



Prime Minister

We are very close to a decision on Canary Wharf. Provided that we are satisfied on two key points, (set out more fully in the attached paper), I commend the deal to colleagues. These points are:-

(i) that there are firm contractual commitments by Credit Suisse First Boston and Morgan Stanley to building the first two buildings on Canary Wharf, totalling 1.5m sq ft;

(ii) that the full 100% guarantee for the infrastructure to support about 5m sq ft of offices, and costing some £200m, is provided by First Boston.

I am afraid that First Boston have still not got their act together, and we do not yet have firm proposals from them. It is clear however that they are negotiating hard about the buildings with their partners, and are working towards a deadline of 28 May. In my view we must be satisfied on both points, before we can accept that the deal is satisfactory. The latest indications are that First Boston may not provide final documentation in time for a deal to be safely concluded on 28 May, in which case we propose to take the line at this stage that costs and other consequences lie with them.

It is very desirable to bring the negotiations to an early conclusion in any case; but I wish to avoid setting a hard and fast deadline, possibly resulting in collapse of the negotiations, in the middle of the Election campaign. John Moore has explained in his letter of 6 May, that financial penalties, perhaps considerable ones, and delay to the timescale for constructing the railway would follow if that date were missed. But that seems to me less important than having a "debacle" on this matter during the Election, when Ministers would not be available to cope.

CONFIDENTIAL



If colleagues agree with my recommendations that the deal should be approved only on the conditions mentioned above, decisions may need to be made on or just before 28 May, either to proceed or to incur further delay. I hope colleagues would agree that, if need be, I should take decisions, in consultation with John Moore and John MacGregor as necessary.

I think it unlikely that the deal would collapse under such a policy, but if it did I would make a positive statement, including a reference to active consideration of other means of improving rail access from the City, with other developments at Canary Wharf being one of the possible sources of contribution to the cost.

I am copying this to E(A) and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be the initials "NR".

N R

12 May 1987

CANARY WHARF

Introduction

1. Colleagues have been kept informed of progress by correspondence since we last discussed this at E(A) on 25 March - most recently in my letter of 1 May to the Secretary of State for Transport, and his response of 6 May. Good progress towards agreement is being made, though we cannot yet be certain of the outcome. The Secretary of State for Transport has explained in his most recent letter the importance of meeting the deadline of 28 May which we have set the Consortium. Because of the election campaign, we must decide this week:

(i) whether, in principle, we can approve the deal as it is emerging;

(ii) how to handle the very difficult timing problems imposed on us by the need for a decision by May 28. The latest indications are that First Boston will not provide final documentation in time for a deal to be safely concluded before some time into June.

2. The shape of the deal depends:

(a) on an agreed Master Building Agreement (MBA). This is now in a form in which it can be agreed;

(b) on a satisfactory rail agreement. I understand that the Secretary of State for Transport is content for the agreement as it stands to be signed, but that the Consortium have yet to agree to one or perhaps two remaining points of principle.

(c) on 100% guarantee by First Boston for the completion of the infrastructure costing some £200m to support about 5m sq ft of offices. We are still waiting for First Boston's final proposals. But, given that the Consortium have moved from joint and several guarantees from 3 major banks to just one, I believe that unless we are offered 100% guarantees by First Boston, we should not go ahead with the deal.

(d) on 2 buildings, totalling 1.5m sq ft gross being contractually committed to be built and occupied by Credit Suisse First Boston (CSFB) and Morgan Stanley. This is still under negotiation between First Boston and their partners. In my view, it is the minimum that we should consider.

Annex A sets out details of advice received from outside experts on aspects of the deal. I draw colleagues' attention particularly to the possibility, mentioned in the Annex, of criticism on the land price.

The decision now to be made

3. The best we can hope for at the time for decision will be contractual commitments to First Boston to 1.5m sq ft gross with some further assurance about occupation which First Boston are seeking to ensure by penalties. We may have some comfort about a third building, but no firm commitment. With this degree of commitment; 100% guarantee from First Boston for the completion of the infrastructure; and their heavy commitment to the cost of the rail extension, the decision turns on an assessment of how far these commitments constitute a "critical mass" making it probable that major further development will follow.

4. The actual choice before us is between this proposition and the probability of a substantially smaller and delayed scheme. Risk and judgement are inescapably involved, and I think we have to place considerable weight on the judgement of Christopher Benson as Chairman of LDDC, as signatory to the deal. He is also Chief Executive of MEPC, perhaps our leading property company. Mr Benson's considered opinion, drawing also on external professional advice, is that, with guaranteed infrastructure, the planned road and rail links, and the two buildings contractually committed, the pace of development required by the economic appraisal, and embodied in the MBA, "may reasonably be expected to be achieved", short of a major decline in the national economy.

5. Rothschilds, who have been advising my Department throughout, say in their letter (Annex B) that, provided the building and occupation commitments by the two banks are satisfactory, in the light of Mr Benson's advice, they see "no reason why Government should not authorise execution of the MBA".

Risks

6. I have considered the economic and financial risks involved in going ahead; more detail is at Annex C. It demonstrates that, apart from commitment to the City rail extension, the Government is not required to commit heavy expenditure up-front. There are, however, the consequences, which we should consider, of a major change in the economic climate after signature which shuts off the market for the scheme.

7. In this situation Government could enforce the completion of the Phase 1 infrastructure but, by definition, no developer would then take on a development on the original scale. It would therefore be in the interests of both parties to renegotiate the deal to give the maximum practicable quantity of development; and the right of enforcement would give LDDC a powerful negotiating position. It is impossible at this stage to say what would emerge from these negotiations - that would depend on circumstances; but it is prima facie likely that the result would be at least as good as any present alternative to the Consortium's proposals; and that it would be achieved sooner.

8. Politically also I believe that our position would be robust. One strong plus-point would be the contribution by the Consortium of £54m cash for the railway. The railway and the roads would be seen as major public utilities. My conclusion, in the light of Mr Benson's advice, is that we should be justified in authorising LDDC to go ahead if we can be satisfied on the outstanding points.

Further Handling

9. There are substantial general grounds for wishing the negotiations to be concluded soon: if they are not, the credibility of the deal falters; alternatives are lost; and the effect on Docklands will be damaging. The Secretary of State for Transport has pointed to the particular significance of 28 May as a deadline.

10. There are two difficulties about our insisting on that date:-

(i) One is the election. I accept the Secretary of State for Transport's view that the commercial considerations would enable us to justify announcing a decision on the deal in the course of an election, notwithstanding the convention that controversial decisions are to be avoided in an election period. But the difficulty of timing and handling remains.

(ii) The other is the remaining major uncertainty. The substantial changes which have been brought forward from the other side make it clear that we can take nothing for granted. As noted above, we have not yet had it definitely confirmed that CSFB and Morgan Stanley will build and occupy, on terms satisfactory to us, the 2 buildings. Nor - though I expect this to be confirmed shortly - have we the assurance of 100% guarantee from First Boston. We must still be satisfied in detail about the effects of the building contracts, and proper time is needed for our advisers to consider that, as soon as the documents are ready. Given that documents are not at present available, there is a very significant chance that we shall not be in a position to commit ourselves to signature by 28 May.

Handling Options

11. The only clear alternative to sticking to May 28 as a target for signature is to set a date safely after the election, say June 15. However, if we sought to set a date now beyond 28 May, we would be taking on ourselves the onus for the further delay. As the Secretary of State for Transport has pointed out this would entail increased costs and a revised timetable for the construction of the railway. Our inability to complete the railway to the timetable required by the Consortium would put us at a serious disadvantage in further negotiation and leave us open to legal challenge and it would undermine the basis of the agreements. For that reason, to announce a later date immediately is an unattractive option.

12. If that is ruled out, there remain the following possibilities:-

(i) that the Consortium walk away. In that case I agree with the Secretary of State for Transport that we should need to say that active consideration is being given to options for improvement to the railway at the City end. However, colleagues should be clear that there is no certainty of a financial contribution being available from development gains at Canary Wharf in the new circumstances and that no commitment is possible. But, particularly in view of the legal considerations, I would propose to make a statement which said that other developments at Canary Wharf would be one of the possible sources to be considered. It is worth recalling that DOE programmes, including expected land receipts, are already planned to contribute over £350m worth of transport links for East London apart from local roads required for LDDC purposes.

(ii) that, shortly before 28 May, we are faced with a request from the Consortium for an extension of time to enable a deal to be completed. We should aim to accommodate a very short extension. However if it were for a significant period, we should aim go ahead on the basis that the Consortium accepted and paid for the consequences. It is therefore important for the Secretary of State for Transport to establish with London Regional Transport (LRT) what the costs of any delay will be;

(iii) that we are offered a deal which falls significantly short of what we are now stipulating. The prospect of breakdown might need to be faced; but I should seek to avoid that happening in the election period. If it did happen, I propose a statement on the above lines.

13. I propose, in any case, to extend the option agreement to 28 May. In the circumstances outlined above, I invite colleagues to authorise me, in consultation with the Secretary of State for Transport and the Chief Secretary, to make decisions in the light of the conditions prevailing.

Conclusion

14. I invite colleagues to agree that:

(i) I should authorise LDDC to conclude a deal provided that I can be satisfied with the contractual commitment of CSFB and Morgan Stanley to two buildings at Canary Wharf of 1.5m sq ft; and that First Boston offer 100% guarantees for the infrastructure;

(ii) that I should maintain the firm date of 28 May for concluding the negotiations;

(iii) that I should be authorised to extend or conclude negotiations on the best terms available, in consultation with the Secretary of State for Transport and Chief Secretary, if that becomes necessary during the election campaign;

(iv) that if breakdown becomes inevitable as positive as possible a statement should be made, including a reference to improved rail connections on lines suggested in paragraph 12(i).

Department of the Environment

12 May 1987

Economic Appraisal

(i) DOE and Treasury have accepted the conclusion of the economic appraisal undertaken by Peat Marwick for LDDC that the Canary Wharf project justifies the additional public expenditure involved if it reaches 4.6m sq ft gross office space by 1992. The alternatives identified for the purpose of this comparison were 3m sq ft which might be achieved without a Bank rail extension, and 4m sq ft with an extension.

Master Building Agreement

(ii) DOE and Treasury (advised by City solicitors, Allen & Overy) and LDDC (advised by Ashurst Morris Crisp) are satisfied that the structure linking the Master Building Agreement with a completion guarantee is a satisfactory assurance that LDDC can, if necessary, enforce the construction of infrastructure works now estimated to cost approximately £200m.

Substance of Guarantors

(iii) Rothschilds, for DOE, and Peat Marwick for LDDC, have satisfied themselves that, if First Boston are willing to accept 100% of the guarantee, their standing is such that we should be justified in accepting them for the amount proposed (letter from Rothschilds at Annex B).

Land Price

(iv) The land price agreed under the Option Agreement is £400,000 per acre. But with an added contribution from the Consortium for infrastructure costs (of general benefit to the area) the price actually quoted in the MBA will be about £1m per acre.

This disposal is at less than "market value"; and in such cases DOE's and Treasury's consent is specifically required. To that end, LDDC appointed Hillier Parker May and Rowden to give their independent professional view on the terms of the agreement overall as well as the land price. They were "strongly of the opinion that the existing terms, coupled with the beneficial effects of the scheme on the whole of the docklands area, are sufficiently attractive". Those benefits and the Consortium's contribution to the City extension (net of the relevant public sector costs) produce an effective net land price of £1.67m against the current average of £1.15m per acre in the area.

I have consented to the land disposal price. - and Treasury officials, who have been kept closely in touch, are taking the Chief Secretary's mind on this issue. But with isolated examples of land changing hands at higher prices (at £2m per acre or more) there will be presentational difficulties should the

actual price for the land be quoted out of its wider context.

Hillier Parker made some critical comments about "possible weakness" in the Option Agreement - about the availability of arrangements to press a case for a higher land price or "profit participation". But I am content with the outcome; more pressure for either - a higher land price or profit participation - was regularly considered but put aside in the interests of maintaining the overall deal.

Rail Agreement

(v) On the rail agreement, I understand that on almost all points, a position has been reached which would enable the Secretary of State for Transport to commend a deal to colleagues; and that on the remaining issues, the Secretary of State for Transport, consulting the Chief Secretary as necessary, is in a position to reach a settlement.

11 May 1987

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6th May, 1987

Paul McQuail, Esq.
 Room 25/16
 Department of the Environment
 Millbank Tower
 21-24 Millbank
 LONDON
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Commercial - In Confidence

Dear Paul,

Canary Wharf

1. We are discussing with you draft papers reviewing the economics of Canary Wharf and reviewing the credit standing of First Boston Inc. ("FB"). Our present conclusions are summarised below.
2. The documentation we have been given changes frequently. Assumptions, particularly regarding construction costs and timing, are necessarily subject to uncertainty. We note that oral representations made in the past by the development consortium have not proved reliable and we recommend that the Government rely only on formal documentation it receives. We believe that to close this transaction it may be necessary for Government to accept that the documentation is changing rapidly, that decisions have to be made rapidly and that there will be a risk of mistakes being made in Government's understanding of the documentation. To minimise that risk, Government should seek to ensure that at least a week is available for the review of the final documentation.
3. Government will need to take a commercial view whether the prospects of successful development at Canary Wharf plus the collateral benefits from having the development proceed (e.g. construction of the DLR Western Extension) justify the Government investment of some £100 million. The scenario discussed as recently as February 1987 involved guarantees from 3 banks as well as Consortium assurances of substantial taking of space. Now the hope that the transaction would have such a minimal risk has receded - and the commercial judgement becomes more critical.

4. FB's own economic analysis compares the prospective cost of Canary Wharf with rents in the City of London. On this basis, Canary Wharf is attractive. A significant issue in the commercial appraisal is, accordingly, whether Canary Wharf will genuinely be seen as a viable alternative to a City of London location or whether instead it will compete principally with the West End or outer London office locations.


5. The present documentation involves unqualified commitments by Credit Suisse First Boston ("CSFB") and Morgan Stanley ("MS") to build 1.5 million gross sq. ft. at Canary Wharf, and strong commitments by them to occupy; these will help to promote Canary Wharf. It is important therefore that the final documentation reflects this position.

6. On present documentation the commitments by CSFB and MS to occupy buildings at Canary Wharf are subject to achievement of "Critical Mass", viz: the letting of two further buildings to first-class tenants for front office purposes aggregating at least 1 million sq. ft. net (subject to legal drafting). In the event that Critical Mass as defined is not achieved within 18 months of the signing of the MBA, and CSFB and Morgan Stanley exercise their options not to occupy buildings, the possible development of Canary Wharf for front office space would probably collapse. In his own paper Christopher Benson suggests this risk is low.

7. We understand that Peat Marwick's economic appraisal concludes that, at 4.6 million gross sq. ft. of development by 1992, the project reaches "economic break even" from a Government perspective. This conclusion depends critically on comparisons in the Peats work regarding alternative scenarios to the First Boston proposal. In the light of recent experience these may not be entirely realistic. At 4.6 million gross sq.ft. the project is probably highly profitable to the developers: accordingly, there may be significantly different interests of Government and developer concerning the speed and scale of development.

8. If the final documents indicate that the obligation for the first two buildings to be built is not watertight, it may be appropriate to consider making a claim for some right of the Government to share in penalty payments which would be due from CSFB and MS to FB in respect of non-building.

9. FB is a leading US investment bank and of high credit standing. It is an appropriately strong company to give the sort of guarantees which the Government requires for the infrastructure at Canary Wharf. The nominal commitments by FB at £300 million are, however, high and amount to about one third of its capital. LDDC, as beneficiary of the FB letter of credit, is effectively subordinated to the general creditors of the investment banking business of FB. A call on the letter of credit is only conceivable in extreme circumstances, which may include a significant down-turn in international financial markets. If such a down-turn had a substantial adverse effect on the business of FB, a call on the letter of credit could affect its reputation and business, and perhaps its solvency. FB is likely to allege that any call on the letter of credit is improper: in those circumstances, we note that the Government could come under political pressure from the US to avoid risking the solvency of a major US investment bank.



10. We conclude that the FB letter of credit is for use only in extreme circumstances: it may not be a practicable means of constructing infrastructure if FB itself is in financial difficulties. The letter of credit is distinctly less useful and less attractive than the previously offered joint and several letter of credit from FB, MS and CSFB. It is, however, likely to be effective in ensuring that FB completes its obligations.

11. It is important to ensure that the building and occupation commitments finally accepted by CSFB and MS give Government adequate assurance of development at Canary Wharf. Subject to this, we see no reason why Government should not authorise execution of the MBA. We note that the decision whether to do so requires an assessment of the risks in the present project and the returns from possible alternatives; in making this decision, Government will need to rely on the advice of Christopher Benson or other property advisers. In any event, any alternative is likely to involve significant delay and, in the short term, damage to the prospects of rapid successful development elsewhere in Dockland.

Yours sincerely,



Roger Salmon

Financial Appraisal of Commitments

1. With signature of the MBA, Government and the Consortium will be committed to proceed with the City Extension. This will cost Government £76m (cash) and the Consortium £54m (cash). The Consortium will also make an immediate payment of £8.3m to LDDC for the land purchase.

2. In the commitment of resources to the development which then follow, the cost to LDDC (net of the land disposal receipts) for additional roads and specific infrastructure required for the project (but excluding the City Extension) is about £28m. This expenditure is, however, spread over about 8 years. The profile of commitment varies but it begins with a surplus in LDDC's favour. For example, at the end of 1988/89 LDDC would show a small net surplus of £0.5m. At the end of the following year (1989/90) the expenditure would have reached £15m; and would reach £57.7 by the end of 1992/93. But this latter sum is reduced to the net cost of £28m (mentioned above) by the end of 1995/96 because the development of the road programme for Canary Wharf reduces the expenditure which arises in the later years (see attached table).

3. It is not possible to estimate the Consortium commitments alongside these. But it is certain that they will be of a significantly greater scale if the development proceeds according to schedule. If it does not, LDDC's commitment can be scaled down accordingly.

CANARY WHARF - GOVERNMENT CONTRIBUTION
(£m 1985/86 prices (except railway) - figures rounded)

ATTACHMENT TO ANNEX C

	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	TOTAL
<u>COSTS TO LDDC</u>									
ELECTRICITY +		2.0	2.9	4.6	2.7				12.2
DRAINAGE		1.0	2.0	2.0					5.0
ADMINISTRATION	0.2	0.2	0.2	0.2					0.8
ROADS *		4.4	10.4	13.2	10.0	10.0	0.1	(29.8)	18.3
Less anticipated RECEIPTS **	(8.3)								
<u>COSTS TO DTp</u>									
CITY EXTENSION x	6.0	26.0	22.0	19.0	3.0				76.0
TOTAL COST TO GOVERNMENT	(2.1)	33.6	37.5	39.0	15.7	10.0	0.1	(29.8)	104.00

NOTES:

* Represents the difference between the road network need with Canary Wharf:-

	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95 to 95/96	TOTAL
	6.0	22.0	40.0	37.6	31.4	29.5	17.3	---	183.8

and that required by the fallback development:-

	6.0	17.6	29.6	24.4	21.4	19.5	17.2	29.8	165.5
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Difference:-

	-	4.4	10.4	13.2	10.0	10.0	0.1	(29.8)	18.3
--	---	-----	------	------	------	------	-----	--------	------

+ Ultimately, up to £9.8m of this sum may be rebated

x Outturn figures

** Provisional figures only, pending outcome of negotiations



file SRW
bc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 May 1987

Dear Brian,

CANARY WHARF

The Prime Minister has seen your Secretary of State's minute of 12 May which set out the latest position on Canary Wharf.

The Prime Minister would be content for your Secretary of State to take any decisions that may be needed around 28 May, in consultation with the Secretary of State for Transport and the Chief Secretary as necessary.

I am copying this letter to the Private Secretaries to members of E(A) and to Sir Robert Armstrong.

David

(DAVID NORGROVE)

Brian Leonard, Esq.,
Department of the Environment.

DTS

PRIME MINISTER ²

CANARY WHARF

Mr. Ridley continues to negotiate. The latest deadline is 28 May. But it now seems possible that the deal may not be concluded by then. Mr. Ridley would intend in that event to tell First Boston that expenses incurred by delay beyond 28 May would fall to the consortium.

Mr. Ridley further says that decisions may need to be taken on or just before 28 May, either to proceed or to allow a further delay. He asks that if need be he should be allowed to take decisions, in consultation with John Moore and John MacGregor.

Content?

Yes not

(DOE tell me that the scheme has changed a great deal since the early days. It is now much smaller, without the massive tower blocks, and G. Ware Travelstead has disappeared into the background, to be replaced by First Boston. ^{Nevertheless} There is quite a widespread view in DOE that the Government would be better off if the present scheme does collapse.)

DRN

(D.R. NORGROVE)

13 May 1987

DCABYJ

CCO/G



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Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

15 May 1987

Nichols

NRBM

CANARY WHARF

Thank you for copying to me your minute of 12 May to the Prime Minister.

I agree with your conclusion that the deal on the development at Canary Wharf should only be approved if the conditions you referred to are met in full. I am also content that, in the present circumstances, you should take decisions in consultation with John MacGregor and John Moore.

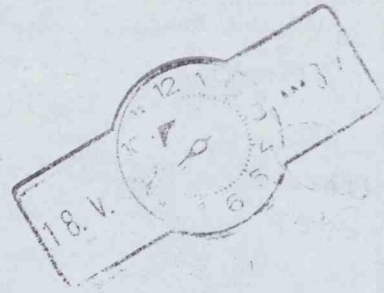
John MacGregor

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

CR
Nich

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

REG POE - Lower Cities Pt 10



jvp/I(0)

WBG



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

15 May 1987

NBM

Dear Brian,

jar

CANARY WHARF

The Paymaster General has seen your Secretary of State's minute of 12 May to the Prime Minister, and has also seen the Secretary of State for Transport's letter of 13 May. He was content that your Secretary of State, the Chief Secretary and the Secretary of State for Transport could take a decision either to proceed or to incur further delay, but he agreed with your Secretary of State that a hard and fast deadline should not be set that might result in the collapse of the negotiations at a sensitive time. I am sure he would wish to associate himself with the contents of your Secretary of State's 14 May letter to the Secretary of State for Transport.

I am copying this letter to David Norgrove, Private Secretaries to members of E(A) and to Trevor Woolley.

cc P/S/S
P/S Mr Tupper
Mr Makelan
Mr Baker -
with Franks.
In view of the
timescale required,
I decided to send a
p.s. letter JC S/S

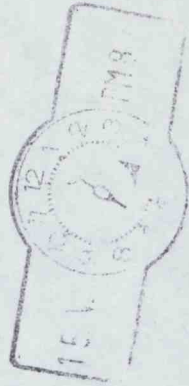
Laws,

Jeanie

JEANIE CRUICKSHANK
Private Secretary

Gen. office -
pl send by hand
to DoE and
Transport
J.

Reg Post: inner Cities Pt10



CCB



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1

14th May 1987

Dear Nicholas,

NBRM

CANARY WHARF

FILED WITH 12

I have seen copies of your minute to the Prime Minister of 12 May and attachments and also of John Moore's letters of 6 and 13 May.

Having considered your assessment and that of your professional advisers, I am prepared to accept that you should authorise LDDC to conclude a deal with the Travelstead consortium for the development of Canary Wharf provided there is a satisfactory contractual commitment from Credit Suisse First Boston and Morgan Stanley to build and occupy a minimum of 1.5 million square feet of offices at Canary Wharf and that First Boston offer 100% guarantee for the infrastructure. The railway agreement will, of course, also have to be satisfactory. In giving my agreement, I am conscious that these terms are considerably less than we had hoped for and that there is some risk that the project will not be successful. However I also agree that the alternatives are likely to be less attractive.

I am also prepared to accept that LDDC should sell this land to the consortium at the option agreement price of £400,000 per acre, recognising that any attempt to renegotiate the price now would certainly delay negotiations and could well lead to a worsening of the other terms already agreed, if not cause the consortium to walk away from the deal.

I am assuming that John Moore is content that a satisfactory railway agreement can still be reached by 28 May. The consortium need to be warned that we will need time - before 28 May - to assess any agreement reached. If agreement is delayed beyond that date because First Boston have not agreed the 100% guarantee or if the 1.5 million square feet is not contractually committed we must insist, as John Moore points out, that the Consortium bears the cost penalties and accepts the consequential DLR construction delays. I support his proposal to force this issue with the consortium by writing to them immediately. If this leads to a breakdown of negotiations we will need to consider carefully any public statement we make. I would be most reluctant to agree to any statement which could be taken to imply an additional commitment to public expenditure.

I am happy with your suggestion that you, John Moore and I should consult as necessary on any further developments during the next three or four weeks if colleagues agree.

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

Yours ever,
JH

JOHN MacGREGOR



Rechnung Policy

Frankfurt

PT 10

ccbr



Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2ASTel No: 270 0020
270 029614th May 1987

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

D. Nicholas,

NBAM.

CANARY WHARF

Thank you for sending me a copy of your minute to the Prime Minister of 12 May.

I share your evident concern that we should strive to avoid a breakdown in the negotiations during the election campaign. I agree that you should, therefore, be in a position to agree to a deal, consulting with John Moore and John MacGregor.

In handling the negotiations, I recognise the importance of maintaining a firm date of 28 May; but if, as you expect, it is not possible to conclude negotiations by that date, I accept both that the negotiations should be extended and that it would be unacceptable for the costs of further delay to rest with us. While the Consortium must therefore take responsibility for the further costs and consequences of delay, we should take the greatest care to ensure that the prospect of this is not so serious that this, of itself, might cause the Consortium to back out.

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

NORMAN TEBBIT



REGIONAL POLICY

INNOVATIONS

0770



CCBEG

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The Rt Hon John Moore MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

My ref:
Your ref:

14 May 1987

Dear John

N Ridley

CANARY WHARF

Thank you for your letter of 13 May.

I am glad that you agree with my proposals.

I would like to add one cautionary note, however, to your proposal to authorise LRT to write immediately to the Consortium setting out the consequences of a delay beyond 28 May.

First Boston are aware of the consequences of failing to meet the 28 May deadline. But we should not be so forceful with the warning from LRT as to precipitate a crisis - or, for that matter, to give them a pretext for walking away from the deal should that be what they are looking for.

I should therefore be grateful if our officials could be in touch about the handling of any letter that you authorise to avoid undesirable consequences for our side; and about the remaining items that need to be settled if the deadline is to be met.

Copies of this letter go as before to the Prime Minister, the Chief Secretary, other members of E(A) and to Sir Robert Armstrong.

NICHOLAS RIDLEY

REGIONAL POLICY

INTERNAL CIRCLES

P 570



CCBG



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

13 MAY 1987

NBRM

Dear Nicholas.

CANARY WHARF

Thank you for sending me a copy of your minute to the Prime Minister of 12 May and the attached note.

I agree broadly with your proposals.

As regards handling, I do not believe that setting an alternative deadline now for a date safely after the Election is an acceptable option. It would put us in an intolerably weak position with the Consortium and, as you say, leave us open to legal challenge. Furthermore it is contradictory to seek to set a new date of, say, 15 June, while maintaining that any delay beyond 28 May might entail renegotiation of the railway tenders and of the railway financing agreement. These could not possibly be achieved by 15 June or anything like it.

If we do have to carry on beyond 28 May we must go ahead on the basis that the Consortium accept and pay for the consequences (paragraph 12(ii) of your Note) but I cannot reasonably establish with LRT what the precise consequences of such a delay might be: precisely because of the uncertainties involved with the probable need for retendering and renegotiation. So the Consortium will have to accept the open-ended consequences of any delay beyond 28 May.

Unless colleagues disagree with the line you are proposing, I propose on Thursday 14 May to authorise LRT to write immediately to the Consortium setting out the clear consequences of a delay beyond 28 May and making it absolutely plain that it is the Consortium who will have to carry these consequences.

CONFIDENTIAL

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

A handwritten signature in cursive script, appearing to read 'John Moore', written in dark ink.

JOHN MOORE

CONFIDENTIAL

REGIONAL POLICY

INNER CITIES

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