Board.
5. Appropriate assurances to be given e.g on the location of manufacture, research and development and local content, as envisaged in the draft Letter of Intent.
6. Freight Rover and Leyland Vehicles to be owned 100 per cent by General Motors, with appropriate assurances particularly about the future of Freight Rover.
7. General Motors would also undertake, though not contractually, to present the deal in a very positive manner, indicating their intention to make substantial investments in the businesses and to make the UK the centre of their European operations.

8. G. M. to have 100% Leyland - Freight Rover.

DEPARTMENT OF TRADE AND INDUSTRY
21 March 1986

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