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My ref:

Your ref:



The Rt Hon Paul Channon MP
Department of Transport
2 Marsham Street
LONDON
SW1

Prime Minister 2

10 July 1987

See in particular
the passage side-lined, X,
on the fourth page.

Dear Paul

DHS
10/7.

CANARY WHARF

Following discussion between officials, as you know, I have agreed that LDDC should continue their exclusive discussions with the Canary Wharf Consortium until the date now set as the final one for extension of the rail contract, 17 July. I understand that the reason for that date is that London Regional Transport (LRT) cannot agree to any further extension.

The new factor, of which you are aware, is the late intervention of Olympia and York as potential participants in the project. This is in some ways a welcome development; indeed both Mr Benson, the Chairman of LDDC believes, and First Boston as the leading firm in the Consortium take the view that this is the only means of keeping the present deal alive. However we need to consider it very carefully, against a tight timescale, in order to satisfy ourselves that it is commercially and politically acceptable. And I have to say that, given the history, my patience, and no doubt that of colleagues, is very near an end.

THE PROPOSAL

The proposition in front of us is this:

(i) Olympia and York would assume primary responsibility for financing the development and carrying it out, ultimately to 12.2m sq ft as originally envisaged'

(a) First Boston would (probably) remain as minority partners and signatories to the MBA;

(iii) Olympia and York would become guarantors in the place of First Boston;

(iv) the design of the infrastructure - and the quality and extent of the "civil facilities" - would be "similar" but

* Canadian property company owned by the immensely wealthy Reichman family.

lower. It would still accommodate buildings with a minimum floor area of 5m sq ft. Changes to permit this would need to be permitted after signature of the MBA, subject to assurances on these basic points by Olympia and York;

(v) No changes would be required to the terms of the rail agreement;

(vi) Morgan Stanley and Credit Suisse First Boston would, as before, be contractually committed to the first 1.5m sq ft gross;

?? (vii) The Consortium and Olympia and York would provide assurances to LDDC and Government that substantial profits for Consortium members would not be involved as a result of this late change; ??

(viii) O & Y would provide confidential evidence of their financial standing.

The substance of the deal, including the elements which the Government has stipulated as essential requirements if the freehold was to be sold in advance of development is thus the same. This is to be a major development for front-office accommodation based on early commitment to take space by financial institutions. Olympia and York are an institution with a very high reputation indeed in the world of property development. Rothschilds are confident about the financial standing of Olympia and York; but are carrying out the necessary checks.

Mr Reichmann pointed to the fact that they completed due diligence checks between 2 and 6 July as supporting evidence for their confidence that the remaining paperwork could be completed by 15 July, leading to signature on the 17th.

IS THE DEAL SATISFACTORY IN SUBSTANCE?

What is proposed gives us what, with our support, LDDC have been negotiating for over a long period. Indeed, given the reputation of Olympia and York, developers among other things of the World Financial Centre in New York, it gives much greater confidence that the development will go ahead on a speedy timescale to 5m sq ft and very likely beyond than we had when the developer proposed was First Boston/Travelstead. First Boston confirm that it is the intervention of Olympia and York that has removed the difficulties between them and the 2 banks.

I have considered the alternatives. It seems probable that, without the appearance of Olympia and York, negotiations would have collapsed this week even if the further extension of the timetable to 17 July had been granted. In those circumstances, I believe, there would be no alternative but to authorise LDDC to seek a competitive alternative scheme from other developers. A number of substantial British developers have expressed interest

both to me and to LDDC. Nevertheless, it is clear that the scale of any alternative project evolved in these circumstances would be substantially less, and the spin-off benefits both for the Isle of Dogs and for the Royals would have been much reduced. This in turn would mean that the western extension of the railway would have to be radically reconsidered; we know that LRT have given preliminary thought to alternatives and have ourselves concluded that it would be necessary to have a positive statement to make about it at the time when negotiations broke down.

Nevertheless we should certainly be faced with a smaller development scheme on a longer timescale. The public expenditure and resource implications of this sequence of events are complex and hypothetical (depending in part on the consequences for development of the Royal Docks of this major project falling) as I illustrated in the material which I put before colleagues for the discussion at E(A) on 25 February. It may be that there would be some short-term savings in public expenditure, but with a probability of lower receipts from the sale of land in the Royal Docks.

In addition to that, the Consortium have acquired substantial land holdings around Canary Wharf, and could no doubt carry out a development on these holdings. LDDC believe that their 17 acre holding could also be developed independently. Nevertheless, given the marriage value of these holdings, it is evident that any major and successful development, even on a smaller scale than that under consideration, would need to be undertaken by some form of collaboration including both the Consortium and LDDC - as well as other possible partners. That would not speedily be put in place, given the history.

There therefore seem to Mr Benson, as there do to me, substantial arguments in principle for continuing to seek agreement with the Consortium on the basis of the present draft agreements - subject to the considerations that I now turn to.

THE CASE FOR COMPETITION; CRITICISM OF THE DEAL

We have had approaches from other developers, including major British firms, and have told them that if the present negotiations break down we shall want to open the project up to competition. I have no doubt at all that we should face criticism from these firms, and from the consortium of British contractors with whom First Boston have been negotiating as potential partners as well as for further construction work, if we admit a new participant at this very late stage. There will be a great deal of press comment. However, those who have approached me and LDDC have made it clear that they had a smaller development in mind. They were not offering an alternative way of securing development on the scale of that which is before us. And in terms of opening opportunities to a wider range of contractors, I believe that the change is entirely defensible. I believe also that we can legitimately distinguish the case of a developer willing to join the Consortium

and take on its obligations under the project substantially as they stand from firms with more modest proposals. Olympia and York are the only organisation which has come forward to stand behind First Boston and their associates with a persuasive offer of carrying through the deal for which we have been negotiating for so long. Their world-wide reputation as developers is a substantial reassurance of the quality and the likelihood of success of the development. I believe, indeed, that it is a demonstration of the success of the docklands enterprise as a whole.

X I should inform colleagues of a rumour that has reached me of a possible take-over by Olympia and York of MEPC - with an implication of unfair competition as a result of Mr Benson's position as Chairman of LDDC and Managing Director of MEPC. My Department has been kept informed by Mr Benson of previous transactions between Olympia and York and MEPC. The latter brought O and Y's interest in the English Property Corporation in 1985, with its Managing Director, Mr Stanley Honeyman remaining as a member of the MEPC Board for a short time afterwards. Mr Honeyman has retained some links with O & Y.

Mr Benson has assured me that he is wholly unaware of any interest by Olympia and York in acquiring MEPC; and that if that were to happen the board would resist it. However, if it did happen, there would clearly be an irreconcilable conflict of interest for Mr Benson. I am accordingly asking for an assurance from Olympia and York that, if they do participate in the project they will not seek to take over MEPC for a period of two years. I have provisionally received such an assurance.

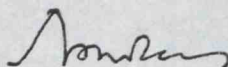
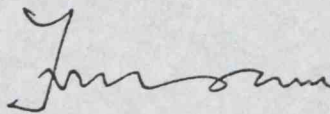
As I have said, I believe that it would be helpful presentationally if the proposal to retain First Boston as partners, even as very much in the minority in the project and co-signatories of the MBA is maintained; or, still better, if the deal as struck is with the present consortium, First Boston in the lead, on the understanding that it is proposed to sell on the major interest at once to Olympia and York. But I do not think this is a consideration on which the deal should stand or fall. I have also asked the LDDC to negotiate robustly on the final details, including the piece of land, during the remaining few days.

CONCLUSION

My view is that the present deal with O & Y is defensible in political terms and in terms of commercial prudence and financial propriety. On balance, I commend a deal on these terms to my colleagues, and would like to let the participants know this by the beginning of next week so that final agreements can be struck by 17 July. If we cannot, however, strike a successful deal by 17 July, I believe that we should accept that, on the basis of a very

positive statement, especially about a western rail extension, we must invite LDDC to open the area up to competition.

I am copying this letter to the Prime Minister and other members of the Cabinet and E(A).



NICHOLAS RIDLEY

slw

bc BG



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 July 1987

Dear Brian,

The Prime Minister has seen your Secretary of State's letter of 10 July to the Secretary of State for Transport about the latest position on Canary Wharf. She has noted that the consortium and Olympia and York would provide assurances to LDDC and Government that substantial profits for consortium members would not be involved as a result of the late change in the membership of the project. She would be glad to know what precisely this means and how those assurances would be enforced.

BF

I am copying this letter to the Private Secretaries to the members of the Cabinet, E(A) and the Secretary of State for Transport.

Yours,

(DAVID NORGROVE)

David

Brian Leonard, Esq.,
Department of the Environment.

COMMERCIAL IN CONFIDENCE

slw



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Our Ref : C/PSO/6861/87

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

15 JUL 1987

Dear Nicky,

CANARY WHARF

Thank you for your letter of 10 July.

In considering whether I can accept the proposed take-over of the Canary Wharf project by Olympia and York, I need to be satisfied that it is the best deal that we are likely to secure for financing a western extension to the Docklands Light Railway and that the new Consortium really will be able to deliver their assurance to go ahead on the basis of the existing draft Railway Agreement. To this end my officials have met representatives of O & Y, together with the First Boston and LRT.

First, as regards alternative proposals for a western extension to the railway, I am satisfied that any reasonable alternative is unlikely to attract private finance on a comparable scale, and that we should accordingly have to settle for an inferior transport solution at no less cost to the Exchequer, or the same solution at greatly increased cost.

Secondly, it does appear that O & Y are willing to take-over the Railway Agreement in its present form, subject only to necessary changes in the description of the Consortium and of the guarantors. LRT will need to sort out with O & Y arrangements for re-designing the station at Canary Wharf and for covering any enhanced costs as a result. But that can be achieved on the basis of a side agreement between them.

I am prepared to rely on your view, backed by Rothschilds, as to the financial standing of O & Y. LRT will be carrying out their own checks on them also.

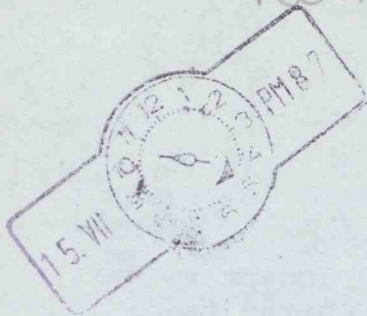
In summary, I agree with your view that we should accept a deal with O & Y on the proposed terms and I am prepared to authorise LRT to go ahead accordingly. I also agree that if we cannot do so by 17 July we should be prepared to open the area up to competition.

I am copying this letter to the Prime Minister and other members of the Cabinet and E(A).

Yms / Paul

PAUL CHANNON

REGIONAL POLICY : Inner Cities
Pr 10.



CC 357



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
 SW1P 3EB

15th July 1987

Dear Nick,

NBR

CANARY WHARF

Thank you for copying to me your letter of 10 July to Paul Channon. *at flap*

I note that you have agreed a short extension of the deadline for exclusive negotiations to 17 July. This seems sensible given the need to allow Olympia and York, as new participants, some time to finalise their position.

I hope that we can now take 17 July as a final deadline. It would obviously be unsatisfactory to allow the Consortium to use a change in participants brought about by their own inability to conclude a satisfactory deal as an excuse for spinning out negotiations still further.

I can see that there is a need to make a statement on alternative developments if the current negotiations break down. But we must not commit ourselves to spending on infrastructure required for these developments without a careful appraisal of the costs and benefits. In particular, the options for a western extension of the Docklands Light Railway and for tapping private sector resources to help finance them will need careful consideration. I must ask that you agree any statement you propose to make with me in advance.

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

Yours Ever,
John Major

JOHN MAJOR

REGIONAL POLICY: Inner Cities
Part 10.

