

CEBG



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

The Rt Hon John Moore MP
Department of Transport
2 Marsham Street
LONDON
SW1

My ref:

Your ref:

23 April 1987

NBM.

Dear Secretary of State,

CANARY WHARF

We last considered these negotiations at E(A) on 25 March, and I have subsequently kept colleagues informed of progress, most recently in my letter to you of 6 April, copied to others. I have received responses of 8 April from David Mitchell and 10 April from John MacGregor.

In the further discussions about the Canary Wharf proposals which my officials, and yours, have been having, with Mr Travelstead and with senior representatives of First Boston, we have maintained the target, set in my last letter to you, and emphasised in the letters from David Mitchell and John MacGregor, of concluding the deal by 30 April.

However, it has become clear in the last few days, particularly since my Permanent Secretary invited the Managing Director of First Boston, Mr Bill Mayer, to come over to discuss progress, that important issues remain to be settled on the Consortium's side, and that these issues go to the heart of our concerns for the scheme - that the provision of infrastructure must be guaranteed, and that there is reasonable assurance of a large volume of development.

Detailed discussions are still in progress between First Boston and the two banks, Morgan Stanley and CSFB, about the terms on which the latter would occupy the first two buildings at Canary Wharf. This is of key importance both for First Boston and for us: they, and we, need to be satisfied that the two banks will be irrevocably locked into the deal.

In addition, the terms of participation in the project of the British contractors are still unsettled. First Boston clearly still wish to have them as co-guarantors for a proportion of the infrastructure, but the indications I have are that they are keen to participate, but not as guarantors. As a result we do not have before us a clear proposal to consider about the guarantors on offer.

It is obvious that with such fundamental issues remaining unsettled, it would be impossible to conclude a deal, even though we are, in other respects, in a position to sign the railway and Master Building Agreements by 30 April. Your officials, and mine, have made it clear to First Boston, as well as to Mr Travelstead, that in these circumstances the responsibility for any delay, and costs associated with it, lies with the Consortium.

First Boston's representative explained this week to our officials that key decisions should be made today about their negotiations with Credit Suisse First Boston and Morgan Stanley; and that it should be possible to estimate, in the light of that, how long it would take for contractual commitments to be arrived at. Provisional arrangements are being made for a further meeting with First Boston in the early part of next week. Following that, I propose to report again to colleagues, in the meantime extending the option agreement for a further week to 30 April. On the information now available to us, and despite our best endeavours, I am doubtful whether these negotiations can be brought to a successful conclusion before well into next month.

I have to say now that I believe the best we can expect, at the time for decision, will be a contractual commitment to First Boston by the two banks to put up buildings totalling 1.5m sq ft gross. We may get some further comfort about a third building, but it will not amount to firm commitment. We will have to balance that, in the light of the assessment of prospects for which I have asked Christopher Benson as Chairman of LDDC (and Chief Executive of perhaps the leading UK development company), against alternative possibilities for development at Canary Wharf. The judgement we will then have to take, if we can be satisfied, in the light of the final documentation, that Credit Suisse First Boston and Morgan Stanley will indeed be irrevocably committed to the first two buildings, is whether this will be sufficient "critical mass" to make it probable that the 4.6m sq ft which the economic appraisal shows to be required will be reached.

I believe also that it is a key requirement that the infrastructure is fully guaranteed by First Boston. Even if Mowlems and McAlpines are willing to take a part in the guarantee, such an arrangement would be complicated. Given that, until recently we appeared to be offered joint and several guarantees by 3 international banks, and that the essence of the safeguard provided by a guarantee is its certainty, I do not consider - and neither do Rothschilds nor Mr Benson - that participation by the contractors would help. I have to say that the signs are that First Boston will resist this requirement; but I propose to press hard for it.

As I have said, I see virtually no prospect of our being able to settle matters by 30 April. Even on the basis of the developers accepting the cost of any further delay on decisions on the

railway, it will be important for us to take a view early in May about how long negotiations are to be permitted to go on. I will set out the choices in my report next week; together with the view of our advisers, including Rothschilds, as John MacGregor asked in his letter of 10 April.

I am copying this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours sincerely

RH Conard

Private Secretary

PP.

NICHOLAS RIDLEY

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

~~DM~~
Mc have a word

MR. WICKS

NW

Personal

15.4

I pass comments made by Alistair McAlpine about Canary Wharf which he feels the Prime Minister might like to be aware of (if she isn't already) at the appropriate time.

Ware Travelsted (Canary Wharf) is apparently being asked to guarantee both infrastructure of around £400 million and tenants as well. I understand he will sign an agreement with First Boston who would guarantee the £400 million or so, but that he feels it really is not feasible to be asked at so early a stage to guarantee tenants. Alistair's worry is that Rothschilds are involved and that they keep adding new proposed terms to the agreement.

Sf

STEPHEN SHERBOURNE

15.4.87



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
 Secretary of State
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

NBRN.

10th April 1987

Dear Nick,

CANARY WHARF

will request if required

I have seen a copy of your letter of 6 April to John Moore and agree with your proposed approach to what must now be the final stage of your negotiations with the Travelstead consortium. I have also seen David Mitchell's letter to you of 8 April.

As I expect you are already aware the tenders for the DLR extension run out at the end of April and it will be essential for any deal to be signed before then if further increases in construction costs are to be avoided. Needless to say should any increases arise they will have to be absorbed within existing provisions.

With the departure of Morgan Stanley and Credit Suisse First Boston from the Consortium and as possible guarantors, the prospects of striking a satisfactory deal must have receded even further. However, if in the event, you really do feel able to recommend that contracts are signed with Mr Travelstead it will be essential, as my officials have already made clear to yours, that all aspects of the deal are independently assessed in advance by your professional advisors, Rothschilds.

I am copying this letter to the Prime Minister, John Moore and other members of E(A) and to Sir Robert Armstrong.

Yours,
JH

JOHN MacGREGOR

CONFIDENTIAL

CCBG

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MINISTER
FOR PUBLIC TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref: JM/PSO/4120/87

Your ref:

The Rt Hon Nicholas Ridley MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NBM.

8 April 1987

Dear Nick,

Thank you for your letter of 6th April to John Moore about the Canary Wharf negotiations. I am replying in his absence.

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Your analysis of the situation is very much in-line with ours and we are happy to agree to the general strategy which you outline in your letter. However, your proposed final deadline of 30th April would leave decisions to the very last moment so far as letting the railway contracts is concerned. We would feel more comfortable if this deadline could be brought forward by 24 hours to 29th April to leave LRT a day to finalise the acceptance of the tenders and letting of the contract for the railway. They cannot, of course, take these steps until all the Agreements with the consortium have been signed.

I am copying this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours ever
David

DAVID MITCHELL

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