

PREM 19/1649

PART 2

Confidential Filing

The Channel Tunnel
EUKOROUTE

TRANSPORT

Part 1: July 1977

Part 2: Feb 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.2.82		29.5.84					
17.3.82		6.7.84					
29.7.82		23.10.84					
30.4.82		15.11.84					
1.5.82		29.1.85					
14.6.82		5.2.85					
17.6.83		12.2.85					
19.7.83		11/2/85					
29.7.83		19/2/85					
4.8.83		22.2.85					
7.8.84		26.3.85					
12.3.84		21/3/85					
14.3.84		28.3.85					
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PREM 19/1649

ENDS

PART 2 ends:-

ps/CST to Transport 29.3.85

PART 3 begins:-

FCS to SS/Transport 1.4.85

THE
**Channel
Tunnel**
GROUP



THE CHANNEL TUNNEL GROUP

comprising **Balfour Beatty**
Costain
Tarmac
Taylor Woodrow
Wimpey

Background

The Channel Tunnel Group has been formed by five leading British construction companies with a combined turnover of £4.3bn to promote the Channel Tunnel Project. The companies have previously studied, supported and promoted the bored Tunnel Project in three separate groups: Anglo Channel Tunnel Group (ACTG), European Channel Tunnel Group (ECTG) and Channel Tunnel Developments (1981) Ltd. (CTD 81).

This type of fixed link is the most technically feasible and financially viable. It will provide a very attractive cross-Channel service for both road and rail traffic with minimal environmental effect.

CTG companies have the proven technology, experience and resources to enable them, together with the financial institutions, to implement this project in partnership with French interests. The Project will require the political support of the British Government and the will to see this long overdue fixed link with Europe through to completion.

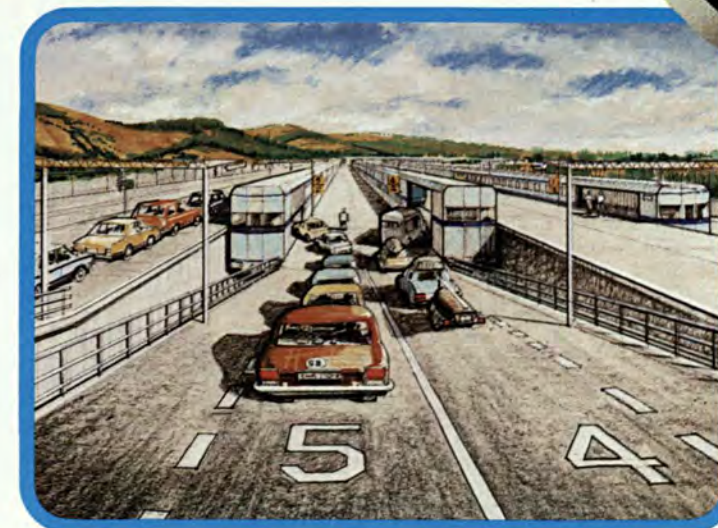


Benefits and advantages of a Channel Tunnel

- A fast, safe, reliable service connecting the UK with the Continental road and rail network, operating 365 days a year, totally unaffected by weather.
- It will co-exist with the sea-ferry services, providing an alternative competitive cross-Channel service.
- Ferry train shuttle services will take private cars, coaches and commercial vehicles across the Channel in 25 minutes.
- It will effect dramatic time reductions in the movement of exports both by road and rail. Direct access to the European market will be as close to UK industry and commerce as the nearest railway station.
- Through-passenger trains to Paris and Brussels will take about 4 hours, city-centre to city-centre, comparing very favourably with air travel.
- Construction will provide 250,000 man-years of employment shared between the UK and France.

The simple way to take your car across the Channel

Cars will arrive at the Cheriton Terminal and drive into special double-decked, air conditioned, brightly lit wagons, loading at several points along the train's length from high/low platforms and parking nose-to-tail. Drivers and passengers will either remain seated for the 25 minute journey time, or stretch their legs along the walkway beside their cars.



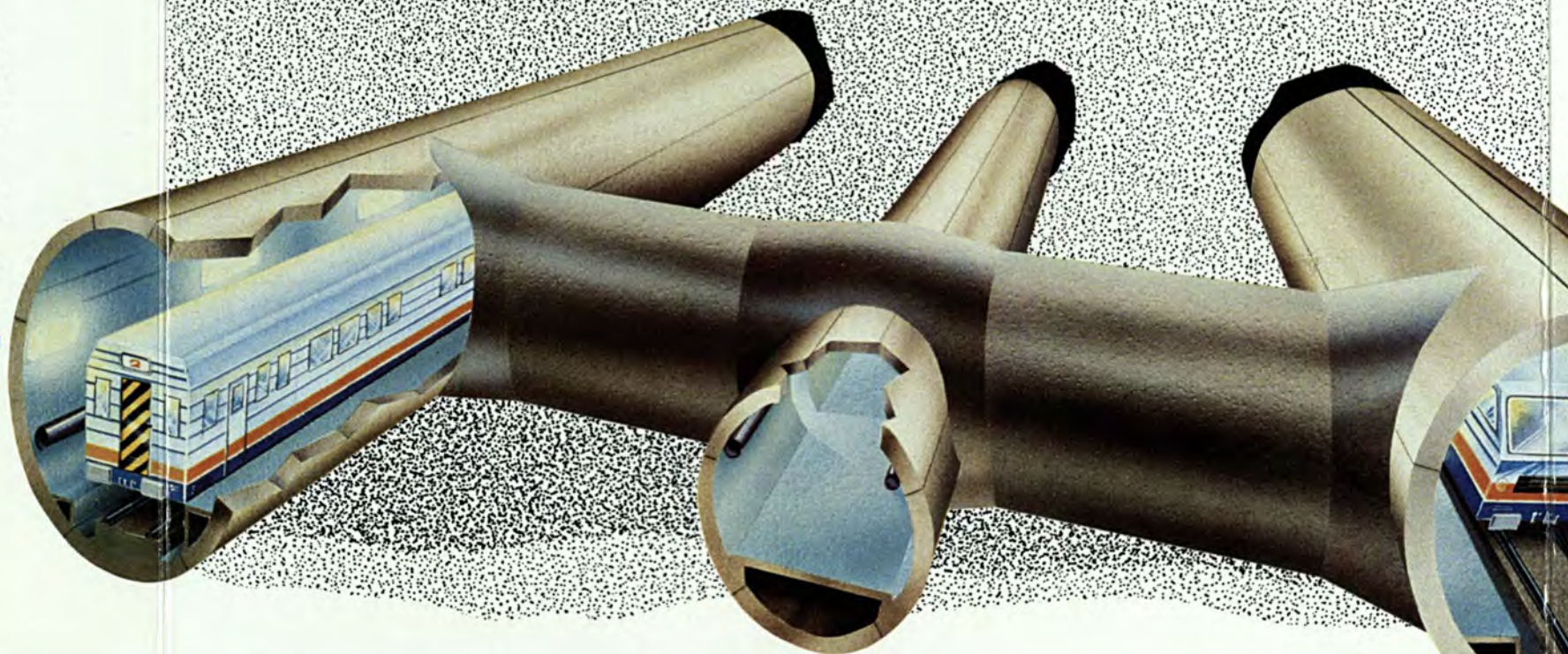
The Tunnel

The tunnel scheme comprises two 7m diameter running tunnels and a 4.5m diameter service tunnel, bored through the Lower Chalk approximately 40m below the sea bed.

The Channel Tunnel will add new dimensions of convenience, all weather reliability, speed and comfort to cross-Channel transportation. As a competitive element to the ferries on the short sea

routes Dover/Calais/Boulogne, it also adds a land route to the present sea and air links with the Continent, thereby helping to preserve our trade routes and communications, should one of the other modes be interrupted by weather or industrial dispute.

It is the only permanent, cross-Channel link which can be started now.



Cross Channel Services

Road Freight, Cars and Coaches

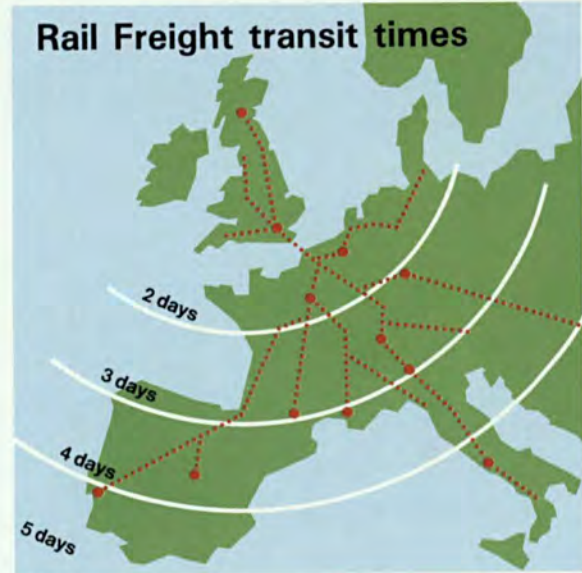
Frequent shuttle services operating from the Channel Tunnel Terminal at Cheriton, near Folkestone, will transport cars, coaches and commercial road vehicles in single and double deck ferry trains to Sangatte near Calais in 25 minutes.

Rail Freight

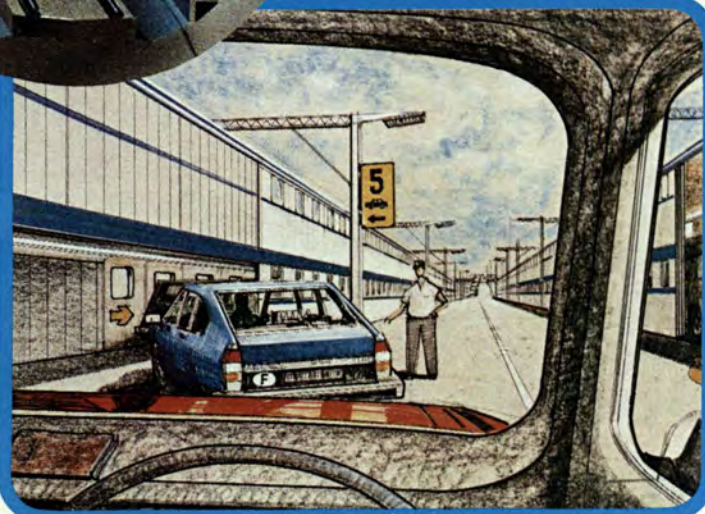
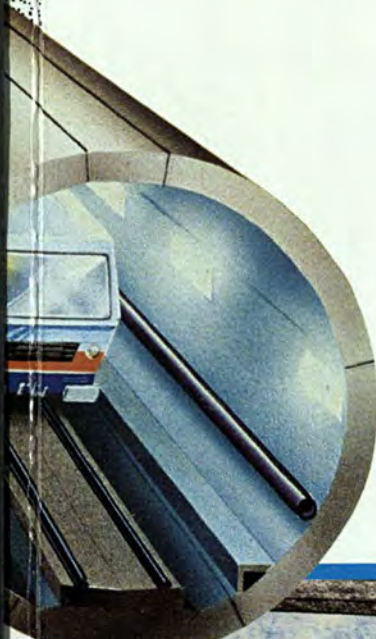
Freight trains of through wagons and containers will operate between Britain and continental centres. BR's Freightliner and Speedlink services will thus be integrated with similar services on the Continent. There will be road-to-rail transfer facilities for container traffic to and from south-east England and Northern France at Cheriton and Lille respectively.

Rail Passengers

Passenger services will operate at high speeds between London and Paris, Lille and Brussels, with onward connections to other main centres. Passengers will also be able to join certain trains at Cheriton.



In comfort.....



Tunnel facts

The Tunnel:

- Twin single track rail tunnel
- Diameter 7m
- Length 50km (37km under the sea)
- Depth below sea bed 40m
- Connected to 4.5m diameter service tunnel by cross passages

Terminals:

- Road: at Cheriton near Folkestone and Sangatte near Calais
- Rail passengers: at Waterloo (London) and Cheriton

Capacity:

- Trains operating at 5 minute intervals, 3,600 cars per hour in each direction.
- Frequency of 2½ minutes is feasible

Journey Time:

- Road: ferry trains 25 minutes
- Rail passengers:
London—Paris 4¼ hours
London—Brussels 4 hours

Tunnel Tolls:

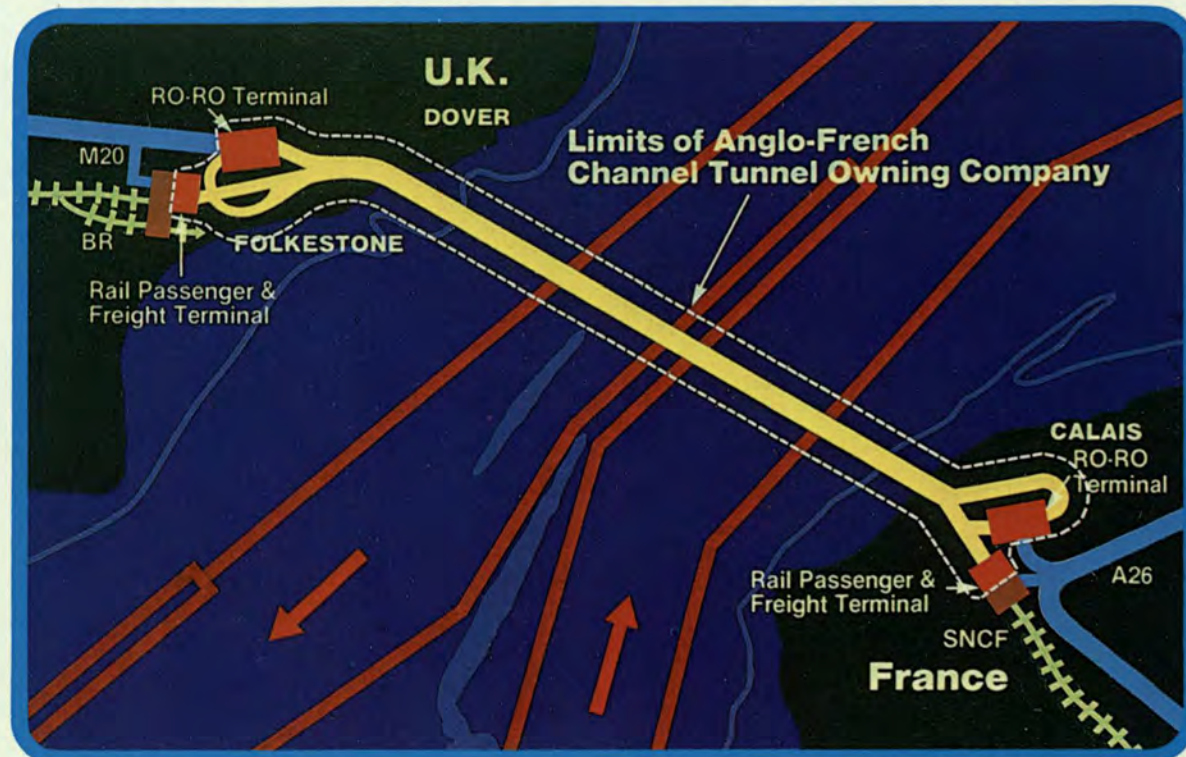
- Competitive with sea ferry charges

Capital cost of construction:

- £1.9bn at 1983 prices, to be shared equally between UK and France

Programme:

- Development & Financing: 2 years
- Construction: 6 years



The Owing Company will have total operational control of the road vehicle ferry train services and, in conjunction with BR and SNCF, of the passage of conventional rail passenger and freight trains through the tunnel.

Direct road access to and from the rail passenger and freight terminal, and to the ferry train services at the Tunnel terminals, will ensure a reasonable cross-Channel service in the event of any interruption of through rail services in either country.

Environment

The project will have a minimal environmental impact during construction and use. It is currently proposed that the UK terminal will be built at Cheriton on land already owned by the Government. There will be a main line passenger terminal in London but no new rail line will be required to Folkestone.

The M20 motorway from Folkestone to London and the M25 motorway around London will be completed before the Tunnel opens.

Official Reports

The UK Parliamentary Select Committee on Transport in 1981 and the UK/French Joint Study Group in 1982 both recommended the adoption of a bored tunnel. The latest Report from the Anglo French Channel Link Financing Group is also expected to recommend that a bored tunnel scheme is the only fixed link capable of being privately financed.



1974 Workings

The extensive tunnel workings at Shakespeare Cliff, Dover, and at Sangatte, completed before the Project was abandoned in 1975, will be fully utilised.

Employment

The construction of the Tunnel will result in the creation of several thousand new jobs. In Kent alone it will provide some 8,000 permanent employment opportunities.

In addition, materials and equipment to the value of some £600m will result in a significant regional employment potential within the UK.

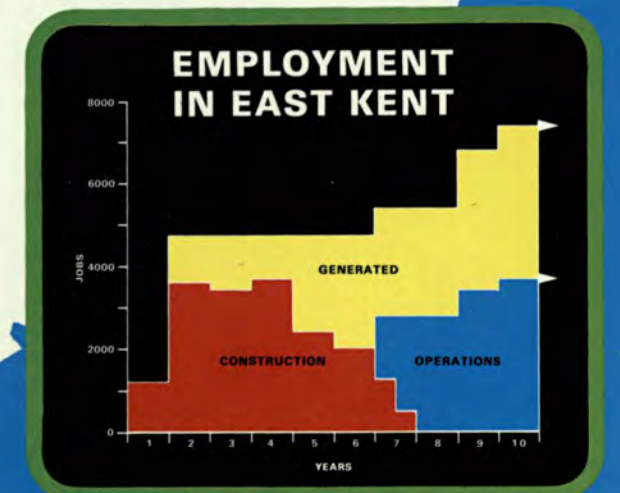
For Example:—

—Reinforcing steel	£24m	Sheffield
—Cast iron tunnel linings	£52m	Nottingham
—Cement	£17.5m	Kent
—Tunnel boring machines	£24m	Glasgow/ Midlands
—Signalling and lighting equipment	£5m	Midlands
—Ventilation and cooling equipment	£24m	Midlands
—Special rolling stock for road vehicle/shuttle trains	£180m	Birmingham
—Tunnel spoil removal system	£24m	Glasgow
—Construction plant	£24m	Glasgow
—Electric locomotives	£36m	Manchester/ Loughborough
—Overhead line equipment	£24m	Manchester
—Special passenger rolling stock and dual voltage locomotives	£60m	Derby, Manchester, Loughborough

Total potential orders for British Steel Corporation could reach £250m.

Further information from:—
The Channel Tunnel Group,

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Telephone: 01 846 3113
Telex: 25666



Financial Projections for Channel Crossings

Prepared for Euroroute by Coopers & Lybrand Associates Limited
23 January 1984

Summary

1. At your request we have examined the relative financial viability of the Euroroute, as compared with the double-track tunnel proposal. We have made financial projections on two sets of assumptions, those of the Joint UK/French Study Group, and an alternative set of assumptions, based on our own judgement of traffic potential, and the most up-to-date technical assessments of cost available.
2. We have at all points in our analysis attempted to be rigorously objective in assessing the relative potential of the two schemes.
3. Even when we combine the Joint Study Group's assumptions (generally unfavourable to the Euroroute) with a high inflation rate, we only obtain a figure for the maximum debt of the Euroroute of £25 billion, far lower than the widely anticipated figure of £54 billion. When inflation rates closer to current expectations are used, the maximum debt is reduced to £13 billion.
4. When more up-to-date and detailed assumptions are used, we find that the financial rate of return for the two schemes are very close; 8.5% per year for the tunnel and 8.3% for the Euroroute. It should be noted that these calculations do not allow for the lower capacity of the tunnel; this will further add to the advantages of the drive-through scheme.

Financial Projections for Channel Crossings

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23 January 1984

Introduction

1. In June 1982 a Joint Study Group of the UK and French Departments of Transport presented a study of the various fixed Channel crossing schemes being promoted at the time (Fixed Channel Link: Report of UK/French Study Group; HMSO Cmnd. 8561)

In response to this study's recommendations, the two Governments asked a group of five British and French clearing banks to prepare a report on the potential financing of the schemes. Publication of this report is now imminent.

2. The findings and recommendations of the banks' report have been widely anticipated, and indications are that their conclusions may be based on a set of assumptions which introduce substantial disadvantages to the Euroroute, as opposed to the double-track tunnel scheme. We believe that different sets of assumptions, which are both more plausible and better substantiated, lead to a very different picture. In this report we present two sets of financial projections:

- a) projections based on the assumptions set out in the Study Group report; and
- b) projections based on our own assumptions, based where possible on more detailed or up-to-date technical assessment, and our own judgement about the schemes' traffic potential.

3. We have at all points in our analysis attempted to be rigorously objective in assessing the relative potential of the two schemes. It is worth noting that while our cost assumptions tend to favour the Euroroute, compared with those of the Joint Study Group, our traffic assumptions tend to favour the tunnel.

The Financial Framework

4. The Joint Study Group did not undertake a financial analysis of the schemes' profitability. We have therefore had to make some supplementary assumptions about the financial framework under which the schemes will operate. The assumptions made are as follows:

- a) charges for the use of the links will be as follows (averaged where appropriate over seasonal and other variations):
 - £60 per car
 - £7 per coach passenger
 - £7 per through rail passenger (but see (c) below)
 - £4 per short-trip foot passenger
 - £10 per tonne of freight (but see (c) below)
- b) the entity operating the link will be responsible for all the terminal works at the portals, and for the means of transporting passengers and vehicles between them, other than through trains;

- c) as a consequence of this, 20% of through rail revenue (but not ferry train revenue) is deemed to be payable to the national railway authorities;
- d) the entity responsible for constructing and operating the link will raise all its cash requirements from loans, repayable as the first call on any cash surpluses (after operating expenses).
- e) the traffic growth foreseen in the Joint Study Group report, and in our report for Euroroute in July 1982, will not continue indefinitely. We have assumed that it will reach a maximum level in 2022, after 30 years' operation, and remain constant thereafter.

We have not allowed for the lower capacity of the ferry trains in the tunnel than the Euroroute roadway.

Projections using "official" assumptions

5. The report of the official UK/French Study Group in 1981 made certain assumptions about the traffic and costs of the schemes. We have examined the financial consequences of those assumptions both for the Euroroute and for the double-track tunnel proposal, under a number of assumptions about inflation, interest rates, and cost overruns. It should be noted that the Study Group started with assumptions unfavourable to Euroroute, in that they added a proportionally greater margin to the capital costs than they did to the other schemes. Their resulting capital costs were (converted by us to 1983 prices):

Euroroute	:	£7132m	(60% more than your estimate of £4440m)
Tunnel	:	£3517m	(15% more than the promoters' estimate)

6. On what we believe to be the banks' assumptions about inflation (9% per year) and interest rates (13% per year), the following results emerge

<u>Scheme</u>	<u>Maximum Debt</u>	<u>Debt cleared in</u>
Euroroute	£25,000m	2013
Tunnel	£10,000m	2010

These "official" assumptions have, you will note, built in a 60% cost overrun on Euroroute. However, much greater overruns would be required to obtain the widely leaked £54 billion figure.

7. In the present economic and political climate, it seems unduly harsh to assume that 9% inflation will continue for the foreseeable future. If inflation were 5% per year, in line with present rates and Government objectives, and interest rates 9%, the results would be:

<u>Scheme</u>	<u>Maximum Debt</u>	<u>Debt cleared in</u>
Euroroute	£13,000m	2014
Tunnel	£5,700m	2010

8. If, however, inflation rates were as high as 9% recent experience suggests that real interest rates would be lower than the 4% assumed above. If interest rates were only 11%, the following results would be obtained:

<u>Scheme</u>	<u>Maximum Debt</u>	<u>Debt cleared in</u>
Euroroute	£16,500m	2009
Tunnel	£7,200m	2007

Projections using our own best assumptions

9. Some of the assumptions in the Study Group report, could, in our view, be improved. These include:

- a) traffic assumptions; in our report in July 1982 we set out in detail our views on traffic projections, and the evidence we have seen since then has not caused us to change our views;
- b) capital costs; the costs ascribed to Euroroute in the Study Group report are substantially higher than those your latest work implies and we believe that in adding higher cost margins to Euroroute than to the tunnel the Study Group were not even-handed;
- c) operating costs; the operating cost figures used, especially for the ferry train service, by the Study Group were not based on any detailed calculations and operational assessment.

10. We believe, therefore, that a more accurate picture of the financial prospects of the schemes would be obtained by using different assumptions. These assumptions are:

- a) we have used our July 1982 traffic projections for the Euroroute; for the tunnel, we have used those projections for the total traffic, and the Study Group diversion assumptions;
- b) we have used your 1983 capital cost estimate for the Euroroute; for the tunnel, we have taken the promoters' figure, scaled up for inflation;
- c) we have used estimates for the operating costs for Euroroute supplied to us this week by Mott, Hay Anderson; for tunnel, we have used a formula supplied to us in 1979 by Situmer, based on their detailed analysis carried out for the scheme cancelled in 1975, adjusted for subsequent inflation.

The resulting projections may be summarised as follows:

<u>Scheme</u>	<u>IRR</u> (50 year life)	<u>NPV at</u> <u>5%</u>	9% inflation		9% inflation		5% inflation	
			13% interest Maximum Debt Debt cleared in	2009	11% interest Maximum Debt Debt cleared in	2006	9% interest Maximum Debt Debt cleared in	2009
Euroroute	8.3%	£3382m	£12,000m	2009	£9100m	2006	£7200m	2009
Tunnel	8.5%	£2390m	£8000m	2009	£6200m	2006	£4850m	2009

11. An interesting feature of projections based on these assumptions is that when the schemes are treated even-handedly as regards the likelihood of delays and cost overruns, the financial rates of return obtainable from the two schemes are very similar. You should note that we have made no allowance for the lower capacity of the tunnel in making these projections; if this were included the Euroroute may well have a substantially higher return than the tunnel scheme.

EUROROUTE

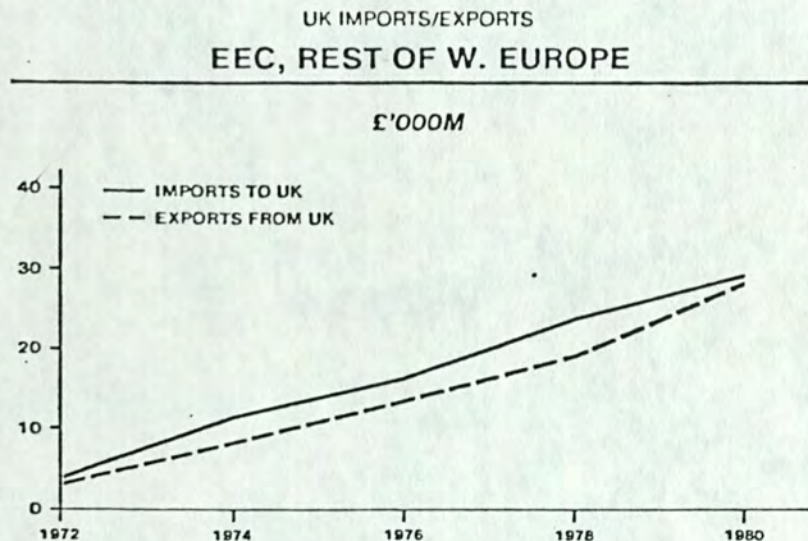
Introduction

EuroRoute is a road and rail, bridge and tunnel scheme which was initiated by Mr. Ian MacGregor. Its development is now supported by British Shipbuilders, Trafalgar House, Fairclough Construction Group (AMEC), John Howard and Company, British Steel and Raymond International Inc.(USA). In December 1983, the British participants were joined by Chantiers de l'Atlantique (Alsthom Atlantique) and Grands Travaux de Marseilles - Entrepouse, who will actively develop the scheme in France.

The Market

The volume of traffic now crossing the Channel dictates the need for a fixed link. The type of traffic must determine the type of link.

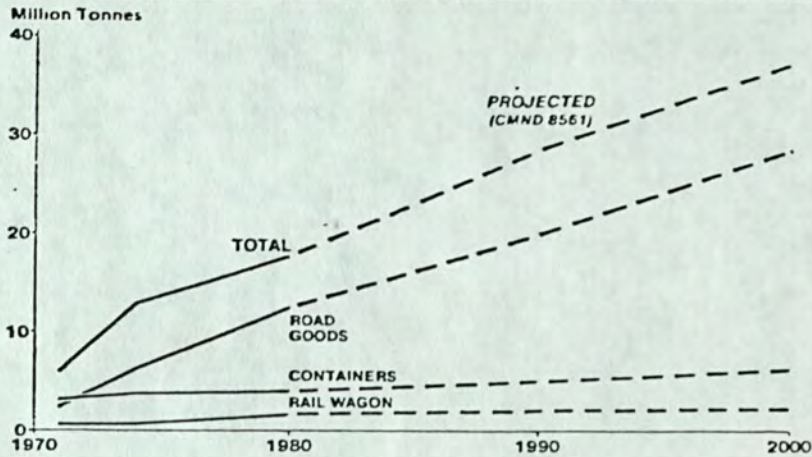
The volume of exports to Europe from the U.K. has grown from £4,200m in 1972 to £30,000m in a decade. It is our largest export market and if trade is to thrive, our goods must be transported in the cheapest possible way.



Much of this trade is carried on road vehicles. 18m tonnes of unitised freight cross between Britain and Continental ports. Within this figure, road haulage has increased from 2.7m tonnes to 14.0m tonnes in a decade. Government figures in Cmnd. 8561 show road transport continuing to grow strongly to the end of the century.

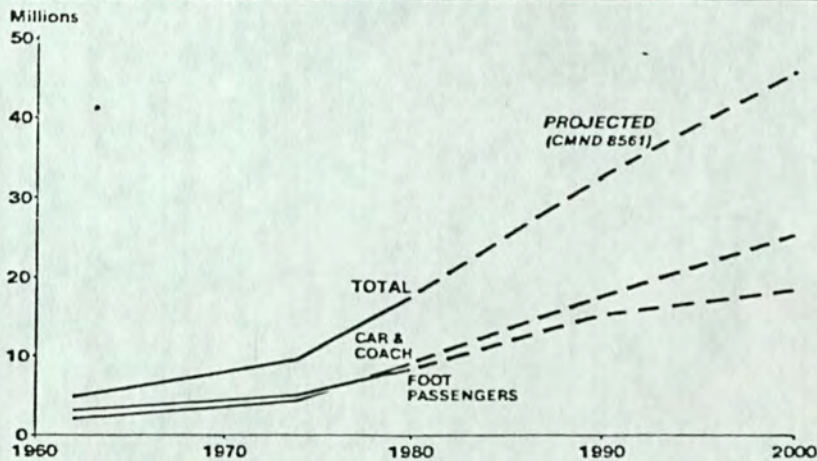
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GROWTH IN UNITISED FREIGHT TRAFFIC *between BRITISH - FRENCH/BELGIAN/DUTCH PORTS*



Road transport dominates the passenger market. 5.5m people crossed the Channel in 1962. This now exceeds 20m. Nearly 80% of passenger travel with cars or coaches and a percentage of the remaining foot passengers will have reached the ports by road.

GROWTH IN CROSS-CHANNEL SURFACE PASSENGER TRAFFIC



A fixed link would last for 100 years or more and any solution must be related to current traffic needs and anticipate the way in which traffic will develop in the next century. It therefore seems essential that any fixed crossing must allow road transport to drive freely across.

Types of Fixed Crossings

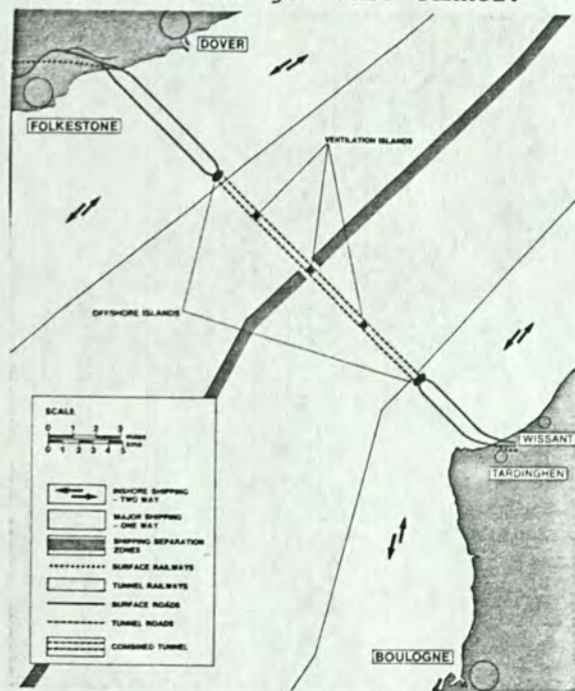
There are two main proposals for the fixed link. These are EuroRoute and the twin 7m rail tunnel. The tunnel scheme envisages putting road transport onto railway trains for the journey. This is no improvement on loading road vehicles onto ferries. Indeed, it has the disadvantage of limiting competition and putting independent road transport under the control of the railways and the rail unions.

The proposal that car passengers should sit in petrol laden vehicles for the journey has major safety implications. The rail tunnel is costed at £2 bn. This is 50% of the cost of EuroRoute but it has much less traffic.

A road bridge solution was considered by EuroRoute but it was discarded for strategic and financial reasons. Although a bridge is technically feasible, it would require spans very much larger than those previously built if the main sea lanes were to have minimum obstruction. This new technology would obviously cause concern to financial institutions. Further, it was assessed that a crossing without a rail link would probably be unacceptable to the French Government in view of the influence of SNCF.

A complete road tunnel would be impracticable. For psychological reasons, driving twenty miles underground would be unacceptable to many and this would limit the traffic. The cost of ventilating road tunnels for this distance would make it uneconomic.

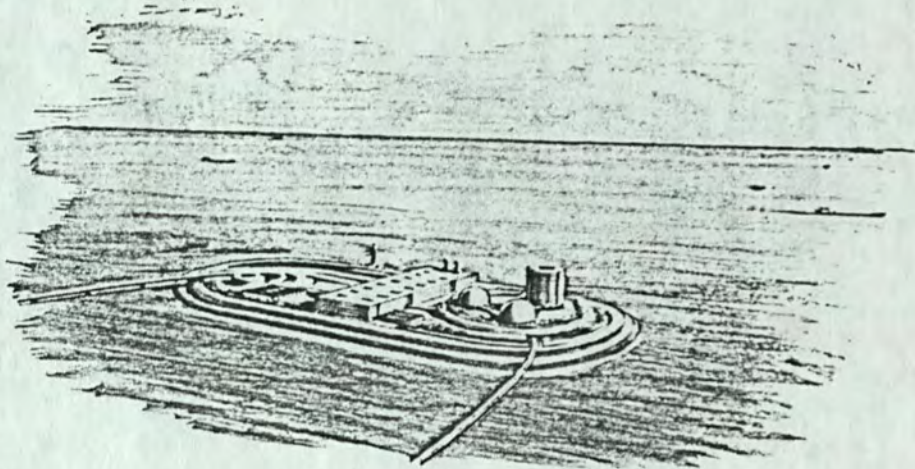
The optimum solution was found to be a combination of bridge and tunnel. This is the concept of the EuroRoute road and rail scheme. Road bridges connect the coasts to offshore islands, seven miles from Britain and four miles from France. At the offshore islands, the road traffic descends to two separate dual carriageways in a submerged tube tunnel for the journey under the main sea lanes. The central ventilating duct is large enough to accommodate a twin track railway of Continental loading gauge. This provides a low cost rail facility which continues beyond the islands to the coast in its own submerged tube tunnel.



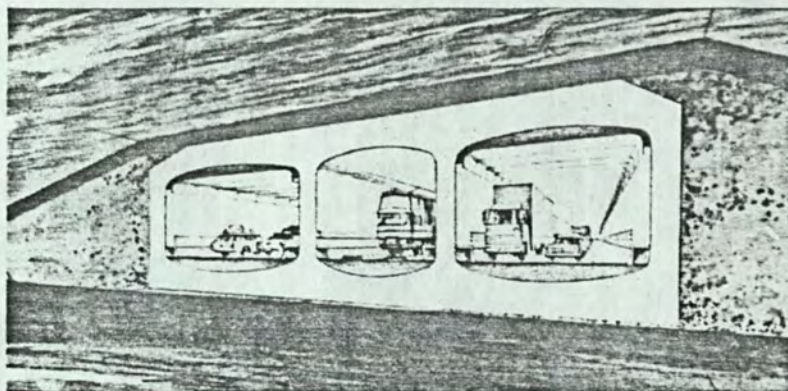
The bridges are simply supported spans of 125 m except at the inshore navigation crossing points where spans of 500m cable stayed are proposed. The bridge decks would be built in shipyards remote from the crossing and towed down for lifting onto prepared piled supports.

(cont)

Pre-fabrication is an essential part of the speedy construction of EuroRoute which is also applied to the islands. These have reinforced concrete cores of similar size to the oil production platforms in the North Sea. They would be constructed probably in Scottish yards and floated to the Channel site for sinking into position. They are protected by rock armouring and extended with hydraulic fill.



Road vehicles descend in one spiral at the islands to the submerged tube tunnel. The tunnel is made up of sections built at shipyards or coastal sites which, with ends sealed, are floated to the Channel where they are sunk into a dredged trench each connected to the section previously laid and then covered in. This form of tunnelling is becoming commonplace for tunnels under water. The ability to make sections at several sites ensures rapid construction.



(cont)

Is it technically feasible

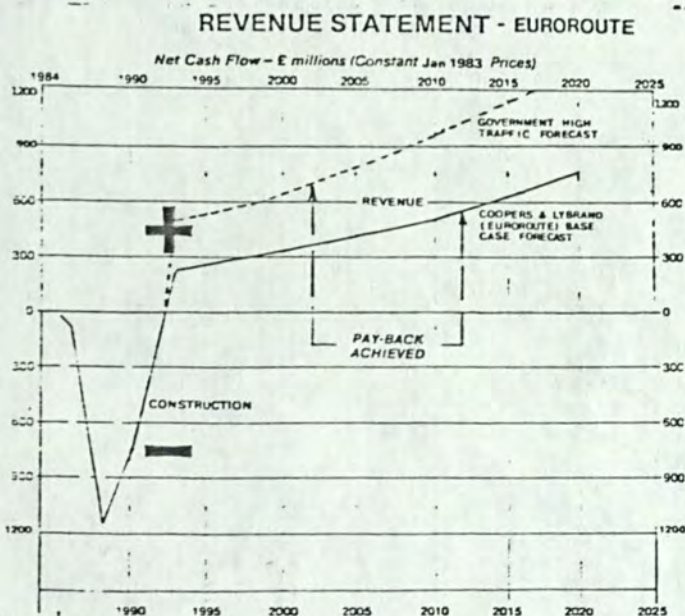
The Channel is relatively shallow. 83% of the proposed route for EuroRoute is within the depths previously dredged for submerged tube tunnels. The remaining 17% is only some 12 metres deeper. Current flows are not a problem being less than those in San Francisco Bay.

The bridge viaducts are uncomplicated. Common steels to BS4360 Grade 43 or 50 will be adequate. The placing of the piles and erection of the decks are common practice.

The construction of the offshore islands is less demanding than building the Ninian Platform for the North Sea which weighed 500,000 tonnes and was executed by one of the EuroRoute partners. All facilities exist for building the island cores. The three ventilation islands are smaller structures but built on the same principle.

The submerged tube tunnel sections may be either steel shells or reinforced concrete shells. The manufacturing, towing and laying of these units is well known technology in which a EuroRoute partner is the world leader. Their last three major submerged tube projects have been executed on time and within budget. EuroRoute is completely feasible.

Cost and Returns



In the submission to the Department of Transport in March 1981, EuroRoute was costed at £3,800m at mid 1980 prices. EuroRoute has been recosted by the consulting engineers Mott, Hay and Anderson, in association with contractors both inside and outside EuroRoute at January 1983 prices. The low and high construction cost figures are £4.06 billion and £4.40 billion. A construction period of seven years has been planned.

(cont)

The phasing of this expenditure would be:-

1985	35m
1986	78m
1987	783m
1988	1157m
1989	993m
1990	748m
1991	397m
1992	257m

Detailed financial models have been run by Coopers and Lybrand and Lazard Brothers. They show that using the Government's median traffic assumptions, Cmnd. 8561, somewhat written down, the project is paid for by 2012 and yields an 8.9% real return assuming 4% funding.

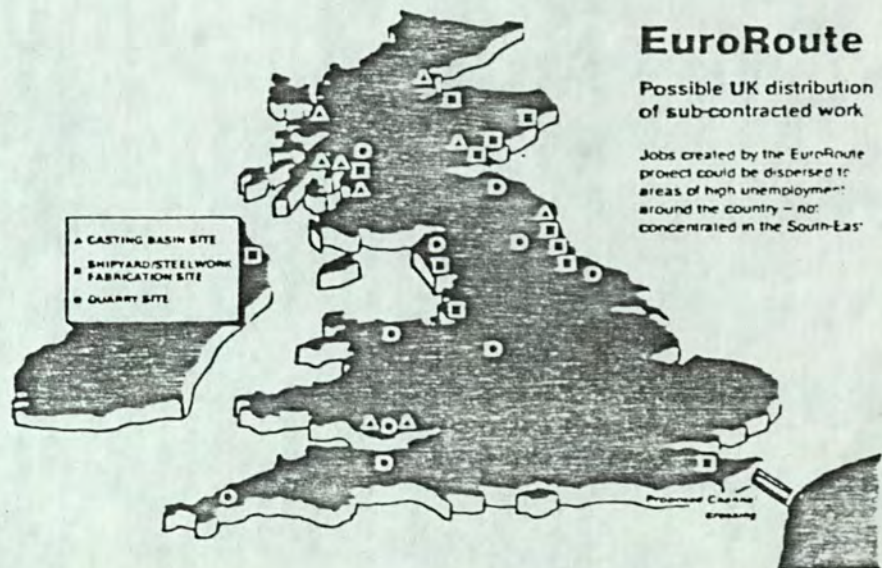
As further research of the EuroRoute project has been carried out since the January 1983 figures were compiled, it is believed that the sequence of operations and hence the initial expenditure figures can be so adjusted that part of the crossing can be opened to road traffic at the end of the third year to enable revenue to start being earned. Partial use of EuroRoute is feasible before full completion with early revenue contributions but this would not be possible with a rail tunnel.

Environmental Aspects

EuroRoute is unobtrusive. It requires only 350 metres of exposed motorway at the head of the Alkham Valley, Kent, before it enters a tunnel to emerge at Abbots Cliff onto the viaducts.

No extensive assembly areas are required in Kent as envisaged for loading road vehicles onto trains in the alternative rail tunnel scheme.

Effect on Employment



(cont)

500,000 man years of work would be generated by EuroRoute in shipyards, platform building yards, cement plants, quarries etc. These jobs would be dispersed around the country, often in areas of high unemployment. It means 50,000 new jobs producing a facility which is commercially viable.

This increase in employment is estimated by Coopers and Lybrand to benefit Government revenue by £730m through increases in tax receipts (£470m) and reduction in unemployment benefits (£260m). These calculations assume that half the project is built in the U.K.

EuroRoute	
NET EFFECT ON GOVERNMENT REVENUES	
At 1980 Prices	
ADDITIONAL CONTRIBUTIONS FROM THOSE EMPLOYED	£ MILLIONS
■ Income Tax	+212
■ National Insurance	+111
■ National Insurance Surcharge	+ 22
■ Indirect Taxes	+130
DIRECT SAVING IN GOVERNMENT EXPENDITURE	£ MILLIONS
■ Unemployment Benefit	-170
■ Social Security Payments	- 78
■ Redundancy Payments	- 9
Total increase in Government revenue/savings in expenditure	+732
CAPITAL COST OF UK PORTION OF THE PROJECT	
£1,900m	

The Ferries

Ferries would not disappear. On the short sea route they would retain approximately 25% of the business. Other routes would be relatively unaffected. The following illustrates the traffic pattern:-

Year 2000 - Cmnd. 8561		
	<u>Total</u>	<u>EuroRoute</u>
Foot Passengers		
Dover Straits - France	11.5	9.4
" " - Belgium	3.5	2.1
Other routes	4.4	.6
TOTAL	19.4	12.1
Car Passengers		
Dover Straits - France	7.9	6.0
" " - Belgium	2.3	1.4
Other Routes	3.9	.6
TOTAL	14.1	8.0
Coach Passengers		
Dover Straits - France	8.0	7.2
" " - Belgium	2.3	1.4
Other Routes	1.1	.2
TOTAL	11.4	8.8
GRAND TOTAL	44.9	28.9

(cont)

Freight (m tonnes)

Year 2000

	<u>Total</u>	<u>EuroRoute</u>
Ro Ro Road Goods		
Dover Straits - France	7.2	5.4
Dover Straits - Belgium	7.7	3.8
Other Routes	<u>13.2</u>	<u>2.0</u>
TOTAL	<u>28.1</u>	<u>11.2</u>
Rail Wagon		
UK - France	1.2	1.1
UK - Belgium	<u>1.2</u>	<u>.6</u>
TOTAL	<u>2.4</u>	<u>1.7</u>
Containers		
UK - France	1.0	.4
UK - Belgium	1.2	.2
UK - Holland	<u>4.5</u>	<u>.2</u>
	<u>6.7</u>	<u>.8</u>
GRAND TOTAL	<u>37.2</u>	<u>13.7</u>

Conclusions

EuroRoute would provide high quality road and rail routes connecting the Kent coast near Folkestone with the French coast south west of Calais. This would result in greatly improved services for:-

- * car travellers
- * coach travellers
- * road freight
- * through rail passengers
- * rail freight

The improvement in service for travellers by road, whether in car or coach, would be vast. EuroRoute would be connected to the British motorway system and thence, via the M20 and M25 motorways, to all parts of the U.K. Similar direct access would be provided on the French side to the French, Belgian and German motorway systems. Travellers would be able to drive directly between the U.K. and Continental motorways. They would not need to connect with a ferry or wait in a terminal area to be transferred to the next available space on a limited capacity rail-ferry service.

(cont)

The total time to drive across the EuroRoute would be about 35 minutes and it is estimated that with the elimination of the need to queue and secure places on a specific ferry and the faster journey time by road than on board a ferry, that journey times for most passengers would be reduced by between 1½ and 2½ hours compared with the alternative ferry service.

In congested periods, the improvement in through journey time will be substantially greater. Travellers in these periods tend to book because of congestion, and to allow large margins because of uncertainties in road journey times. None of this will be necessary on the drive through EuroRoute.

Rail passengers also would enjoy the benefits of a fast through double-track service connecting the British and Continental rail systems. Train service could be provided at regular intervals from London and the Provinces to Paris, Brussels and other principal European cities. The through rail journey time from London to Paris would be between 4 and 4½ hours, a saving of over 2 hours compared with the fastest current rail-ferry-rail service. The London - Brussels rail time would be reduced to no more than 4 hours, a saving of over 3 hours compared with the rail-ferry-rail alternative. There would also be significant advantages in terms of comfort and convenience.

To summarise:-

1. Traffic dictates that a road crossing is essential and justified.
2. EuroRoute is the optimum road and rail crossing. Its technical feasibility is unquestioned.
3. EuroRoute costs £4.06 - £4.4 billion to build at January 1983 prices. This is twice the cost of a 7m rail tunnel but it provides a rate of return of over 8% above any inflation. We discredit apparent attempts in the five Banks Report, now being sent to the Department of Transport, to change the basic 2:1 cost ratio.
4. EuroRoute costs can be controlled by the modular construction method.
5. Actual construction time is shorter than a rail tunnel.
6. There is greater safety for passengers and speedy access to any accidents.
7. International legal and marine questions will not delay construction.
8. There are robust revenues and no financing problems post completion.
9. Independent road transport retains its independence on the crossing. There is competition with the railways, not control by them unlike a rail tunnel.
10. EuroRoute offers the opportunity of substantial reductions for future tariffs on the Channel crossing.

ooOoo

EuroRoute

THE CASE for EuroRoute grows stronger and clearer... the importance of direct, fast and efficient freight transport to assist trade... the difficulties and dangers of a rail-only crossing... the stimulus to the European economy from the construction in the short term and the operation of the link in the future... the incidental bonus of thousands of jobs where they matter most

EUROROUTE — IT'S A TWO-WAY VENTURE

French join backers

EUROROUTE is a completely practical bridge-and-tunnel link, capable of giving Britain and the Continent the most efficient and effective direct communications by road and rail. It is the only bridge-and-tunnel scheme to meet the needs of both forms of freight transport — a vital factor now that Western Europe is the UK's biggest and most rapidly expanding market.

It will also allow motorists to drive between Britain and France without the queues and delays of the present ferries... and at less cost.

EuroRoute is the only proposal for a permanent road and rail Channel crossing which has backing from both the public and private sectors of industry in France as well as Britain.

Because most of the work on the standard, modular bridge-and-tunnel sections will be in shipyards, platform building facilities and engineering shops, cement plants and quarries, most of the 50,000 UK jobs created will be in Britain's worst unemployment blackspots — not in the South-East or Channel area. A similar number of jobs will be created in a "ripple" of indirect involvement by supporting industry throughout the UK.

An equal number of jobs will be created in France.

Man-made island

The crossing will start out from the English coast as a bridge or viaduct which will cross the inshore shallows to a point eight miles out. There it will reach a man-made island where the tolls, immigration and necessary administrative offices, plus duty-free and restaurant facilities can be located. This avoids the environmental impact on the Kent coast such as that implied by the other crossing proposals.

At the island, the dual highway descends in a shallow spiral to join the twin-track railway which crosses from shore to shore in a tubed tunnel. Three tubed tunnels then cross the central, eleven-mile navigable channel — two one-way roadways with the railway between. Conceived as a ventilation conduit for the roadways, the central tunnel will accommodate the railway with its electric trains at little additional cost.

Five miles from France, the roadway will spiral gently back up to another artificial island and complete the journey to France by bridge.

The job-creating techniques utilised in the construction of the bridge-and-tunnel sections assists with rapid completion of the project, and the quickest possible return of the capital invested to

EuroRoute is the scheme put forward by Ian MacGregor and backed in the U.K. by British Shipbuilders, Fairclough Construction Group Ltd, John Howard & Co Ltd, Raymond International Builders Inc. (USA), Trafalgar House and British Steel Corporation.

Two of France's largest industrial groups have joined together to develop and promote the EuroRoute project in France. Alstom-Atlantique, with its integrated shipyards, Chantiers de l'Atlantique, and the major private sector construction company, Grands Travaux de Marseille-Entrepose, have formed the nucleus of the Groupement d'Interet Economique, to be joined by other major French companies.

EuroRoute's Chief Executive is K W Groves, whose office is at 12 Addiscombe Road, Croydon, CR9 3JH.

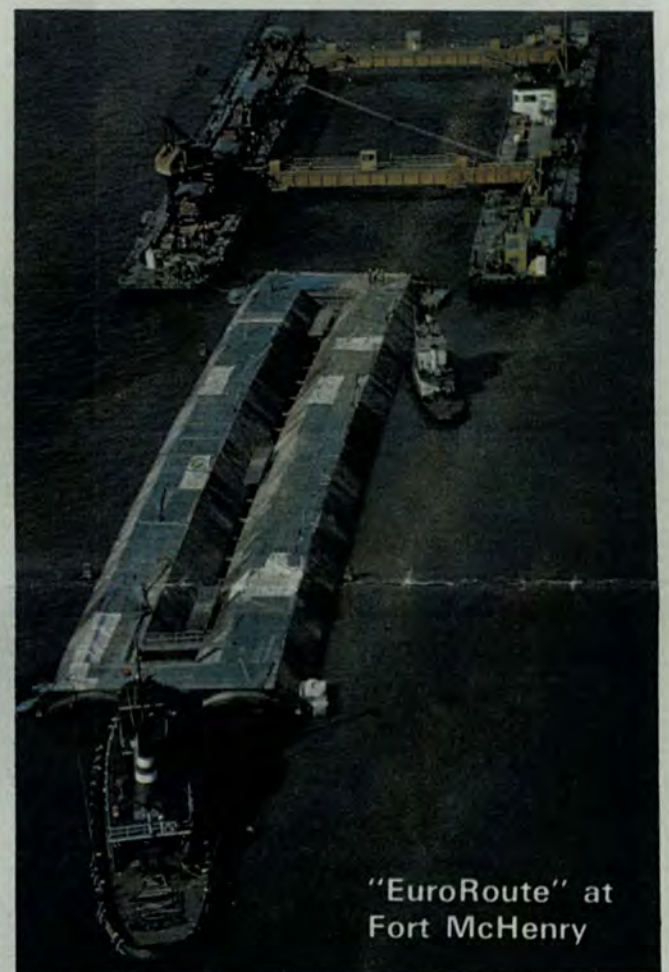
EuroRoute's advisers who have been involved in the preparation of the proposal are: Lazard Brothers & Co Limited (Finance); Mott, Hay & Anderson (Engineering Studies); Coopers & Lybrand Associates Limited (Traffic & Revenue).

finance the project from private sources internationally. The taxpayer will not be asked to fund EuroRoute and its rapid construction to first operation in under five years enables it to avoid the worst effects of international inflation which other, slower projects would suffer.

Cost-effective

Costing £3,800 million at mid-1980 prices, EuroRoute is not the cheapest crossing solution. But it is the most cost-effective. It is capable of meeting the increase in cross-Channel traffic such a facility will certainly generate.

EuroRoute's costs will be recovered by a system of tolls. Their level will be calculated in relation to costs at the time of completion. Costings have been undertaken and are based on a real rate of return of 7 per cent on the project. Tolls will be competitive with charges for alternative crossing services.



"EuroRoute" at Fort McHenry

The Baltimore connection

It is happening at Baltimore NOW.

The technology EuroRoute proposes for the Britain-France link is being exploited in the construction of the Fort McHenry Tunnel, now under way at Baltimore in the U.S. The Baltimore project is the latest application of the technique which successfully broke away from the old, traditional methods of driving bored tunnels. The "new generation" of tubed tunnels are now part of major world crossings between San Francisco and Oakland, Hong Kong and Kowloon, and across Chesapeake Bay in Virginia.

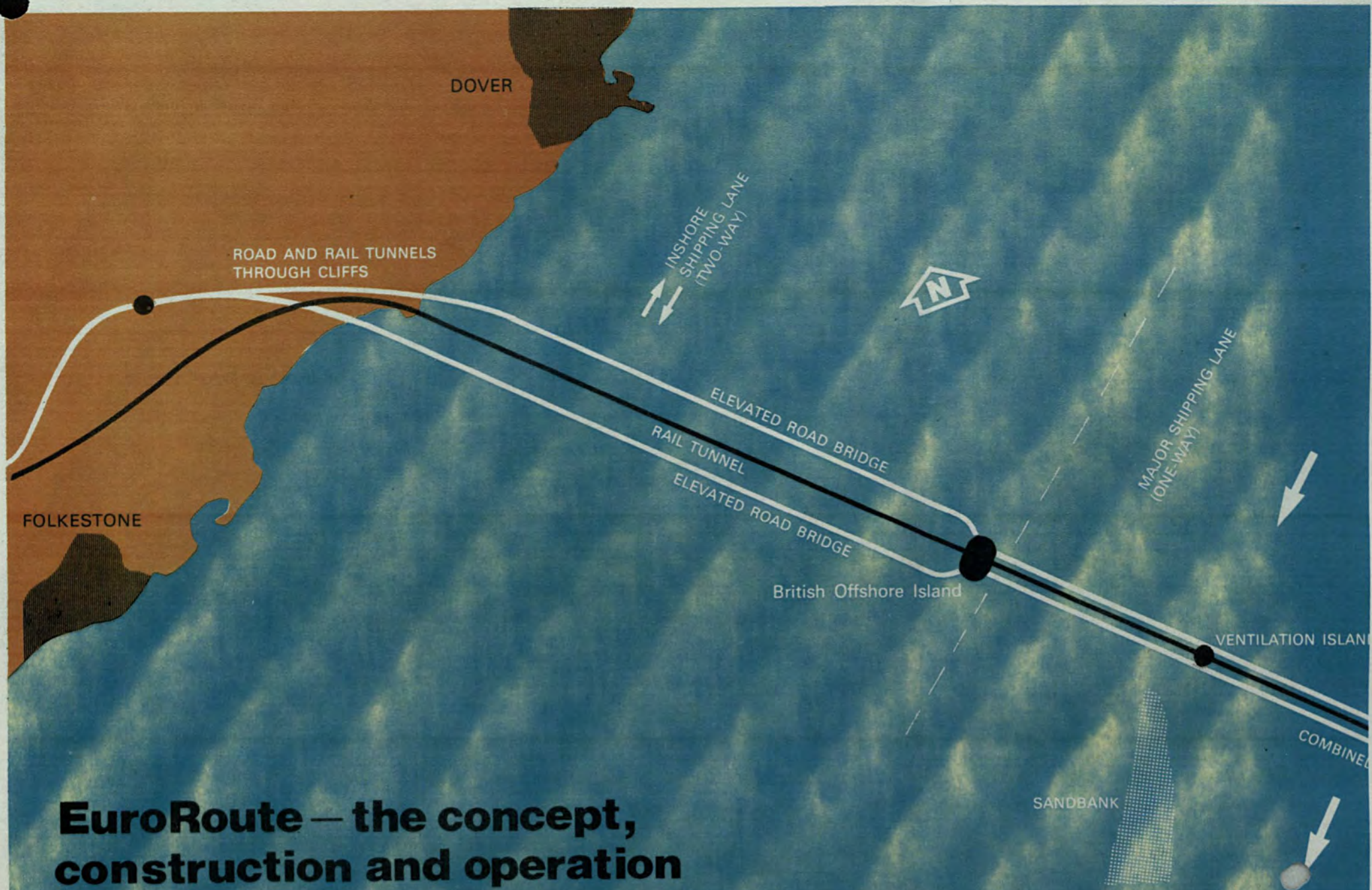
The 17½-mile Chesapeake crossing follows the same bridge-and-tunnel pattern as EuroRoute. It lies in the hurricane belt of America's eastern seaboard and has been operating successfully for the past 20 years.

Raymond International Builders, Inc. of Houston, Texas are one of the major companies supporting EuroRoute. Raymond were also one of the principal companies involved in the Chesapeake and San Francisco Bay crossings and they are now actively concerned with the Baltimore tunnel.

At Baltimore, however, the "state of the art" demonstrates the progress made since Chesapeake was constructed two decades ago. The Fort McHenry tunnel is being laid in curved sections, rather than the shortest-line solution used in the earlier schemes.

The technique is well established. First, a hydraulic dredge "vacuums" debris, hard clays and sand from the bottom to create a v-shaped trench. A gravel base is laid in the trench and this forms the bed for the tunnel sections which are lowered into position by a lay-barge, (see picture above) joined and sealed into a continuous run of tunnel which is then covered with rock to protect it from accidental damage. How the tunnel sections are made: back page.

— the support grows — See back page.



EuroRoute — the concept, construction and operation

The Means

THE crossing incorporates two 2-lane carriageways and two rail tracks. The railway is carried in submerged tube tunnel throughout the crossing. The road carriageways are carried on twin viaducts across the inshore shipping zones of the Channel, and in a common submerged tube tunnel structure with the railway beneath the main shipping lanes. The transition for road traffic from viaduct to tunnel takes place within offshore artificial islands constructed at the boundary of the main shipping lanes.

The overall length of the crossing, excluding onshore approaches, is approximately 36km. (22½ miles). The central tunnel section beneath the main shipping lanes is approximately 19km (11½ miles) long.

In addition to the main offshore islands at the boundaries of the shipping lanes, three intermediate islands will be constructed to carry ventilation shafts down to the central section of the tunnel. Two of these ventilation islands will be in line with existing sandbanks in the Channel.

Proposals at the English coast and inland are designed to have virtually no effect on the environment of Kent. The inshore viaducts reach the coast at low level at Abbot's Cliff, and the road is then carried inland in

tunnel as far as the Alkham Valley, where it joins the proposed A20 improvement road between Folkestone and Dover. The A20 will link directly to the M20, and thence to the M25 orbital motorway around London. The railway is carried from the coast to Holywell, just north of Folkestone, in tunnel and will then follow the route envisaged for a rail-only Channel crossing as far as the existing main line between London and Dover.

The Method

THE greatest possible use will be made of prefabricated modular construction. The major benefits of this will be, firstly, in allowing fabrication to be spread widely over various locations in the U.K. and continental Europe. Secondly, in giving a substantially reduced period of construction by allowing work to be carried out simultaneously at many different points.

Large prefabricated units will be brought to the site of the crossing from the fabrication areas by sea. The viaducts consist of a series of simply-supported spans, each 125 metres long. Piers are formed from large diameter steel or concrete cylindrical piles, driven or drilled into the seabed.

The 125-metre-long bridge deck units will be pre-

fabricated complete at coastal sites or shipyards before being launched, and towed by sea to site.

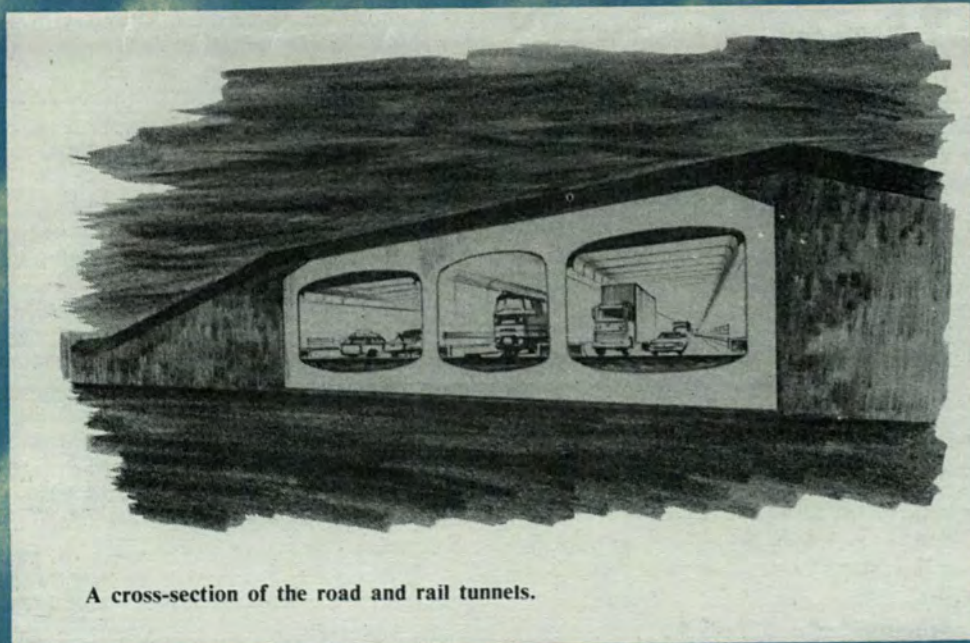
The level of the viaducts will be such that the soffits are well clear of the highest predicted wave. At the navigation openings for inshore shipping, special spans will be provided.

Following the considerable experience gained by British contractors with the placing of very large structures in the North Sea, it is proposed that the two main offshore islands and the ventilation islands should be constructed by placing a large central concrete element, forming the island's core, on the seabed. This will then be surrounded with rock and hydraulic fill to form sloping protective flanks to the islands.

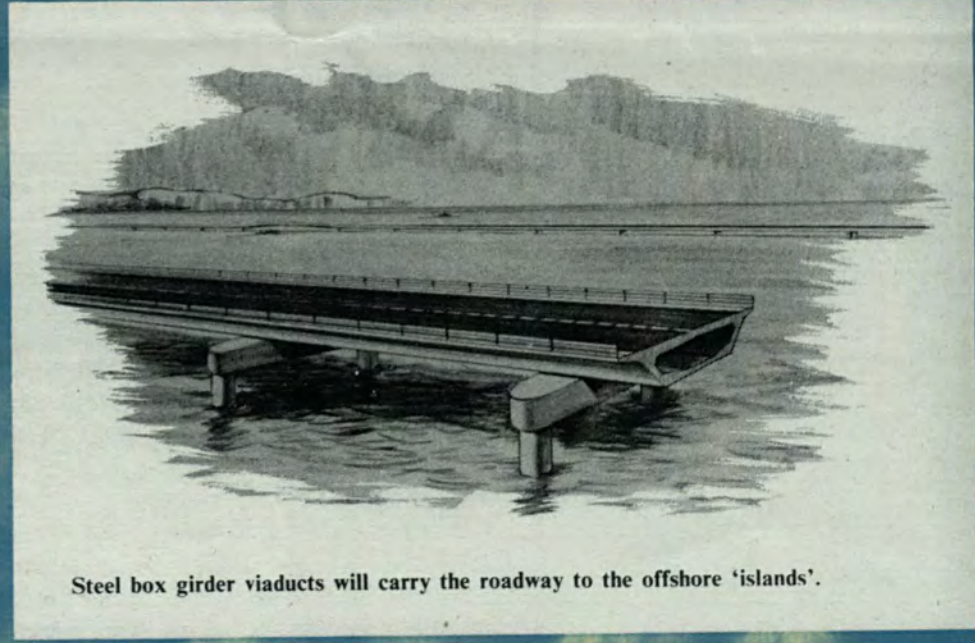
Initial discussions with the Hydraulics Research Station at Wallingford indicate that hydraulic effects arising from construction of the artificial islands, tunnels and other works in the Channel should not be unduly difficult to deal with.

The plant and equipment required for construction in the Channel are within available technology. The tunnel ventilation system for road traffic will cope safely with the worst conditions created by exhaust fumes with the crossing operating at full capacity.

Additional ventilation to deal with railway require-



A cross-section of the road and rail tunnels.



Steel box girder viaducts will carry the roadway to the offshore 'islands'.

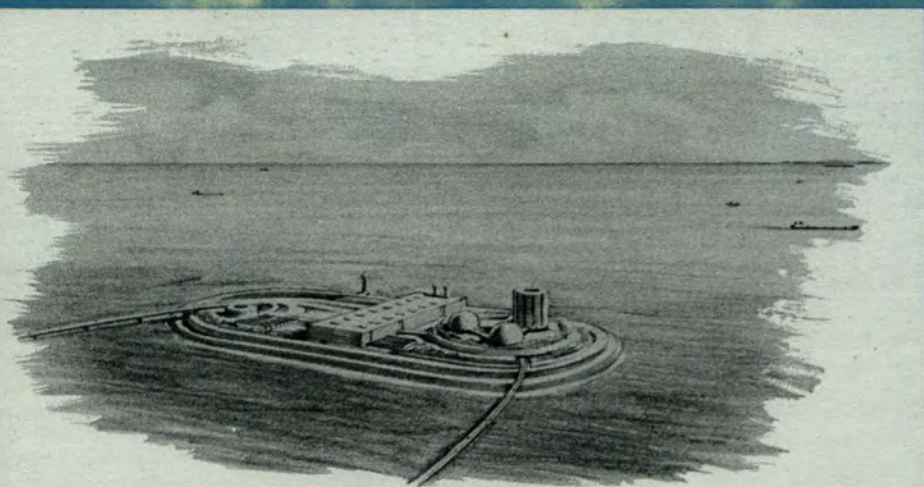
An 'anatomy' of EuroRoute

A LIST of the materials, plant and equipment, and the quantities of major construction items involved shows the size of the project. It also illustrates the Meccano-like method of construction which uses standard units, built in shipyards and platform yards, in a simplified, fast and safe technique which speeds the return on capital.

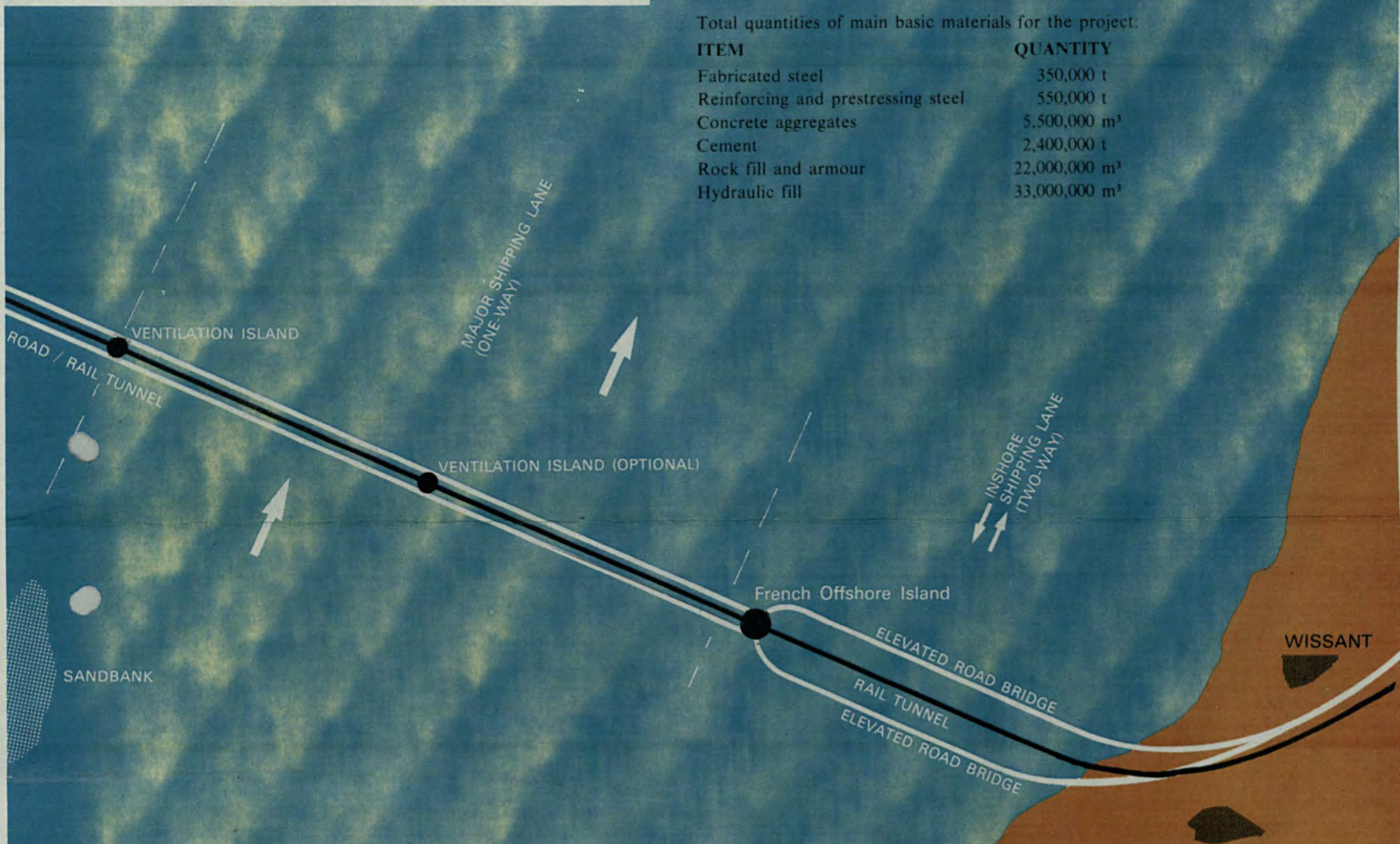
ITEM	QUANTITY
Viaduct deck units	268 units, each 125m long.
Combined submerged tunnel units	149 units, each 125m long.
Railway submerged tunnel units	134 units, each 125m long.
Road bored tunnels (on-shore)	6,000m length of single tunnel.
Railway bored tunnels (on-shore)	11,000m length of single tunnel.

Total quantities of main basic materials for the project:

ITEM	QUANTITY
Fabricated steel	350,000 t
Reinforcing and prestressing steel	550,000 t
Concrete aggregates	5,500,000 m ³
Cement	2,400,000 t
Rock fill and armour	22,000,000 m ³
Hydraulic fill	33,000,000 m ³



An artist's impression of one of the offshore islands.



ments, including emergency conditions, will be provided.

Construction

A FOUR-phase programme is proposed for development and construction of the project. Phase I will cover detailed studies to confirm the feasibility and cost of the project, and legislative documents will be drawn up. In Phase II, legislative powers will be obtained and detailed designs and preparatory work will be carried out. Phase III will cover the main construction of the crossing up to the opening of the first road carriageway to traffic. Provided that all necessary preparatory work is carried out in Phase II, Phase III may be completed in the very short period of 4 years. During Phase IV, the railway and the second road carriageway will be completed and opened to traffic.

Sea Traffic

The EuroRoute crossing is designed to meet the requirements of the Inter-Governmental Maritime Consultative Organisation (IMCO), and particularly, to facilitate enforcement of the traffic separation scheme.

Navigation and monitoring aids will be located at the artificial islands and elsewhere to assist ships on passage and to give warning of the presence of the crossing. Emergency craft will also be stationed at or near the crossing

Environment

THE EuroRoute scheme has been planned specifically to minimise environmental impact, and the overall result of the scheme will be to improve rather than worsen the effects of traffic on the environment in the general area of the approaches to the crossing. In France, the combined road and rail crossing is expected to bring important benefits to the depressed regions of Pas de Calais and beyond.

Operation

THE road and rail sections of the crossing will be operated entirely independently for normal running. Road traffic will be controlled from a centre at which traffic conditions, equipment status and alarm systems will be monitored. This centre will be in contact with the police and other authorities, and will be able to initiate action in an emergency.

The railway will be operated from two control centres, one in England and one in France. In certain types of emergency requiring common operation of the road and rail facilities, overall control would revert to the main control centre.

Emergency personnel and equipment will be available to deal with fire, accident or breakdown.

Internal and external surveillance devices will minimise the risk of sabotage.

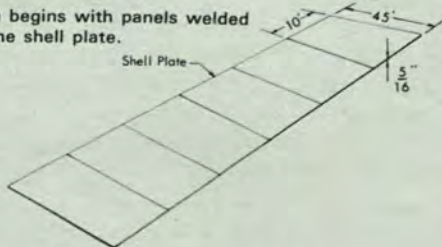
Continued on page 4

This publication gives a thumb-nail sketch of an exciting, but thoroughly practical and well-researched proposal. Full details of all aspects can be obtained from EuroRoute's Chief Executive, K. W. Groves, whose address appears on Page One.

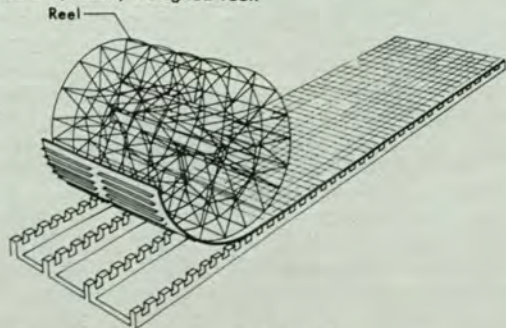
The project is described in detail in the document entitled "EuroRoute — Proposal for Road and Rail Channel Crossing", submitted to the Department of Transport in March 1981.

Tube Fabrication — The Baltimore Way

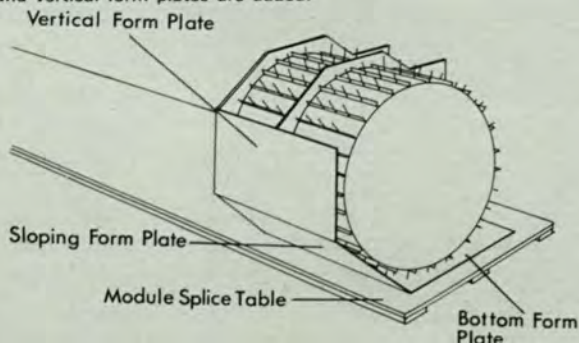
1. Tube fabrication begins with panels welded together to form the shell plate.



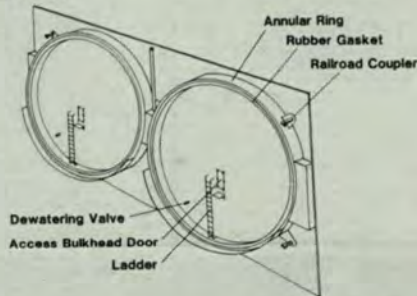
3. Shaping a module begins by wrapping the welded steel plate around a specially designed reel.



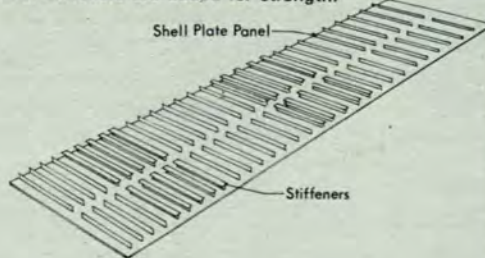
5. The reel is collapsed from inside the module and the module is transferred to a table where bottom, sloping, and vertical form plates are added.



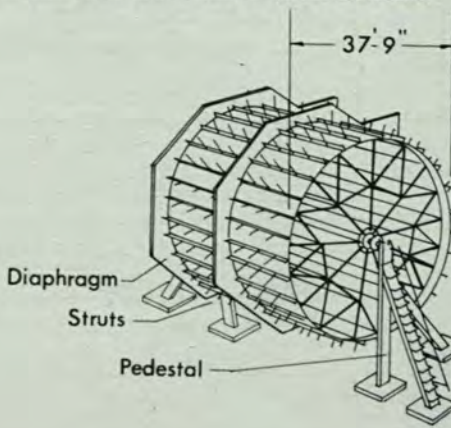
7. Dam plates are fabricated and attached to seal each end of the tube.



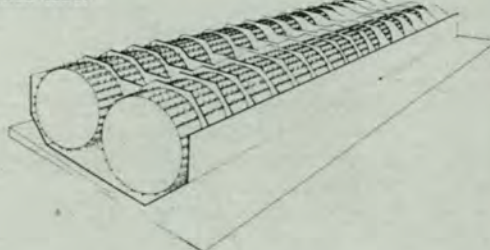
2. Longitudinal stiffeners are added for strength.



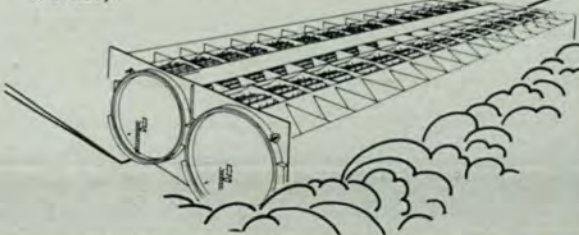
4. The reel and steel shell are transferred to a pedestal where more structural pieces are added.



6. Sixteen of the modules (8 for each tube) are joined on the shipway to form a section of the double barreled tube.



8. Keel concrete is placed to add strength and rigidity and the double barreled tubes are side launched for the 12-hour tow to the outfitting pier near Fort McHenry.



OPINION

BACKING continues to grow for the view that any cross-channel link **MUST** serve road transport as well as rail.

● Recognition of the dominant part played by road freight in Britain's commerce with her biggest export market — Western Europe — is a most telling argument.

● Avoidance of the wasteful double-handling and marshalling yard congestion which would be involved in putting road vehicles on to trains is another.

● The flexibility and protection from disruption of the "belt-and-braces" road and rail option, is a third.

A policy view by the **Road Haulage Association** puts the matter beyond doubt: "Any permanent traffic link between Britain and the Continent will have to recognise the essential and unrivalled part which road haulage plays in the efficient commercial and industrial life of this country. Any solution must permit load carrying road vehicles to cross under their own power."

The motoring organisations have also made known their strong support for the EuroRoute-type solution.

The **AA** have written to the Transport Minister: "The Association believes that in looking to the future, it would be short-sighted to be thinking in terms of a fixed link that does not allow road vehicles to themselves drive between the South Coast and the continental mainland. The Association urges the Government to arrive at a decision along these lines and to undertake further studies to this end."

The **RAC's** first point in their submission to the House of Commons Transport Committee emphasised: "Since passengers and freight are predominantly carried by road transport, any new fixed cross-Channel link should permit motor vehicles to be driven across the Channel as well as or instead of providing for cross-Channel rail services." And in a later comment: "... modern technical developments could produce an impressive bridge or 'brunnel' allowing cars to be driven over or under the Channel — the only really effective way to meet traffic requirements in the '90s and the 21st century beyond."

Then, from the "RAC World" in February, 1982: "The RAC and motoring organisations in three Continental countries agreed at special talks in Paris to take joint action opposing plans for a rail-only Channel link."

Two current views from opposite sides of the Atlantic:

Time Magazine: "EuroRoute is a microcosm of some of the best plant building in the world today. This combines a somewhat visionary approach to what the world will need a generation hence with hard-headed engineering and financial know-how."

The Economist: "The link that makes most sense for motorists and freight is the brunnel. The Chesapeake Bay bridge-tunnel system, which has proved a tremendous economic boost to the Maryland shore, indicates it can be done..."

Opinion polls in France and the UK on which type of permanent cross-Channel traffic link should be built, have shown a clear preference in both countries for a road-and-rail crossing, comprising bridges and tunnels, which would allow commercial and private vehicles to drive freely across.

The idea of a rail-only tunnel, or a rail tunnel with provision for loading cars and lorries on to trains for the journey, was decisively rejected in the polls, which were carried out in France by Sofres and in the UK by Marplan.

The two separate polls interviewed more than 3,000 people. The questions and the polls' findings are as follows:

In recent years a number of schemes have been put up to build a permanent link between Britain and the Continent. Which of the three main alternatives would you prefer?

	UK %	FRANCE %
Road and rail link with a combination of bridges and tunnels allowing cars and lorries to drive across	53	59
Rail-only tunnel with drive-on/drive-off facilities for cars and lorries	28	18
Rail-only tunnel with no provision for cars or lorries	11	6
Don't know	8	17

The French poll also tested the support for the concept of a fixed link across the Channel. Despite the UK's unilateral cancellation of the tunnel project underway in 1975, the result showed a large favourable majority in France.

The question asked in France was: Are you in favour of a link between France and Great Britain?

	%
Strongly in favour	18
Quite in favour	38
Quite opposed	9
Strongly opposed	5
Unconcerned	26
Don't know	4

Commented Ken Groves, Chief Executive of the EuroRoute Joint Venture, "That result is striking... and when you add the fact that 89 per cent of freight traffic and 93 per cent of passenger journeys are by road in the UK, as the French would say, the case for EuroRoute is formidable."

Anglo-French Treaty will be necessary, in addition to the domestic enabling legislation.

Provided that the political decisions in London, Paris and Brussels are sufficient, it is considered that the EuroRoute proposal can be financed without any necessary recourse to public funds.

Jobs

TOTAL employment in the construction, shipbuilding and construction-related industries is estimated to be over 250,000 man-years. EuroRoute would give an estimated job total of 50,000 in the U.K. during the construction period, including subsidiary employment, with an equal number of jobs created in France.

The Backers

THE EuroRoute 'venturers' have unrivalled capabilities and experience in major construction projects in many parts of the world — including the newer technologies associated with offshore construction.

Alsthom-Atlantique, the prime French export company for land-based and maritime equipment, has major international interests in heavy and electrical engineering. Its integrated shipyards, Chantiers de l'Atlantique, have major facilities at St Nazaire. This yard has three building docks and a large assembly platform for the construction of offshore units.

British Shipbuilders is one of the most versatile marine groups in the world, able to meet requirements for all types of new ships, repair, engineering products and offshore design and construction.

British Steel Corporation is one of the world's major steelmakers. The steel requirements of EuroRoute are well within its capabilities. It has wide experience of large and complex construction projects in all the continents — including the construction and installation of the biggest offshore structures.

Fairclough Construction Group Limited is one of the largest and most successful construction organisations based in the United Kingdom. A major force in the construction industry, the main activities of the Group — civil engineering and building — are carried out both nationally and internationally.

Grands Travaux de Marseille, one of the largest French private sector construction companies, has a world-wide reputation, with such notable structures as the Pompidou Centre in Paris and the giant Antifer tanker harbour in the Channel to its credit. GTM was also involved in the construction of the world's largest dam, the Tarbela Dam in Pakistan, and in the Cabora Bassa Dam in Mozambique, Africa's highest dam.

The John Howard Group has built up a reputation for carrying out large and difficult marine civil engineering projects. It specialises in harbours, marine structures, airports and bridges as well as harbour and marine works in many overseas countries. Its associate, Howard Doris Ltd., has a construction yard at Kishorn, Scotland, where some of the largest structures operating in the North Sea have been built.

Raymond International Inc. is a multi-discipline, international engineering and construction company. Raymond is one of the world's most experienced companies in the engineering and construction of sunken tube tunnels, having specialised in these projects for the past 30 years. Two examples of Raymond's projects are the Chesapeake Bay bridge/tunnel crossing in Virginia, USA, and the San Francisco Bay (Bart) tunnel in California, USA.

Trafalgar House Group's construction companies have a history founded in the last century — Cementation, Trollope and Colls, Cleveland Bridge and Redpath Dorman Long have world-wide expertise in all fields of the construction and civil engineering industries.

Revenue

Continued from page 3

TRAFFIC forecasts for the EuroRoute crossing have been made by Coopers & Lybrand Associates, based partly on work completed in 1979 for the European Commission and partly on new work commissioned for the proposal. Forecasts take account of alternative growth rates for the U.K. and Continental Europe. Projected traffic on the EuroRoute crossing in the year 2000 is, for the central (low growth) case, 19.1 million passengers and 12.9 million tonnes of freight. For the high growth case, the projections for the year 2000 are 27.5 million passengers and 19.6 million tonnes of freight.

On the central case hypothesis, the road capacity of the crossing is reached in about the year 2025. At this time rail capacity is not expected to be fully used, and further growth in rail traffic could take place.

On the central case traffic projections, the internal rate of return of the scheme in real terms (i.e. after allowing for inflation) is estimated to be 7 per cent.

Finance

LAZARDS are financial advisers to the EuroRoute Group and to the Proposal and have exceptionally wide international connections and experience with major capital projects.

This proposal is bigger but simpler than its competitors. It can be built more quickly, with work spread to many locations and employs simple, well-proven techniques with minimum risks.

A three-stage building programme in which the overwhelming proportion of the finance is committed just prior to the second stage (Phase III) while an initial commitment of some full risk money is made prior to completion of legislative, Treaty and other formalities, will dramatically advance the date when the facility can be brought into service.

Equipment and supplies could be sourced almost throughout Europe and may easily be directed to and generate employment in distressed areas in Britain and France.

While the attitude of the French and British Governments is of paramount importance, the support of the EEC and of others will also be crucial. At least an



Treasury Chambers, Parliament Street, SW1P 3AG

Mr Richard Allan
Private Secretary to the
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1 3EB

29 March 1985

Dear Richard

CHANNEL FIXED LINK

The Chancellor has asked the Economic Secretary to respond in his absence to your Minister's letter of 28 March to Sir Geoffrey Howe. Subject to any subsequent comments by the Chancellor, he has only some small suggestions to make concerning the draft statement on the fixed link. In making clear to promoters the opportunity that is theirs, the draft properly emphasizes the basic financial conditions which have to be fulfilled and avoids committing the Government to selecting any proposal at all. It would, though, he thinks be worth adding to the list in paragraph 6 of the factors the Government will take into account: ".....that environmental, social and employment effects are fully appreciated and that the financial conditions are fully met. All these matters will be carefully considered before the two Governments arrive at a decision."

As it is presently drafted, the statement could, he thinks, possibly give rise to some confusion on the nature of the decision that the Governments aim to make around the end of the year. In the British case it will, of course, be subject to approval by Parliament. In order to avoid the risk of seeming to anticipate its will, he has suggested that it might be better to say in paragraph 4 that "the two Governments would aim to reach a decision around the end of the year, on which proposal, if any, they consider should be enabled to go ahead." The type of decision mentioned later, in paragraph 6, would then be made clear.

As regards the steps to be taken if the Governments decide to proceed with a proposal for a promoter, he believes that we should preserve as much freedom of action as possible. He assumes there would need to be a hybrid Bill in any case

but he thinks we should wait until we see the promoters' proposals before we take a decision on whether or not there should be a public inquiry. He would be content that we should not be committed to holding one, but hopes that, as your Minister says, we can avoid taking a firm position.

He is content with the agreement reached with the French on immediate follow-up and hopes the Treasury officials will continue to be involved in the relevant aspects of the assessing proposals.

I am copying this letter to Andrew Turnbull at No.10 and the secretaries of other members of E(A), the Secretary of State for Defence, the Chief Whip and to Sir Robert Armstrong.

Yours ever
A M Ellis

A M ELLIS
Private Secretary

CC NO
PC
B1
2DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

28 March 1985

The Minister:

To note the "hybrid"
procedure the SIS wishes
to adopt as per this letter.
The hard copy Seal will be able
to advise whether it is a
statement.

Dear Geoffrey

CHANNEL FIXED LINK

Thank you for your letter of 20 March replying to mine
of 18 March about the Channel fixed link.

The meeting which David Mitchell and I had with the
French Ministers M Quiles and M Auroux went well. We agreed
the English and French texts of the Invitation to Promoters
(the "Guidelines") subject to some minor amendments to be
finalised by officials, and we agreed to publish them in
early April. Arrangements have now been made for me to make
a Parliamentary Statement on 2 April. The Guidelines will
be made generally available at the same time. The French
on their side will fit in with this by holding a simultaneous
Ministerial press conference.

The French Ministers and I also agreed upon a firm closing
date for proposals of 31 October 1985, and that the two
Governments should aim to reach a decision upon which proposals,
if any, should be selected around the end of the year. I
have ascertained that all the UK promoters are content with
this.

I attach a copy of our note of the meeting. There are
only a few points to which I need draw your attention.

I agreed that the Anglo/French group, as presently
constituted, should remain in being until proposals are received
in order to consider requests for clarification or elaboration
of the guidelines and to deal with enquiries from promoters
and other interested parties. Thereafter, a differently
composed group should be set up to assess and advise Ministers
on the proposals received.

I agreed also that contingency work should be undertaken by the present group on the preparation of a Treaty and an Agreement with a selected promoting group, without prejudice to the decision still to be taken on whether or not there should be a fixed link. On our side we can simultaneously make progress on the preparation of Instructions to Counsel on the hybrid Bill which will be necessary and for which contingency provision has already been made in our legislative programme.

To let it be known that such contingency work is being undertaken would give the market further evidence of our serious intent. At the same time opponents of any form of fixed link will use it to assert that we have already prejudged the issues. I have dealt with this in the draft statement attached in a way in which I hope you and other colleagues will agree holds the right balance.

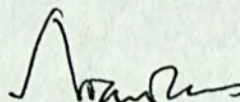
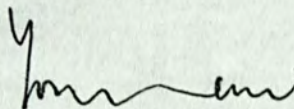
We will undoubtedly be pressed on the subject of consultation and asked whether there will be a local public inquiry into any scheme which we may decide to facilitate. In my paper to E(A), discussed on 25 February, I suggested that a full-blown public inquiry would spell the end of the project. It would destroy the market impetus which we have succeeded in generating and discourage the promoters since, for them, time is money. I suggested in my paper that informal local consultation combined with a decision by Parliament on the hybrid Bill, in the light of representations by those with "locus standi" would adequately meet the requirements of the democratic process. We did not find time to discuss this in E(A) and I would like to be sure that you and other colleagues agree that we could proceed on this basis, while not having to say at this stage that there will not be a public inquiry.

I raised with MM Quiles and Auroux the confidential discussions which your officials are undertaking with the appropriate French officials on issues of national defence, security, blockades and strikes. I am clear that they are fully seized of the importance of these issues and are ready to make rapid progress on these simultaneously with other contingency work.

Finally, I took the opportunity to tweak the French tail on the incongruity of maintaining quantitative restrictions on lorry traffic between and through our respective countries while jointly wishing to create a situation in which the market has full confidence in the ability of such a link to attract and generate as much traffic as it is capable of accommodating. I was immediately invited to discuss these and related issues in France at an early date. Officials already have preparations in hand.

CONFIDENTIAL

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



NICHOLAS RIDLEY

CONFIDENTIAL

3F

CHANNEL FIXED LINK

STATEMENT BY THE SECRETARY OF STATE FOR TRANSPORT

2 APRIL 1985

1. I would like to make a statement about the Channel Fixed Link.
2. The House will know that in November 1984, I met the French Ministers responsible for transport to discuss the possibility of a fixed link across the English Channel. At that meeting we reaffirmed the willingness of the British and French Governments to take whatever steps might be necessary to facilitate the construction of a fixed link between the UK and France within the framework of the European transport network. We agreed that this project, for which essential political guarantees would be provided, should be financed without support from public funds or Government guarantees against commercial or technical risks and on the basis of conditions prevailing on the international financial markets.
3. We also agreed to establish a working group of officials of both Governments to draw up guidelines to potential promoters, in order to give them a clear understanding of the requirements of the two Governments on, for example, safety and the environment, the undertakings the two Governments would be prepared to give, and of any constraints affecting commercial exploitation. At the meeting on 29 November between my rt hon Friend the Prime Minister and the French President, these decisions were confirmed, and it was decided that officials would be instructed to report to Ministers by the end of February.
4. Officials delivered their report on 28 February, and on 20 March we held a further meeting with the French Ministers to agree the final texts of the Guidelines and to decide certain further points. In particular, we agreed that the closing date for proposals would be 31 October, and that

the two Governments would aim to reach a decision on which proposal, if any, should go ahead, around the end of the year. We also agreed that we should begin contingency work now on those elements of the Treaty which would be common to any form of link chosen.

5. I have placed copies of the guidelines - or, to give them their proper name, the 'Invitation to Promoters' - in the Vote Office.

6. In saying this, I do not want hon Members to think that we have prejudged the issues. When they have had time to study the guidelines they will recognise my concern to ensure that there is adequate public consultation, that environmental, social and employment impacts are fully appreciated and that all these matters will be carefully considered before the two Governments arrive at a decision.

7. Mr Speaker, I cannot yet tell whether a fixed link will be built across the Channel or not. What I can say is that the private sector now has a unique opportunity. We have reached full agreement with the French on the conditions which the promoters must meet. I wish the promoters well in this great endeavour.

CHANNEL FIXED LINK
NOTE OF THE SECRETARY OF STATE'S MEETING WITH FRENCH MINISTERS
WEDNESDAY 20 MARCH 1985 - 2 MARSHAM STREET

Present:

Secretary of State	M Quiles
Mr Mitchell	M Auroux
	M Viot (French Ambassador)
Mr Holmes	
Mr Lyall	M Rudeau
Dr Woodman	M Paufigue
Mr Crump	M Chenu
Mr Jordan	Mme Delmas-Comoli
Mrs Nash-Brown	M Roche
Mr Gray (FCO)	M Fayard
Mr Derwent (Private Secretary)	M Carnelutti (French Embassy)

1. Noting of Formal Submission of Guidelines

Mr Lyall and M Rudeau delivered a formal minute of submission of the guidelines to the Secretary of State, M Quiles and M Auroux.

2. Timing and nature of Publication

The UK and French Ministers agreed that the guidelines should be published simultaneously in England and France, as soon as any final drafting amendments could be completed and the necessary printing arrangements made. That could be within a fortnight; but since the Secretary of State needed to make an oral statement to Parliament before Parliament's rising for Easter, 3 April was the latest possible date. That date was chosen subject to checking by officials on both sides. Each Government would make appropriate press arrangements.

3. Closing date for receipt of proposals

The French Ministers were anxious to achieve the quickest possible progress, and to reach a final decision by the end of 1985. The offers made by promoters could be expected to be time-limited, and firm dates and a quick timetable would be a demonstration of political will. Therefore the closing date of 31 October proposed by the UK seemed a little late; and there should be a formal period of 100 days at most after the closing date for consideration and decision by Governments.

UK Ministers felt a date earlier than 31 October would not give promoters sufficient time to prepare their proposals. Decisions would naturally be taken as soon as possible thereafter, but it would not be right to be bound now to a decision by a certain date.

It was agreed that the date of 31 October would remain, and the Governments would make their best endeavours to take the decision by around the end of the year. Both these points should be made public at the conclusion of the meeting, in advance of the publication of the guidelines.

4. Notification to the European Commission

It would clearly be right, even if it was not obligatory, to notify the EC of the guidelines.

5. Procedures for interpretation/elaboration of guidelines

It was agreed that one UK and one French official should be nominated as the authoritative points of contact for enquiries from promoters seeking interpretation or elaboration of the guidelines. These officials should be M. Rudeau and Mr Lyall. They would liaise closely on every enquiry while leaving the right to delegate detailed work as appropriate.

6. Confidentiality of proposals

The UK Ministers considered the point outstanding here to be an important one. They believed the promoters should be free to make public such elements of their proposals as they chose, but the Governments should keep them confidential.

The French Ministers were concerned to prevent the deliberate building up of press campaigns by promoters by selective disclosure of their proposals. If the 2 Governments could declare now that they reserved the right to publish the proposals when the final decision was taken, that should constrain the promoters' urge to publish now.

It seemed to UK Ministers that it was impossible to avoid certain details of the proposals becoming known, and necessary to live with press campaigns by the promoters during the relatively short time between submission and decision. It was, however, important

for Governments to keep confidences placed in them. It was agreed that the Governments should say on the publication of the guidelines that proposals would be published in due course, with a right for the promoters to demand that certain information - that which could be seen to belong to the class of information which one would normally expect to remain confidential in a commercial bid - would remain strictly confidential.

7. What should be said about items not covered in the guidelines especially EC finance

UK Ministers asked for clarification of the French position on EC finance. The UK position was as it always had been: that there was no question of EC finance for the link.

French Ministers referred to the joint statement made at the 30 November Anglo-French summit, and the previous communique after the 15 November meeting. Their position had not changed. It was right to make specific mention of the EC; the project was of great interest to the whole of Europe, and it was for the promoters to find finance wherever they could. Another aspect of European involvement might be that the financing could be denominated in ECUs. It was important to distinguish EC finance for the inland infrastructure on both sides of the link, and finance for the link itself. The French Government had never said it wanted the latter, and that remained their position. But it would not be right to exclude the possibility of finance for inland infrastructure.

8. Contingency work on the Treaty

UK Ministers put forward the alternatives of officials starting work now on elements of the Treaty that would be common to any form of link chosen, and awaiting the submission of proposals. The French Ministers felt it was important for officials to start work as soon as possible, and that was agreed. The Secretary of State raised under this heading a further matter for consideration in order to make any CFL a success: the question of lorry quotas. It was, for the UK Government, an essential aspect of the CFL that UK lorries passing through should be able to carry on to destinations in France or obtain access to Benelux and other countries, Unconstrained by quotas of any kind. This

would be an important matter for the CFL promoters, too. Further discussions at Ministerial level were needed; M. Auroux would welcome a visit by UK Ministers to France to discuss these matters in a relaxed atmosphere.

The French Ministers felt they could make a similar point in respect of lorry weights, and noted that the UK had achieved a favourable outcome from the December EC Transport Council. They too had domestic political problems, but they were content to engage in bilateral discussions running parallel to the CFL's next stages, in order to achieve a just solution.

9. Importance of confidential matters on defence, security, etc

It was agreed that these matters were not for publication but would be pursued by a very restricted group at official level at an early date. UK Ministers stressed their importance.

10. Promoters to be bound by their offer

The French Ministers explained that they were looking for a commitment from potential promoters that they would comply with the guidelines, the timetable and with their own proposals. The purpose was to deter frivolous, hopeless or fantastic proposals that might bring the whole project into disrepute in the public mind. They circulated a text of a letter of commitment to be signed by the promoters, including an undertaking to provide the necessary finances.

UK Ministers saw some problems with that. Such a letter presupposed that the proposals submitted by promoters would be in final form. It would be expecting too much in the first instance to ask them to make commitments, especially of a financial nature, which might if accepted - at least under English law - amount to a contract. It was likely that discussions between the chosen promoter and the Governments would be necessary before the proposals attained their final form. An undertaking of this nature would be necessary then, but not before.

It was difficult to come to quick decisions on a letter just circulated; Mr Jordan and M. Fayard should examine the issue and report back.

The French Ministers agreed; but it did not seem to them that the letter of commitment contained anything incompatible with the normal arrangements for tendering. Certainly there must at some time be a commitment to filter-out proposals that were less than serious. A further necessary measure would be to require promoters to put down a deposit with their proposals - large enough for the task of deterrence. That proposal, and the circumstances of the deposit's loss or reimbursement, should also be studied by officials.

11. Evaluation process

The French proposed that a new small group of experts should be appointed to analyse proposals submitted and produce a technical report to both Governments. Its composition would need to be different from that of the Lyall/Rudeau group; different areas of expertise were required at this stage.

UK Ministers agreed that expert advice would be needed, though both sides would, eventually, have to report to their own Governments. It was too early to choose the members now; the Governments should come back to this point in the late summer, preceded by preparatory work by officials.

12. Frontier controls

UK Ministers considered it would not be possible to establish the location of frontier controls until the submission of proposals had made clear the type of link under discussion, and the amount of space available. While endorsing the desirability of keeping controls to a minimum, they foresaw some difficult problems. The need to deal with goods from one country not accepted in the other seemed to argue for an English post on the English side, and a French one in France. Any other solution implied officials of one state exercising their jurisdiction within the boundaries of another.

A single check-point on either side for controls of a similar nature was the strong desire of the French Ministers. The extraterritoriality problem seemed insignificant; every country accepted Embassies to which a similar principle applied. But they agreed that this was a matter for later decision.

The French Ministers asked for minor drafting changes to the guidelines to avoid the impression that unnecessary - and potentially ridiculous - prominence was being given to the need to exclude rodents. The UK side emphasised that the fear of health risks was a genuine one in England; but agreed to the amendments.

13. Duty free facilities

Duty free facilities were of considerable importance from the point of view of financial viability. In the French view, fair competition between modes of crossing the channel required the CFL to have such facilities.

The guidelines required promoters to provide their financial calculations both with and without duty free facilities and UK Ministers believe that this would be helpful to Governments in assessing the extent to which this availability was critical. There was an argument that the CFL would be a European land crossing, and no duty free should be allowed. The EC would be unlikely to be favourably disposed to a breach of this principle. Any approach to the Commission should be deferred.

The French felt it was essential to argue the case immediately with the Commission. The CFL was, after all, a sea crossing by a different means, not a land crossing. It would be hypocritical to ask for calculations both with and without duty-free if the Governments were not prepared to make a case.

It was agreed that officials from both countries should enter into exploratory discussions with the Commission.

Other Matters

The French raised extra points relating to the guidelines:

i. compensation to the promoters if either Government abandoned the project should take account of what promoters had spent so far. It was agreed this should be the subject of urgent discussions between officials with a view to elaboration of the guidelines after publication.

ii. Para 34.9 said that a significant proportion of the ultimate financing of the CFL should not come from banks. It was agreed on both sides that, to an important extent, the finance should be a diversion or increase of investment and savings, not just an increase in the money supply. But, in France, the banks were the medium through which 'savings' were predominantly collected. The wording of the paragraph might suggest to French bankers that their participation was to be severely limited. An amendment to the guidelines should be agreed to cover the point.

iii. A revised wording of 35.13 was agreed to reinforce the principle that competition between forms of crossing would be genuine. An amendment was agreed.

iv. It was agreed there should be a joint Franco-British approach to the European Commission to apply for VAT zero-rating for the CFL.

v. Section 4, Annex 1 specified, by reference to the draft EC directive, the elements of an environmental impact analysis in England. This was necessitated by the fact that (as recorded in paragraph 43.1) there was already a relevant French law whereas there was none in Britain. Minister's agreed that it was necessary to avoid the impression that the French were less concerned about environmental impact than the UK. An amendment to the heading of Section 4, Annex 1 was agreed in order to achieve this.

14. Press handling

The principles of a joint communique to be issued in England and France the next day were agreed, and the text itself was subsequently agreed by officials.

The Official Working Group

All four Ministers joined in expressing their appreciation of the effective and successful work of the official working group, chaired by Mr Lyall and M.Rudeau.

Private Office

22 March 1985

Distribution: PS/Mrs Chalker
- PS/Mr Mitchell
- PS/Mr Spicer
- PS/Sir Peter Lazarus
- Mr Holmes
- Mr Cole
Mr Hannigan
- Mr Knighton
Mr Palmer
Mr Coates
Mr Dempster
- Mr Lyall
Mr Osmotherly
Mr Peeler
Mr Sriskandan
Mr Sunderland
Mr Yass
- Mr Devereau
- Dr Woodman
- Mr Jordan
Mr Webber
- Mrs Nash-Brown
Mrs Ramsay



With the Compliments

of

The Permanent Under Secretary of State

Department of Transport

2 Marsham Street London SW1P 3EB

Telephone 01-212 4581

CD
22/3



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 4581

SIR PETER LAZARUS KCB
PERMANENT UNDER SECRETARY OF STATE

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

21 March 1985

Dear Robert,

As you will know, my Secretary of State and his French counter-part agreed yesterday on the issue of guidelines, on the basis of which promoters of various forms of fixed link across the Channel can submit proposals to the two Governments. They had agreed on 14 November 1984 to set up an Anglo/French Working Group to prepare these guidelines. At the Summit on 30 November 1984 the Prime Minister and the French President set a reporting deadline of 28 February. This was demanding enough. It was made almost impossible by a delay on the French side in mobilising their team. The group was able to meet for the first time only on 10 January.

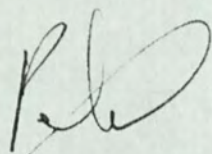
That the reporting deadline was in the event met was due in the first place to the preparatory work put in by the UK side and thereafter to the effective and constructive inter-action which developed, on a highly delegated basis, between the UK and French members of the group.

On our side the group was an inter-Departmental one, under the chairmanship of Andrew Lyall from this Department, containing people from the No. 10 Policy Unit, Cabinet Office, FCO, Treasury and DTp. Individually, they mobilised assistance from wherever else in Whitehall it was required and where necessary set up direct contacts between the relevant UK and French experts.

I am writing to you to record that in my view this was an occasion when Whitehall as a whole performed particularly well and deserves credit. I believe my own people did well. But I would like to record in particular the very effective contributions made by those who served with Lyall on the group itself: John Wybrew (No. 10 Policy Unit), Robin Christopher (Cabinet Office), John Gray (FCO) and Kingsley Jones (Treasury). I and my colleagues are most grateful to them all.

I am sending copies of this letter to Antony Acland, Peter Middleton, and Robin Butler.

Yours ever



PETER LAZARUS

22 MAR 1975



CONFIDENTIAL



To TF

CC/10
US,

Nspm

FCS/85/68

SECRETARY OF STATE FOR TRANSPORT

Channel Fixed Link (CFL)

1. Thank you for your letter of 18 March about the line you propose to take at your meeting with French Ministers on 20 March. I agree that a closing date for offers of 31 October 1985 would be reasonable; and with the line you propose to take on EC finance.

2. I am glad that you will be discussing with M Quiles what follow-up work might be initiated while the promoters develop their proposals: no doubt you will be making recommendations to colleagues on this in the light of your discussions.

3. I can confirm that officials in my Department, after consulting colleagues in the Ministry of Defence, the Home Office and your own Department, have had preliminary discussions with French officials about the implications of the CFL for national defence and security, blockades and strikes. It will clearly be necessary to bring officials from other Departments into these discussions within the same timetable as that established for other follow-up work.

.../4.

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

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign & Commonwealth Office
20 March 1985

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Transp. Channel Tunnel : Pt 2

100
BT
2



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

mt Prime Minister; 18 March 1985

Mr Ridley envisages

Dear Geoffrey

- (a) a period till October for proposals to be made and
- (b) a statement in the House before the end of the month *18/3*

CHANNEL FIXED LINK

attached

We discussed the Channel Fixed Link (CFL) in E(A) on 25 February on the basis of my paper E(A)(85)11. On 28 February, British and French officials agreed, subject to final linguistic alignment, their report to myself and my French counterpart consisting of draft guidelines to promoters consistent with the decisions we took in E(A).

On 20 March I will be meeting M Quiles to approve the final texts, to agree when and how they should be issued, how we should deal publicly with issues that are not addressed in the guidelines and to decide whether any immediate follow-up work should be initiated while the promoters develop their proposals.

The main point not dealt with in the draft guidelines is how long we should give promoters to come forward with their proposals.

The proponents of a twin tunnel (the Channel Tunnel Group) would prefer a short period, six months or less. EuroRoute would like a little more, perhaps eight months. We must ensure that EuroRoute is not prejudiced. My preliminary view is that we should go for a closing date of 31 October 1985.

We shall then publish the guidelines. Towards the end of this month, I suggest that, with the Lord Privy Seal's agreement, I make an oral statement in Parliament to announce the publication. I will of course circulate the text in advance.

There are important matters which have been touched on within the Anglo/French group which are only in part matters for the guidelines. These bear on the need to have an adequate understanding with the French on physical and organisational arrangements relating to national defence and security (including NATO commitments) counter-terrorist and police work, the control

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of drug trafficking and the need to minimise the effects of blockades, strikes etc. Officials in your Department and in the French Ministry of External Affairs have, I understand, embarked on discussion of these issues. We must be confident, before we go ahead, that we will have adequate co-operation from the French on these matters.

Finally, I must return once again to the question of EC financial involvement in the CFL. I intend, when I meet M Quiles, to get him to state the French position clearly if he can, to state ours in return and, if possible to get him to agree that we should take the same line in public statements or in negotiations in Brussels on the general question of the role of the Community in relation to transport infrastructure. I will maintain our position that, both Governments having stressed that this project is to be solely commercial and market financed, any form of subvention from the Community would be inappropriate.

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

Your man
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

118 MAR 1985

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P.01505

PRIME MINISTER

A Channel Fixed Link: Guidelines for Promoters.

E(A) (85) 11.

BACKGROUND

You agreed with President Mitterrand at the Anglo/French Summit on 29 November that the working group established by Transport Ministers to work out guidelines for promoters of a cross channel link should submit their report to Ministers by the end of February. Their report, in the form of draft guidelines for promoters, together with a report by UK officials involved in the negotiations are attached to the note by the Secretary of State for Transport. Once agreed these guidelines will be published probably by the end of March. The negotiations have been carried on in an excellent atmosphere, and it would seem sensible to avoid pressing UK views on points in the guidelines where there has not been complete agreement unless it is clear that this is necessary to safeguard an important UK interest. Bids will be called for from the promoters within the next six months (to be finally agreed) and the choice will then be made by the two Governments. As the guidelines make clear, once a scheme is chosen, a hybrid Bill would be presented to Parliament incorporating an Anglo/French Treaty and the necessary domestic legislation, and on ratification of the Treaty Agreements would be signed with the chosen promoters. There are no undertakings whatsoever by Governments other than 'best endeavours' until the legislation enters into force.

MAIN ISSUES

2. Negotiation of the Guidelines has thrown up a number of important issues on which Ministerial decisions are required. These are outlined in the note by the Secretary of State for



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Competition Policy: (Mr Ridley para 3, Officials paras 6-8, Guideline 1.3)

3. The implications of allowing market freedom - within European and national competition law - to the promoters of the link are that the ferries will have to compete in order to survive. This could lead to considerable dependence, both economic and strategic, on the link itself if the short sea crossing ferries go out of business. With the qualified exception of Mr Lawson, Ministerial correspondence on this subject so far (there have also been letters from Mr Tebbit, Mr Heseltine, Sir Geoffrey Howe, Lord Gowrie and Mr Jenkin) is generally opposed to interfering with the market to assist the ferries. Mr Ridley however would like the guidelines to contain a specific reference to the possibility of Government intervention to preserve the ferries; in that event more detailed guidance would be needed for promoters regarding the level of ferry services which must be maintained. There could be awkward legal implications.

Company organisation: (Mr Ridley para 4, Officials para 9, Guideline 3.2(b))

4. Mr Ridley would be prepared to concede to the French insistence on a strict 50/50 sharing of costs and revenue. Mr Tebbit would prefer a looser formulation such as 'broad equivalence'. This however is unacceptable to the French.

On frontier controls: (Mr Ridley para 5, Officials para 12, Guideline 2.3).

5. The French would like to keep open the possibility of placing both French and British controls at one end of the Link in order to simplify procedures. Mr Jopling cannot agree for animal health reasons. The French would be prepared to accept a guideline which invited promoters to make suggestions for frontier arrangements.

Duty-free facilities: (Mr Ridley para 6, Officials para 13, Guideline 3.6)

6. The French would like these abolished on ferries; failing that they believe they should be provided for on the Link on grounds of equity. We see difficulties in both approaches. The French would accept a guideline which tells promoters not to assume that there would be duty free facilities, and which would



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would require promoters to provide cash flow forecasts both with and without them. Ministers are simply asked to endorse this approach at this stage.

Community Finance: (Mr Ridley para 7, Officials para 16)

7. Last November the French agreed, reluctantly, that there should be no EC finance available for the project. But they are not prepared to see the guidelines explicitly rule out all possibility of EC finance in the future, and say that such a provision would mean rejection of the guidelines by French Ministers. Rather than relying on our position being made public at a later stage, Mr Ridley believes the guidelines should be explicit now. There is a case for remaining silent and keeping long-term options open.

Rail infrastructure: (Mr Ridley para 8, Officials para 17 Guideline 1:4.2)

8. Officials have negotiated a firm text regarding the restrictions on BR's involvement. It leaves implicit the fact that the promoters will almost certainly have to invest in rail infrastructure in the UK (which they will not have to for road infrastructure). The French have accepted the text with difficulty and have made clear that re-opening this issue will be taken very badly and will confirm their suspicions that we are biased against a rail link. Ministers may be asked to express their views on whether the text is consistent with the Government's policy on investment by British Rail. Mr Ridley believes the text should be re-opened to make explicit the requirement that the promoters should finance investment which does not meet the Government's criteria for investment by BR.

The legislative and consultative procedures: (Mr Ridley para 9, Officials para 21, Guideline 1.2).

9. These do not envisage a public enquiry on the UK side. Mr Ridley's view is that this would spell the end of the project because of the delays involved. He suggests instead local consultations with the final decisions being taken by Parliament. Ministers will need to consider whether this procedure would be sustainable, given the enormous impact the Link could have on the economy of the Channel ports.



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VAT: (Officials para 15, guideline 3.5)

10. It is an agreed objective that promoters should somehow be relieved of net payments during construction. The officials' paper recommends that we should continue to try to persuade the French that the Link should be treated like the UK ferries and zero rated.

~~_____~~

Political guarantees (Officials para 18, guideline 1.1)

11. Political guarantees are limited to undertakings by Governments not to terminate the concession, once agreements are signed between Governments, other than for reasons of national defence and security or non-adherence to the terms of the concession. Changes in the law are expressly excluded. Breach would, however, give rise to a prima facie claim for compensation. Ministers will need to consider whether this provision is sufficiently restrictive.

The territorial 'Gap': (para 20 of the Officials paper).

12. This is not an issue for decision. Ministers are merely asked to note that there is a problem and that we intend to clarify in the Bill UK rights between the present 3 mile territorial waters limit and the median line.

On Eurobridge: (Mr Ridley, para 10)

13. The evidence so far suggests that this is not a runner both on technical grounds - although it could be a desirable stimulus to the improvement of materials technology, the size of the proposed spans would be four times larger than anything yet constructed - and on navigational grounds because of the interference with the main shipping lanes. Mr Ridley proposes informing Eurobridge in order to save them from wasting any more money.

NEXT STEPS

14. There is to be a final meeting of UK and French officials on 27/28 February at which the British Government's views on the draft guidelines will be conveyed to the French. Unless

But see
in Robin
Nicholson's
note



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there is complete agreement on that occasion, a meeting between Ministers of Transport will need to be arranged.

HANDLING

15. The Secretary of State for Transport will wish to speak to the officials' report, and make his case on the issues he proposes for further negotiation with his French counterpart. The other Ministers concerned with each of the issues listed in paragraph 2 above will wish to register any specific points they may have (it may be useful to take these issues seriatim) and to indicate their views on the three particular issues raised by Mr Ridley.

CONCLUSIONS

16. You will wish to reach conclusions on the following:

(i) the position to be taken on each of the issues listed in paragraph 2 above;

(ii) the remit to be given to officials for their meeting with the French on 27 February 1985.

PLG

P L GREGSON
Cabinet Office
22 February 1985

An annex providing
a guided tour of the
document is attached.
No need to look beyond p. 36

CONFIDENTIAL

PRIME MINISTER

except for final
annex.

22 February 1985

AT 22/2

CROSS CHANNEL LINK

Some forecasters see a Europe, comfortable and set in its ways, falling steadily further behind a confident and dynamic North America, and the bustling innovative economies around the Pacific, notably Japan. That is not a vision you share, nor do the French.

In this context, the Link offers more than the prospect of a cheaper and more efficient means of crossing the Channel. Potentially, it can symbolise a new-found confidence and spirit of enterprise within Europe - an eye-catching demonstration of what can be achieved by the private sector when Governments create a favourable commercial climate. Promoters are shaping up to answer that challenge.

In contrast to this positive frame of mind, there is a negative one which sees more pitfalls than opportunities - hence, as it were, the need for a man to walk in front of a train waving a red flag. The loss of our insularity is seen as threatening. Rabid dogs and terrorist attacks on the Link are given as much weight as the benefits to millions of users and British trade. This frame of mind worries about the demise of the ferries and the consequent threat to economic and military security (not apparently shared by the MoD). It fears the abuse of monopoly power and anti-competitive behaviour, and contemplates tariff regulation and the possible need for special taxes or levies. It expects the promoter to

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take all the technical and commercial risks, but feels
uncomfortable about allowing him the possibility, if
successful, of high reward.

Where these
are alternative
texts, the
French version
is more free
market

Ironically, the French team are embracing the positive
spirit of the Thatcherite private enterprise formula for
construction and operation of the Link, with more inspiration
and enthusiasm than the British. The British officials, loyal
to their narrow departmental mandates, tend to reflect the
nervous negative frame of mind. So it would seem do some of
your colleagues, including Nicholas Ridley.

How the few outstanding issues are resolved in E(A) will
determine whether the guidelines for the promoters are
conducive to a positive private enterprise response.

The central issue concerns competition policy, and the
related question of whether market forces should be left
unchecked if the Link were to threaten the demise of ferry
traffic across the Straits of Dover. The French favour a free
market philosophy and argue that if the promoters are to take
all the commercial and technical risks without Government
guarantees, they should be free to market the Link and set
tariffs, subject only to the general laws governing
competition and the abuse of monopoly power. The British are
ambivalent. There is a body of opinion, led by Nicholas
Ridley and partially supported by the Chancellor, which argues
that however efficient and beneficial the Link may be, it
should not ultimately be allowed to drive the Straits of Dover

ferries out of business; to do so would be a threat to economic and military security.

The concern is valid, but artificially holding up tariffs on the Link, so as to preserve inefficient ferries, is not a cost-effective form of insurance. Michael Heseltine says that we need to wait until the time to decide what measures are appropriate. He is right. So is Norman Tebbit in wanting the cross-Channel transportation market to be a free one, subject only to general competition law.

The other key points raised by Nicholas Ridley are:

1. French insistence that 50% of the venture should be undertaken by a corporate entity resident in France and 50% by an entity resident in the UK. What they are really saying is that we cannot allow the promoters free rein to create the most tax-effective corporate structure; politically, it would be unacceptable to one country or the other if they did not have access to 50% of the taxable revenue and the associated contributions to GNP and capital formation. The French are right.
2. Frontier formalities. There is a danger that our hang-ups over rabies, plant health and terrorists will lead to unnecessarily tight time-consuming controls to the detriment of users. The guidelines should indicate that the frontier formalities will be confined to the

essential, and arrangements should be devised to minimise delays to users.

3. Duty free. As proposed, this question can be left open until the promoters have demonstrated its significance to the commercial viability of their schemes. In principle, both the French and British sides are right in wanting to reduce, rather than increase, the scope of duty free facilities across international borders. However, it would be wrong to penalise the Link in competition with the ferries.

4. Community finance. There must be no fudging the principle of no Government money or financial guarantees. The French accept this for the Link, but do not want to veto all possibility of community funding, perhaps because they hope to obtain community funds for some of the associated infrastructure investment. Nicholas Ridley should explore the subject with his French counterpart but he is right to be suspicious; there is no Community money, only European taxpayers' contributions.

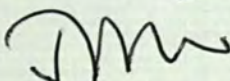
5. Rail infrastructure. Although this has been a sensitive subject with the French, the Working Party has hammered out a satisfactory guideline, which makes clear that neither BR nor SNCF will be permitted to undertake additional investment for the rail infrastructure associated with the Link, unless that investment meets their normal commercial criteria and the established

their normal commercial criteria and the established rules governing the respective public sector expenditure.

Nicholas Ridley wants to go further than this, in explicitly stating that any additional rail infrastructure investment which does not satisfy this criterion will have to be funded by the promoters. But why should a private sector undertaking, working on a commercial basis, be prepared to undertake additional investment for less than public utility rates of return? If it is not possible to conclude a tariff for rail usage which provides the state railways with a satisfactory return on their infrastructure investment, then there should be no rail element of the Link. The guideline can stand as it is. We should not imply that the Governments expect road to cross-subsidise rail.

Finally, you might like to suggest that the while officials have done a commendable job in formulating the substance of the guidelines for promoters, the current raw draft would benefit from re-editing to achieve greater clarity and to convey a positive encouraging tone.

The attached Annex may help you to form a quick impression of the guidelines.



JOHN WYBREW

ANNEXTHE GUIDELINES - SIGNPOSTS TO THE KEY PASSAGES

Much of the document covers the technical and operational details which promoters will have to provide. For the rest, there is a good deal of overlap between the product of four separate drafting teams. The square brackets indicate issues unresolved pending advice from Ministers.

On page 8 (and frequently thereafter) the principle of no Government funding or financial guarantees is stated. Further down, the confined nature of the political guarantee is spelt out:

"The Governments undertake not to terminate the promoters' right to construct or operate a Link, provided the terms of the concession are adhered to, other than for reasons of defence or national security."

Breach of this undertaking would entitle promoters to financial compensation. Unless that breach is clearly the responsibility of one government or the other, the allocation of the compensation payments between the governments will be decided by arbitration or on the basis of international law.

The first paragraph of the section on Competition and Market Freedom (page 12) sets out the principle that since the promoters are required to take all the technical and

commercial risks in constructing and operating the Link, they should enjoy the freedom to decide their own commercial policy, the tariffs to be charged and the level of service to be offered. They are also told that it is their business whether they provide a rail element in the Link on terms to be agreed with the state railways.

The square brackets around the middle of page 13 cover the crucial question of whether the Governments will seek to interfere with the free competition between the Link and other means of cross-Channel transport, other than through the normal laws of competition. The British text includes the offputting warning, "the Governments may wish to review the implications in the public interest of any situation in which the Link appeared to be about to achieve a monopoly position".

The section on Infrastructure further down page 13 was particularly difficult to negotiate with the French. Promoters are expected to pay only for the limited road infrastructure required exclusively for access to the Link. The tightly-drawn conditions for the associated rail infrastructure undertaken by the state railways are set out on page 14.

Page 15 covers the liability of promoters to maintain adequate insurance cover and to clear away any abandoned obstructions to navigation in the Channel.

The description of the legal regime, beginning on page 16, is a carefully worded tiptoe through the minefield of international law and related principles. It does not raise any contentious policy issues. However, you might note (page 16) that the promoters are explicitly directed "not to discriminate in the awarding of sub-contracts and in their procurement contracts against the nationals of other EC member states on grounds of nationality". One wonders why we should not include the principles of "full and fair opportunity" for British and French suppliers and contractors along the lines of the understandings covering North Sea oil and gas development. A quick skim over pages 17 to 20 will give you the essence of the legal framework.

The general principles of the guidelines covering finance and taxation (page 24) are worth a glance, although they are basically a repetition of earlier material.

The paragraph flagged near the top of page 25 embodies the British preference for arrangements to ensure that the amount subject to tax in the two countries is "broadly equivalent". This compares with the provisions flagged on page 27 which incorporate the French requirement for an equal sharing of costs and receipts leading on to an equal division of taxable revenue between the two Governments.

Other points worth noting in this area of the guidelines are:

- the Governments' preference for a single project management organisation to achieve maximum efficiency;
- the invitation to promoters to make proposals on the duration of the concession;
- the obligation to maintain the Link in good condition until the end of the concession when it reverts to full ownership by the two Governments.

On page 30, promoters are advised that the Governments will expect a substantial proportion of equity risk capital in the overall funding of the venture.

Page 34 touches on the unresolved question of how to justify VAT exemption for the construction of the Link to the EEC. The issues are technical.

The contentious question of the availability of duty free facilities is covered on page 36.

The rest of the guidelines deals with technical and operational details.

The final section provides a comparison between Channel Tunnel Group, Euro-Route, and Eurobridge.



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PRIME MINISTER

CHANNEL FIXED LINK

E(A) is being asked by the Secretary of State for Transport to decide on several policy issues concerning the proposed Channel Fixed Link prior to publication of the guidelines for promoters.

2. The Secretary of State is proposing that no further consideration should be given to the option of a road bridge of advanced design (the "Eurobridge"). The reasons given are navigation difficulties and the problems of including suspension spans in new materials some four times longer than any yet built.

3. In the three years during which I have kept in touch with this project, the Department of Transport has shown a consistent bias against 'bridge' as opposed to 'tunnel' solutions to the extent that it is only recently that they have grudgingly accepted the viability of the bridge/tunnel hybrid "Euro-route" solution.

4. I am far from convinced that the Eurobridge is technically non-feasible and I see considerable dangers in Government foreclosing certain technical options on the basis of second-guessing by officials. Bridge engineering is a field where there are important opportunities for overseas contracts. Development work on new materials could place United Kingdom civil engineering companies in an advantageous position over the next few decades.

5. My advice is that no option for the Channel Fixed Link should be abandoned at this stage on technical grounds although it is reasonable to warn of the navigation problems. Promoters should be given the opportunity to make the

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economic navigational and technical cases for each of the options. If Department of Transport officials are proved correct, and formidable technical and navigational problems remain with the Eurobridge option, then it will die a natural death.

6. I am copying this minute to Sir Robert Armstrong.

RBN .

ROBIN NICHOLSON

22 February 1985

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 21/8/5

19th February 1985

De Nil

CHANNEL FIXED LINK

In your letter of 12th February to Nigel Lawson, you sought colleagues' views on several aspects of the current position on the promoters' guidelines for a Channel Fixed Link (CFL). I am sorry not to have replied before now but you will appreciate that other concerns have intervened.

I have not had an opportunity to consider in detail the paper prepared by officials. However, my major concern, which I have mentioned to you on previous occasions, relates to the manner in which the proposed CFL might be funded. I simply do not believe that it will be possible for this project to be a success, if it has to rely solely on private funds.

There is also, of course, a defence interest in the CFL proposal, as Geoffrey Howe pointed out in his letter of 15th February, in that it would have implications for cross-channel and other ferry services. Our present plans for the reinforcement of Europe depend upon using a large number of the ferries now operating. However, there may be alternatives which we can consider if those ferries look likely to disappear. These could include assistance from our allies, alternative modes of operation or possible mothballing.

The Rt Hon Nicholas Ridley MP



ships. I would not suggest at this stage that, whatever the cost, the ferries must be kept operating in order to meet our defence needs.

Against this background I support your proposed line, of inviting promoters themselves to suggest how the ferries can be kept in operation. I would be grateful to be kept fully informed on developments on this front, and for the MOD to be involved in assessing the promoters' proposals.

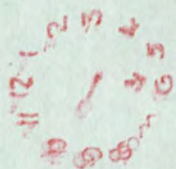
I am copying this letter to the Prime Minister and other members of E(A), and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "Michael Heseltine". The signature is written in a cursive style with a prominent initial "M".

Michael Heseltine

Transpot: Channel Tunnel Pt 2

20 FEB 1985



CONFIDENTIAL



CABINET OFFICE

AT
From the Chancellor of the
Duchy of Lancaster
Lord Gowrie

NBM
AT 20/2
MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1

18 February 1985

Dear Nicholas,

CHANNEL FIXED LINK (CFL)

Thank you for your letter of 12 February. I have now also seen the replies from Nigel Lawson and Geoffrey Howe.

While I appreciate that negotiations must continue at official level right up to 25 February, I think it would be quite wrong for discussion in E(A) to be unduly constrained by any positions taken up by officials between now and then. It will after all be an enormous and unique project with major implications for our (and Europe's) economic and social life, and the issues raised in your paper warrant more mature consideration and discussion than is possible in a brief round of correspondence.

The main marker which I would like to put down at this stage is that I think we do need to be careful to avoid being side-tracked by the inevitably complex and important contractual issues into losing sight of the wider significance of the project. The more conditions we lay down at the start, the less ambitious and therefore potentially less worthwhile the proposals put forward by the promoters will be. I am very uneasy about the idea of conditions designed specifically to preserve the ferries. I am not convinced that the public interest requires their preservation and in particular would have thought that our defence requirements could be met by other means. I am also concerned that we should not be so transfixed by the current problems of frontier controls as to forget that it ought to be our objective in this, as in other areas of Community relations, to be seeking to remove obstacles to the free movement of goods and persons. Indeed,

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if we are not prepared to take action to ensure free movement at either end of the Link, I seriously question whether the whole enterprise is worthwhile.

Finally, I am a little puzzled by the line proposed on BR investment. As paras 20-24 of the note by your officials make clear, it would be logical and consistent with current principles to allow BR to borrow to finance CFL-related investment which met the normal tests of viability. To forbid this would be both inconsistent with normal practice and, in addition, could well be a major discouragement to the promoters. While such borrowing might add to our PE planning total in the survey period, it need not do so if it is offset by savings elsewhere or is met from the Reserve. But since the main spending is likely to come after 1986/7 anyway, we should surely judge any such proposal from BR on its merits rather than rule it out now for years which have not yet even entered the PES.

I hope we shall be able to explore these and other issues more fully on 25 February. Meanwhile I am sending copies of this letter to the Prime Minister, to other members of E(A), the Foreign Secretary, the Secretary of State for Defence and to Sir Robert Armstrong.

*Y
Lans,
epm
2*

GOWRIE

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET 5422

TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

18 February 1985

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EP

D Nicholas

CHANNEL FIXED LINK

Thank you for copying to me your letter of 12 February to the Chancellor on the Channel Fixed Link (CFL).

2 I agree that in principle we should avoid constructing special rules for the project. Any attempt to protect the ferries - or Government - from a change in the economics of traffic movements between the UK and the continent would be a fundamental departure from this principle. This is my main concern. I very much doubt either the wisdom or the practicability of our committing ourselves now to an objective of maintaining a ferry service should ferries prove uncompetitive with the CFL. Such an objective, once stated, would be seized on and relied upon by both ferry and port interests; we would risk saddling ourselves with an open-ended commitment - uncertain as to both cost and deliverability. We would be likely to have difficulty in justifying under the Treaty of Rome either any subsidies or any interference in the pricing policy of the CFL. We would have to distort the market at the expense either of users or the taxpayer. We would be blunting the stimulus that the CFL should provide to greater efficiency and better service on the part of other carriers both surface and in the air.

3 Of course if there is an overriding defence need then we must seek to meet it. But the cost of meeting it should logically fall to the defence budget and Michael Heseltine will no doubt wish to consider carefully the likely nature of the need and the most cost-effective way of meeting it.

4 As regards potential vulnerability, I accept that interruption of the CFL could be expensive and inconvenient. However we can reasonably assume that there will be other air and

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surface links with the Continent particularly as regards bulk freight traffic, and that these could be intensified in the event of any lengthy interruption. I do not believe that our concerns would justify the maintenance of an obsolete form of transport.

5 By all accounts the French, whose interests are of course much less than ours on this point, will be very reluctant to go along with any commitment to maintenance of the ferries. Nor does it seem reasonable to ask potential promoters of the CFL for their ideas on how a substantial ferry presence should be maintained.

What assumptions are they to make about what "substantial" means, about the nature and cost of the service which the ferry operators should provide, or about the financial position of the ferry operators?

6 You referred also to the question of whether our competition legislation could act rapidly enough to deal with ordinary anti-competition practices, and whether there would be jurisdictional conflicts with the French. We cannot guarantee the adequacy of our legislation. But it is legislation that is generally applicable and I would be reluctant to single out the CFL for special treatment. There is of course a possibility anyway that the legislation will be revised, if not before the CFL is operational, at least during the term of critical concern. On this question of jurisdiction, there could be awkwardness deriving from the different approaches in the two countries. But I do not regard it as practicable or necessary to seek to negotiate a special Anglo-French legal regime covering the CFL, and the competition rules of the Treaty of Rome will be of general application.

7 We should confine ourselves to the prevention of abuse of a dominant market position. I believe that the means exist to do this, and we can make it clear to potential promoters that we would do so.

8 Were duty free facilities to be continued at the ports without being introduced for the CFL, then the ferries would have a resulting competitive advantage. But it may well be that such discrimination would be unacceptable to any potential promoter - I note that the Banking Group's report on financial feasibility assumed that there would not be any such discrimination. I agree with you that, if the potential promoters put forward a strong case for the CFL also to have duty free facilities, we should be prepared to consider it. However we should not be misled into believing that providing duty free facilities for the CFL would be an easy option given its implications for other national land boundaries which, of course, cannot provide, under international obligations, such facilities.

9 I agree also that it should be for the potential promoters to propose a term for the concession. No doubt there will be

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considerable difference between the terms proposed for the different links and we may wish this to affect our consideration of them. As you point out this will probably become a matter for negotiation. In my view such negotiation will be a better basis for the decision than Government edict.

10 Your general principle that there should not be special rules should, in my view, also apply to the financial aspects of the guidelines. In addition, we must be careful not to impose unnecessary constraints on the financial structure of potential promoters. I hope that you will be able to reach agreement with the French on these aspects - "broad equivalence" seems an acceptably ambiguous phrase for the sharing of costs and receipts. In my view, the same principle should also apply to tax liability, ie we should not try to "ring fence" the project. Clearly any such attempt will affect the private sector's willingness to finance the project: a willingness that, given the Bankers Group Report, cannot be taken for granted.

11 Similarly the same general principle should guide our decisions on the financing of any associated infrastructure. On this basis, I am content with your proposals for both rail and road - provided that the expenditure implications for the latter are indeed relatively minor. In my view, it would be best if this proviso could be incorporated into the Guidelines.

12 I am copying this letter to the Prime Minister, other members of E(A), the Foreign Secretary, the Secretary of State for Defence and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman', with a large flourish above it.

NORMAN TEBBIT

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

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19/12

From the Minister

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1P 3EB

18 February 1985

Nicholas Ridley

CHANNEL FIXED LINK

Thank you for sending me a copy of your letter of 12 February to Nigel Lawson. I should like to comment on certain points in your letter and in the paper accompanying it.

As you have noted, there have been a number of meetings and other exchanges between officials which have enabled clarification on some of the issues arising, to be obtained. In particular, we have emphasised that for animal health it is important both for practical and presentational reasons to ensure that the present controls designed to minimise the risk of importing animal disease are not weakened.

I cannot agree to one aspect of the juxtapositioning suggestion. It could affect the existing well-proven rabies controls which we apply. I should explain that under these arrangements only a carrier licensed by my Department may remove animals destined for this country (and licensed to enter beforehand) from the ship carrying them. If the controls were exercised on the other side of the Channel, it would be necessary for the licensed carriers to cross in order to collect the animals. I would not regard this as an acceptable arrangement because it would obviously place a premium upon seeking to avoid the control arrangements. Moreover, such an arrangement would be seen as more obstructive to freedom of movement than the existing one. On the other hand, if the control arrangements were applied on this side of the Channel it would be essential to add to the existing safeguards to ensure no contact between imported and indigenous animals took place between arrival on British soil and the control point in this country.

I am not altogether clear how other animal and public health controls, eg on meat imports, would be affected by the

/proposition: such

Attached AT

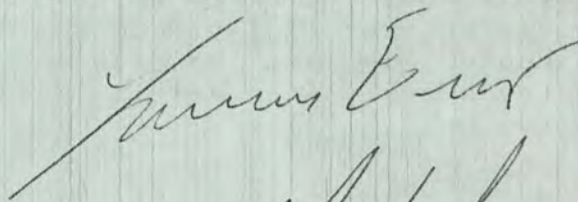

proposition: such imports have to enter through specified ports which have extensive facilities to undertake a physical examination of consignments. I am sure that all the interests likely to be affected would be extremely reluctant to see any weakening of these controls.

I should also like to confirm what my officials have already said about the reference in paragraph 30 of the note to a disease-free zone. I am afraid that we do not understand what is meant by this expression in relation to existing animal health arrangements. For example, what diseases are to be regarded as covered? And how would such a zone with the implied movement controls into and out of it be regulated? In short, this seems to be an unnecessary and unrealistic notion to be taken into account in considering the frontier control arrangements. If the intention is to describe arrangements to keep a tunnel, or bridge, free from wild animals (as we would wish) perhaps it would be better to say so.

I am concerned that you are contemplating the removal, at least in part, of duty-free facilities across the Channel. I agree that the promoters of the fixed link should be told that they cannot rely on the retention of duty-free facilities: these facilities are now rather an anomaly in the Community and their indefinite continuation cannot be guaranteed. However I would wish very careful consideration to be given before anything is said or done which would accelerate their disappearance or reduce the volume of duty-free trade across the Channel, since this trade is extremely important to the alcoholic drinks industry, particularly spirit drinks. About 10% of our Scotch whisky exports of nearly £1000m goes to Community duty-free outlets and the cross-Channel link must take a considerable part of this market. I would hope that a study of the consequences for our export trade would precede any bargaining with France or with the promoters concerning limitation of duty-free facilities.

I hope that what I have said will help clarify where we foresee problems of application from this Ministry's point of view. No doubt the points can be further discussed at official level.

A copy of this letter goes to the Prime Minister and other members of E(A), to Geoffrey Howe and to Sir Robert Armstrong.

MICHAEL JOPLING

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 February 1985

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

John Nick

CHANNEL FIXED LINK (CFL)

Thank you for your letter of 12 February.

I agree with you about the length of concession to the promoters; duty-free facilities; and taxation issues.

I agree that we should avoid constructing special rules, either helpful to or against the CFL project. But a CFL will be more than an internationally financed construction project, with a dominant position. We would also be awarding a monopoly concession with major economic and defence implications. So we need to see that it is run in the public as well as the promoters' interest, and that we can lay down conditions (or intervene if necessary) for that reason.

I agree that we should maintain robust communications on the short sea links. For economic as well as defence reasons we must avoid becoming unnecessarily dependent on one link. It would invite industrial action or terrorism. But we cannot be too black and white about preserving the ferries. When a CFL is operating, governments will have to consider the trade off between the value of robust and flexible communications, and the cost of being too soft on the ferries. The balance may shift, and cannot be predicted. There needs to be a statement in the guidelines of the public interest and right of governments to defend that interest. I should also like to see a statement that a link will be free to price its services in competition so long as it does not threaten to infringe public interest. The form of words at the end of the note you enclosed covers the case pretty well. Promoters will not be surprised by it. They will no doubt also want to know what sort of regime might eventually apply. We can consider that when we know which particular form of link we are dealing with.

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I accept that we should consider investment by British Rail, not for construction of the link itself, but for related improvements, if it meets our required rate of return. But this must not increase public expenditure. The guidelines need to be clear on this, as attached.

Our policy that no public money should be involved in the construction of a link also means that BR must not pay for use of rail facilities on terms which amount to financing the capital costs. Problems might arise in particular if a road-based scheme had to include a rail tunnel as well to satisfy the French. If BR effectively leases an asset then the capital cost would normally count as public expenditure. The point is covered by the attached guideline, but we need to make clear to BR that this will be our interpretation before they enter into any negotiations with promoters. Similar considerations could apply if EuroRoute were to hand over a completed tunnel to BR ownership (cross-subsidising from their profits on the road-link).

On roads, we had better see what promoters say their schemes will involve before we consider any commitments.

You mention the possibility of introducing a special tax or levy "in the later years of a long or indefinite concession". I understand the point. It is a basic principle of taxation that we may introduce whatever tax we judge proper and can defend to Parliament at any stage. That is a fact of commercial life, and we cannot hand out exemptions. The point will presumably be made in the guidelines.

The French views on company structure bear on other important issues besides tax. I look forward to seeing what you propose about ownership and control. My initial instinct is not to proceed - as the French seem to want - by restrictions on the nationality of shareholders. Even if it were possible under EC law, that could unduly restrict financing. But we need to consider specific reserved rights of control in the nature of a "golden share".

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

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

Channel Tunnel : TRANSPORT AIR

15 FEB 1993

DRAFT GUIDELINES ON RAIL

There will be no Government grant or subsidy to BR for infrastructure or rolling stock investment or for the operation of through services.

2. Any BR capital expenditure will have to be on a strictly commercial basis, applying the tests already applied to BR's optional investment, and consistent with Government policies on public expenditure.

3. Any rail investment which does not meet BR's usual tests will have to be financed by the promoters.

The attached 'Draft Guidelines on Rail' should have been attached to the Chancellor's letter to Nicholas Ridley dated 15 February on Channel Fixed Link.

Apologies for any inconvenience caused.

ABlop

Chancellor's Office

18/2/85



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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Richard Mottram Esq
Private Secretary to
the Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
LONDON
SW1A 2HB

W 14h
13 February 1985

Dear Richard

CHANNEL FIXED LINK

The attached letter of 12 February from my Secretary of State to the Chancellor should have been copied to your Secretary of State as well as to the Prime Minister, members of E(A) and the Foreign Secretary. It was not and I apologise for that.

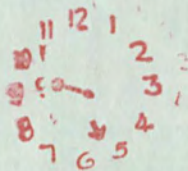
As a reminder that future correspondence on this subject should be copied to your Secretary of State as well I am sending a copy of this letter to Tim Flesher at No.10, Peter Ricketts in the Foreign Secretary's office, to the Private Secretaries of members of E(A) and to Richard Hatfield.

yours sincerely,

Henry Derwent

H C S DERWENT
Private Secretary

14 FEB 1985





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

12, February 1985

Dear Nigel

CHANNEL FIXED LINK

I am attaching a copy of a paper that our officials have prepared reporting upon the current position in the discussions with the French on a Channel Fixed Link (CFL). As you will know, the remit, agreed between the Prime Minister and President Mitterrand in November, is to advise Ministers on guidelines for potential promoters of a CFL by the end of this month. We are to consider the position formally in E(A) on 25 February, but on certain points the officials representing us on the Anglo/French Group are seeking our guidance now before the final phase of these official level discussions.

On several of the points raised in the paper, officials are merely seeking endorsement of the position they are taking, and I see no need to intervene to change the position.

As to the other points, I consider we should be guided by the same principles that led us to insist that a CFL, if it is to be constructed, must be carried out with private funds. Though unique in many respects, the CFL would be an internationally financed construction project (of which there are many) and might occupy a dominant position in the market it serves. As far as possible,

I consider we should avoid constructing special rules, either helpful to or against the CFL project, since that would undermine our wish to see the CFL stand or fall on its attractiveness as an investment opportunity relative to other projects.

On the crucial issue of the survival or demise of the ferries, however, I do not think we can afford to take a detached view. I think we must ensure that some competition by ferries is preserved on the Dover Straits route and that, overall, a sufficient ferry capacity is maintained to ensure that, bearing in mind the vulnerability of a fixed link, our defence requirements are met and alternative services are maintained in the event that communications across a fixed link are interrupted by strikes, blockades, accidents or political disagreements with future French governments. The indications at official level are that the present French government would be prepared to enter into confidential arrangements with us which would ensure that such interruptions were minimised both in scale and duration. But I do not think we can place our reliance on this. We need to keep open options which ensure that we are not placed at the mercy of one union or one pressure group and which enable us, if necessary, to divert traffic to countries other than France.

If you and other colleagues agree with this objective the question remains how we achieve it. The threat to the ferries might take the form of short term predatory pricing by a fixed link, taking advantage of its low operating costs. It might arise because, even on a full cost coverage basis, the fixed link proved to be more efficient than the ferries.

We could, leaving aside possibilities of intervention by the European Commission under Articles 85 and 86 of the Treaty of Rome, guard against the former by rapid intervention

under our monopolies and restrictive trade practices legislation. But could it be rapid enough and how would we deal with possible jurisdiction conflicts with the French - even though at present they seem ready to act with us against predatory pricing? We could agree with them measures to be taken through direct control of tariffs if certain objective criteria were satisfied, eg return on fixed link capital in excess of a specified rate or a specified rate of undercutting of ferry tariffs - though I would not wish to provide any inducement to ferry operators to go easy on securing efficiency improvements.

I am, at the moment, inclined to the view that we should state in the guidelines our requirement that a substantial ferry presence both on short and long sea routes should be maintained, leaving it to promoters to suggest how this might be achieved consistent with their need to secure an adequate return fully reflecting the commercial risks they would be undertaking. I would be grateful for my colleagues' views on this difficult question.

On the concession to the promoters, they will need to feel that they will have adequate time to earn a fully commercial return reflecting the size of their investment and their estimation of a realistic pay-back period. This period will depend upon the option we select. I suggest that we should allow promoters to seek to justify their own proposals on this, while retaining the right to indicate in the pre-construction stage a lesser period: this would of course end up as a matter for negotiation. I think we cannot exclude at this stage the possibility of a special tax or levy in the later years of a long or indefinite concession; but this must not be such as to deter them from risk-taking.

On duty free facilities, I am inclined to the view that we should not encourage fixed link promoters to think

that these would be available. Discrimination here may be the tool we need to ensure that ferries survive in competition with the fixed link. I suggest we leave it to the fixed link promoters to argue their own case. If they insist that such facilities are essential they will be demonstrating that their efficiency relative to the ferries is artificial. We may have problems with the French on this but I am ready to argue them out with my French counterpart.

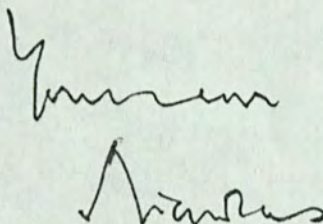
On the various financial questions, officials ask us (paragraphs 6-10) to decide upon constraints upon the sharing of costs and receipts between national companies. I would personally prefer to see no constraints placed upon private investors in this respect. But I believe we could give our officials discretion to agree to a loose formula such as "broad equivalent" if that appeared to satisfy the French.

On the need to protect the Government's tax revenues, I believe we should look carefully at the case for "ring-fencing" or other options. The parallels with North Sea exploitations are not perfect, and the new rules on capital allowances have changed the overall position. But we are nonetheless dealing with a project which, once the initial investment is recovered, could make very large profits.

Finally, I agree the position that has been put to us by our officials on BR's involvement. We should not deceive ourselves by thinking that the French will readily accept this, but it is the right negotiating position and we can consider it further at E(A) on 25 February, when the French position may be clearer. On inland road infrastructure (para 25 of the paper) I consider that we should take responsibility for the relatively minor expenditure as part of the roads programme.

We need to take decisions on all these matters before officials can agree the guidelines with the French; I would therefore be grateful for comments by Friday 15 February; my officials have already been in touch with officials in most interested Departments.

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

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY

CHANNEL FIXED LINK: CURRENT POSITION IN ANGLO/FRENCH NEGOTIATIONS

1. The Anglo/French negotiations aimed at agreeing guidelines for potential promoters of a Channel Fixed Link (CFL) are due to be completed by the end of the month. A number of areas have now emerged where officials require policy guidance from Ministers, either because there are conflicting views in Whitehall, or because the position which officials are agreed should be taken is meeting with opposition from the French. There are certain other areas where, although officials are in agreement about how we should proceed and do not seek immediate guidance, they believe Ministers may wish to take note of the current position.

A. Nature of the "Concession"

2. Although both Governments are agreed that any CFL project must be a private sector one, standing or falling on its ability to attract the necessary private finance, the selection by the Governments of one particular scheme to be facilitated through legislation and a treaty will amount to a "concession". It would be open to the Governments to place limits upon such a concession - for example, to specify that it would be granted for a period that the Government would decide, perhaps 30 years, after which the structure would become the property of the government. Alternatively the promoters could have the right to exploit the link in perpetuity.

3. It is expected by at least some prospective promoters that the concession will have a finite term. The French have said they will regard 50 years as the absolute maximum. They suggest a promoter would regard himself as in danger of nationalisation if the concession were very long or indefinite. Equally the French accept that the term chosen should allow promoters a reasonable prospect of earning rewards for their risks.

4. The period taken for a project to return a profit will vary from one proposal to another: it would be longer for EuroRoute than for a rail "ferry" tunnel. Although it would be possible to set a maximum limit for the concession - say 50 years - in practice this would encourage all promoters to use this

figure in their own proposal. Officials therefore believe that the guidelines should state that the arrangement between the government and the promoter will be in the nature of a concession, but that the Governments will expect the promoters to propose how long the concession should be.

5. Naturally it would be a requirement that the holder should hand over the link in a good state of repair.

B. Financial Structure and Taxation

6. The French want the concession to be granted to two companies, one controlled in France, the other in the UK. Majority ownership of each company would be confined to nationals of the respective state. The French also want to require the companies to share costs and revenues equally.

7. For political reasons, neither country would probably want to concede a dominant position to the other's company. The arguments could include the ability to take control in time of emergency. We believe the French will not easily drop the requirement for two national companies, though we are putting to them possible difficulties in Community law.

8. Sharing costs and receipts is intended by the French, on the basis of experience with Alpine tunnels, to help ensure successful completion of the work. It would also ensure each country had taxing rights over half the eventual profit. We have suggested that the same result would follow by simply sharing revenues, at some saving in Governments' supervisory roles.

9. However, we have also asked the French whether common objectives might not be better achieved by telling promoters the Governments would expect "broad equivalence" in the role of the two companies. This would avoid putting specific requirements, before the concession is made, on the form of the financial arrangements.

10. The French hold to their insistence on national ownership of majority shareholdings despite agreement that the terms of the concession would provide the principle means of control by Governments. We doubt whether what they propose would be possible within Community law, even with a golden share. We have asked the French to explain their position.

11. A further issue is whether the national companies should be restricted in setting tax allowances on other activities against their operating profits. In principle this would enable the Governments to tax profits when they were made and not, in effect, wait to tax the earnings of those profits. However, it would deprive the controlling companies of the normal tax treatment of their investment programme. Governments would still be left with the task of finding ways, over and above the normal tax system, to cream off excess profits, if they wished to do so.

C. Competition with Ferries and Price Controls (Annex A)

12. A CFL, whatever its form, will enjoy considerable market power in the Dover Straits. It will be important to ensure that it does not abuse its dominant position, whether by colluding with the ferries to fix unreasonably high prices, or by predatory pricing to drive the ferries out of business. There are relevant provisions in the Treaty of Rome that are probably capable of dealing with this situation but they are largely in the hands of the Commission. National competition legislation will also be available, but consideration may have to be given to a common regime.

13. However, it is possible that, without any anti-competitive practices on the part of the CFL operator, the ferries will be unable to compete. Ministers also need to consider, therefore, whether it should be an objective stated in the guidelines by the two Governments to prevent the Link developing a market dominance which could threaten the continued existence of the ferries. The pros and cons of such an objective are set out in paragraphs 4 and 5 of Annex A, together with a possible form of words for the guidelines. Ministers should be aware that the French may not agree with this and the guidelines may emerge as a statement of the UK position alone. The arguments for the maintenance of the ferries rest mainly on the defence

requirements and on the UK's possible economic dependence a Link. On both these issues further work may be needed after the guidelines are issued. The main arguments against are that it would be costly and paradoxical to maintain what would be a more expensive and less competitive mode of transport in order to preserve "competition".

D. Involvement of British Rail - Rail Infrastructure Costs

14. It is by no means certain that a CFL will include a rail element. Officials in the UK believe that to insist upon it would be inconsistent with our general approach that the future of the project - whether it goes ahead at all - should be determined by the private sector. The French also say firmly they would not wish to insist upon a rail element, though we believe this is disingenuous given their undoubted wish to run suitably adapted TGVs to London. With the EuroRoute and Eurobridge schemes a rail tunnel would be virtually a separate project, and the incremental cost of providing it, purely to provide for "through" trains, would be very high. With the twin 7-metre tunnel scheme, provision for through trains in addition to shuttle vehicles (which would be owned and operated by the main CFL promoters) would add little to the cost of the tunnel itself but would still lead to inland infrastructure costs of £200m-£250m, and a further £60m for rolling stock, on the British side alone.

15. Officials' approach has been that any BR involvement must be on a fully commercial basis and that, so far as practicable, BR involvement should be consistent with the policy of "no public funds, no guarantees" for the CFL.

16. Officials therefore propose that the draft guidelines should say that:

- (1) there will be no Government financial assistance to BR for infrastructure or rolling stock investment or for the operation of through services

- (2) any BR capital expenditure will have to be on a strictly commercial basis, applying the tests already applied to BR's optional investment
- (3) any BR capital expenditure which does not meet the usual tests will not go ahead unless it is financed by the promoters.

17. BR are likely to be content with such guidelines. But the French find our approach difficult to understand (since they themselves expect to pay SNCF's costs direct from Government funds); they believe that the promoters would not be willing to pay BR's infrastructure costs; and suspect we are deliberately erecting obstacles to a rail element.

18. Criteria for BR Investment and Operations. BR are expected to earn a 7% DCF return in real terms on optional new investment projects. Officials advise that, despite the French reservations, this should be an absolute requirement for any BR-funded investment associated with the CFL. Less demanding requirements for such investment would: make it more difficult for BR to meet its financial targets; give BR the wrong signals about the need to invest commercially; and be inconsistent with the Government's commercial approach to the CFL.

19. This requirement means that BR's own capital expenditure must be limited to what they can get a return on. The remainder of the capital will have to be provided by the promoters. In practice, the promoters may have to make a large contribution to BR's capital requirements. If BR had to fund all the works and rolling stock required, they would need a net gain in operating surplus of the order of £20m-£25m a year to provide a return on that investment. This looks implausible, though at this stage there can be no certainty. So Ministers should be aware that if the requirement for BR's usual financial return is treated as an absolute condition, and if little or none of the capital is provided to BR as a free good by the promoters, it may rule out any CFL with through rail services, and schemes which depend on through rail traffic as a component of their financing.

10. Public Expenditure. Even if any BR investment were financially justified, this would increase public expenditure. So public sector borrowing would be higher in the years in which the investment was made; when the project began to earn a return for BR, their requirement for external finance would be reduced. This additional demand for public sector borrowing would be inconsistent with any insistence that the CFL should be wholly privately financed. Ministers have these options:

- (1) to require that there should be no BR-funded expenditure, leaving the promoters to meet BR's capital costs
- (2) to allow BR to borrow to fund that part of the capital expenditure which they could justify commercially.

21. Option 20(1) would avoid additional public sector borrowing. But there would be no logic in trying to force the promoters to finance that part of the scheme from which BR would take the commercial gains; and it would be inconsistent with general policy for nationalised industries to rule out opportunities for commercial investment simply because they would have to be funded by borrowing. This option, as an absolute requirement, might rule out through rail services, since the promoters may not be willing to tie themselves to covering all BR's costs; since the French place such importance on rail links, such a requirement could lead to accusations of bad faith and have wider repercussions.

22. Option 20(2) would necessarily mean higher public sector borrowing. It would also give the promoters a very strong financial incentive to encourage BR to take as optimistic a view as possible of the future return to BR from through rail services; and BR may in any case tend to be over-optimistic. Nevertheless this option would be consistent with present policy for BR investment; is in principle the correct way of apportioning responsibility for capital costs between BR and the promoters; and may be necessary if the rail option is to remain open. The proposed guidelines (para 16 above) follow this option.

Guarantees. Officials have been concerned about BR entering into contracts with the promoters which specify a minimum number of train paths which BR would take up. In principle any such undertakings would amount to public sector financial guarantees. But so would any BR commercial contracts. Such contractual undertakings would be significant as public sector financial guarantees only if BR were very imprudent in estimating minimum future traffic. Ideally, BR would aim in negotiations to get the promoters to offer a minimum number of trainpaths, sufficient to meet BR's market expectations, without BR guaranteeing to take them up. But it would be unrealistic to expect to sustain an absolute requirement that BR, in such negotiations, could offer no commercial undertakings of any description about the train paths they would take up. So this may be a matter best left to pressure on BR from the Government rather than being specifically covered in the guidelines (apart from the general requirements that BR must operate commercially).

24. The draft guidelines on BR involvement will not be welcome to the French, and we expect them to raise the matter with British Ministers once the Working Group's report is complete. But the draft guidelines represent in officials' view the minimum requirement to ensure that BR does not make uncommercial investments and that public funds are not put at risk.

E. Road Infrastructure

25. Very little road infrastructure would be required because of the Link's construction. Though it must be checked out against promoters' claims on capacity and traffic, improvements in the road network already planned should be adequate (see para 26 below). The only additional construction necessary should be service road connections between the end of the bridge or the tunnel portal and the trunk/motorway road network. The distance in either case should be short. The question is whether we should insist that these connections are financed by the link promoters. The French take the view that it would be wrong so to insist.

26. Construction of M20 Maidstone-Ashford section and replacement of A20 between Folkestone and Dover are firmly programmed. While it is open to Ministers to remove such schemes from the programme they are required to serve cross-channel traffic in the absence of a fixed link and to meet Kent needs. The form of the Folkestone-Dover scheme might need amendment - possibly at promoters' expense - if the Link terminal moved from its earmarked site. Further increases in road capacity not yet firmly programmed are contemplated on the Medway Towns section of M2 and, for the late 1990s, on the Maidstone bypass whose capacity is lower than the remainder of the M20 route. Such needs will need to be met whether or not there is a fixed link. Programmed schemes and further needs arising naturally would fall to be met from the Roads Vote, and the same general principle would apply to Government support for Kent's local road programme.

F. DUTY-FREE FACILITIES

27. The French have proposed that the UK and French Governments should encourage the European Commission to take an initiative to remove duty-free facilities from all intra-Community sea traffic. This, they say, would ensure equal treatment for the ferries and the link. We think the idea impracticable, not just because of likely opposition but also because the UK, in recent Community discussions, has supported draft legislation formalising duty-free sales in intra-Community travel.

28. The French suggest that an alternative means of securing equivalence with ferries would be to concede duty-free facilities on the link, other than on trains. Customs believe this would conflict with international understandings. It could lead to repercussions on the Irish land boundary, where duty-free facilities are not provided, and cause problems, too, for other Community states with land borders.

-9-

G. FRONTIER CONTROLS

The French, whose tunnels to Italy have controls only at one end, are asking us to defer decisions on the location of controls while the EC Draft Directive on frontier facilitation is considered. We have resisted, saying that promoters should expect to provide facilities on both sides capable of handling the customs and corresponding personal controls of each country in the normal way.

30. Our reasons include the maintenance of stricter controls over the import of drugs and animals, etc. Any form of juxtaposition would make a disease-free zone dependent solely on link operators taking all reasonable steps to ensure unauthorized animals were not admitted to the link. Controls wholly on the French side might cause difficulties in bringing goods and persons involved in irregularities and offences back to the UK; and reduced French customs formalities for goods at importation, deriving from extensive use of inland clearance, could lead to pressure to relax British controls, which are largely port-based. Juxtaposition of controls in both directions on the British side would mean a greater environmental impact through the size of facilities required, and lead the French to expect extra-territorial rights, including the right of arrest on British soil. Juxtaposition of controls in each direction at the port of entry would involve similar juridical difficulties. Any scheme involving basing staff in France would be costly.

31. We have suggested as well that the scope for saving time for users of the link is more limited than it might at first appear. In practice, security arrangements would demand a stop on entry to the link. Even with juxtaposition at entry there would still be separate British and French checks. There is some understanding among the French for our position, which we will be explaining to them in some detail.

H. Territorial Question

31. The French are concerned that, between the UK 3-mile territorial limit and the French 12-mile limit, the UK will have no right under international law to authorise the erection of obstacles in the Channel. They have warned us that unless French concerns are met they will be unable to support us if our actions are challenged as the French believe they will be, in IMO or by other countries, with consequent lengthy delays in carrying forward the project. The options open to us are either to extend our territorial limit to 12 miles or to declare an Exclusive Economic Zone (EEZ). Each of these options presents difficulties for the UK; these are explained more fully in Annex B . Officials from relevant Ministries will now look at this question urgently. But it will almost certainly not be possible to provide definitive guidance on this to the companies at present.

8 February 1985

CHANNEL FIXED LINK : COMPETITION WITH FERRIES

1. A CFL will be a major commercial development on the short-sea Channel crossings. It will raise difficult questions as to the appropriate legal and institutional framework for applying competition policy to it. Most of these questions can be left for detailed study as the CFL concept develops. Some involve the application of the competition rules of the Treaty of Rome which are dealt with separately. But the guidelines to would-be promoters must give some guidance as to what the two Governments' policy objectives as regards competition will be (taking account of all the public interest considerations that arise in what will amount to a public franchise).

2. An overall policy objective must be that the CFL should not abuse any dominant market position that it acquires. This will be required by the Treaty of Rome and is consistent with the competition legislation of both the UK and France. It entails a commitment to a legal framework that will be able to prevent eg. predatory pricing as well as collusion between the CFL and ferry operators. Issues that will require later detailed consideration will include whether the respective domestic competition laws should apply at either end or whether a common regime should be considered.

3. The effect of the CFL on the cross-channel ferries is unpredictable. The CFL will have physical capacity constraints and its operators will have to meet high financing charges as well as continuing maintenance, security and operating costs. But the CFL will have substantial advantages in terms of time and convenience. Whether the ferries will remain competitive (either in their present form or by offering a different service) cannot be foreseen at present. But it is conceivable that the CFL could have such decisive commercial advantage as to threaten the viability of any ferry service on the short-sea routes. Ministers additionally need to consider whether it should be an objective, stated in the guidelines, to maintain competition to the CFL by ferries (implicitly even if the ferries are not competitive with the CFL in the ordinary commercial sense).

4. The arguments are:

- (i) Vulnerability The cost to the UK economy of a major interruption of a single link because of eg. industrial action, accident or sabotage might be considered to be so high that it would be prudent to maintain at least some alternative short sea route facilities.

However, existing ferry services are already vulnerable to interruption. The effects, of interruption to CFL-only links would, as now, depend on the availability of air links and of ferry services on the longer routes.

- (ii) Competition. It will not be sufficient to prevent abuse of a monopoly. An alternative to the CFL is desirable to provide a constant competitive spur to efficiency and deterrent to exploitation as well as to extend the range of services available to the customer. Because of the need for docks and the high cost of ships, ferry services once lost would be difficult to replace.

However, competition policy does not require the perpetuation of an uneconomic activity. If economies of scale or technical advantage result in a monopoly, prevention of the abuse of monopoly is the appropriate policy response.

- (iii) Defence. The CFL would be far more vulnerable to sabotage during a time of tension than ferries. UK planning for reinforcement of Europe in times of emergency and war may therefore continue to depend on the availability of suitable ro-ro ferries. There are about 70 such ferries on UK registry at present, 20 operating out of Dover and Folkestone and another 15 out of other ports between and including Southampton and Harwich. The likely defence need is for about 50 ferries. Without the Dover/Folkestone ships, which are better suited to defence needs, there will not be enough to meet all defence needs. If services out of Harwich and Southampton and other intermediate ports were also reduced, the shortfall would be worse. (Other NATO ferry operation operators and indeed those ports (UK and Continental) themselves would also be affected).

But the cost of any subsidy provided for defence reasons to keep ferries going would logically fall on the Defence Budget, and alternative ways of meeting the need, eg. mothballing ships or relying on ships of NATO allies, would therefore have to be considered very carefully and fully.

- (iv) Continuity. The effect of the CFL will be felt before it is operational because of the ferry operators' need to make investment and commercial decisions well in advance. Unless the operators are assured that a role for ferries will be maintained they might well run down their services before the CFL becomes operational.

But any degree of assurance about ferry services would be likely to weaken the ferry operators' incentives to improve their efficiency.

- (v) Cost. If the ferries are (without special measures) uncompetitive with the CFL their retention will require either maintaining CFL prices higher than necessary or a subsidy to the ferry operators or differential treatment (eg. no CFL duty-free, or a levy on CFL users payable to the ferry operators). Higher prices will deprive users of the full benefit of the CFL; a subsidy or discrimination against the CFL would reduce the traffic carried by the CFL. A subsidy would be a public expenditure addition and probably contrary to the Treaty of Rome. Differential treatment would be discriminatory (to the benefit of the ferry owners).

5. Ministers are asked

- to endorse that it should be a stated objective to control anti-competitive practices in the market served by the CFL.
- to decide whether the guidelines should contain any implicit limit to the extent to which a fixed link might be allowed to monopolise the UK's surface communication with the Continent.

6. A draft guideline on competition might be (with the words in square brackets only remaining if Ministers wish to make a commitment to the maintenance of competition to the CFL):

"The two Governments would view the relative merits of possible schemes against their agreed objective[s] of [extending the range of and of] improving the efficiency of cross-channel communication in the interest of the user whether business or personal. The Governments will accordingly ensure that adequate powers and machinery exist [to limit, if necessary, the extent of market dominance of a fixed link and] to control anti-competitive practices in the market served by the link."

TERRITORIAL JURISDICTION

1. At present, the territorial sea of the United Kingdom extends only three miles, whereas the legislation of France provides a breadth of twelve miles. Certain of the schemes for a Channel Fixed Link would involve construction works being undertaken and/or permanent structures being built in the area, at present, the high seas, between the British and French territorial seas, and the French have expressed doubts about the right of the United Kingdom under international law to authorise these works in this area. We have argued that we do have a right under customary international law to authorise the undertaking of these works but that, even if we did not, nevertheless as part of the concept of the 'Exclusive Economic Zone' (which we recognise as valid under international law even though we have not as such declared such a zone) a coastal state may authorise the construction of artificial islands, installations and structures in an area out to 200 miles from its coast for economic purposes including transport tunnels. The French nevertheless remain unhappy, and have said that if there were a challenge in an international forum (such as IMO) to the UK's right to authorise the undertaking of these works in the area of the high seas, they would be unable to support the UK's position; this would, of course, be rather embarrassing and might encourage the opponents of the scheme.

2. There are two possible solutions:

i) the UK could extend its territorial waters to twelve miles. We understand that so far the MOD have resisted this because of the question of securing transit passage for warships through international straits, since the UK is not a signatory to the United Nations Law of the Sea Convention. We believe it will be difficult to justify remaining at 3 miles. Any approach to IMO will have to take a clear position on this. The only reasonable way of dealing with this in the Guidelines to the companies would be to inform them that they should proceed on the footing that by the time construction began, we would have a territorial sea of 12 miles. This requires legislation which is in preparation but the need for

Parliamentary approval would have to be borne in mind in any public reference to the point. Ministers will need to reconsider this problem in the light of this new difficulty which has emerged;

ii) The UK could declare an Exclusive Economic Zone, even if only for the area of the construction works for the Link. The French intimated this week that they could probably accept this, provided that the rights claimed were the whole rights which may be claimed as part of an EEZ, or very nearly so. This solution is much less satisfactory. The EEZ concept is closely linked to UNLOSC and in that Convention it is qualified by a clause which disallows uninhabitable rocks, such as Rockall. It would be difficult to resist calls for extension of an EEZ to areas outside the Channel and this would bring into discussion our existing 200 mile fishery limit around Rockall.

3. Officials should consult urgently on the options above, and report as soon as possible. Thereafter there may need to be further discussion at Ministerial level. In the meantime, the Guidelines should go no further than to recognise the existence of the problem and our intention to consider ways of dealing with it.

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MR TURNBULL

12 February 1985

CROSS CHANNEL LINK

Nicholas Ridley is inviting E(A) members' interim comments on various policy issues encountered by the Anglo-French Working Party. You will probably not want to brief the Prime Minister until the consultative process has gone a stage further and, on 25 February 1985, the key issues are considered by E(A). In case she does need a quick impression of the current state of play, I would offer the following observations.

1. The French team seem to be embracing the spirit of the Thatcherite private enterprise solution to construction and operation of the Link with more inspiration and enthusiasm than the British officials. In a sense that is good news, because the lack of positive vision on the home front is easier to deal with than on the French side.

2. We are talking about the frame of mind in which the task of formulating guidelines for would be promoters is approached. On the UK side, there is a tendency towards a frame of mind which sees more pitfalls than potential opportunities - hence, as it were, the need for a man to walk in front of the train waving a red flag. This frame of mind worries about the demise of the ferries and the consequent threat to economic and military security (not

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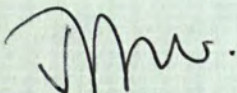
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apparently shared with much concern by MoD). It fears the abuse of monopoly power, and anti-competitive behaviour and contemplates tariff regulation and the possible need for special taxes or levies. It wants the promoter to take all the technical and commercial risks, but feels uncomfortable about allowing him the possibility, if successful, of high reward. Administrative convenience is put higher than time savings for millions of users.

3. The frame of mind which needs to prevail recognises constraints, but focuses on the benefits of cheaper more efficient cross Channel transport for consumers and British trade. It wants to demonstrate how much can be achieved by private enterprise - without Government financial guarantees - if the commercial climate is favourable.

The underlying question faced by E(A) in two weeks time will be whether or not the guidelines to promoters are framed in this positive spirit.


JOHN WYBREW

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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
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LONDON SW1P 3AG

5 February 1985

Dear Nigel

CHANNEL FIXED LINK

I agree with virtually all you say in your letter to me of 29 January. I am glad to hear that you agree we are set on the right course. You will not expect me to advocate any soft option.

The Anglo/French group is making good progress. There is a remarkable degree of agreement. The French now appear to be as hard as we are on the "no government involvement" issue. They have even come round to the view that, if this project is to be judged on strictly commercial criteria, there is no place for European Community support or guarantees either.

However, there will be a few crunch issues and on these our officials on the Anglo/French Group will need early guidance at political level if they are to meet the target of a 28 February reporting date.

The next meeting of the Group will take place on Wednesday of this week. As soon as possible thereafter I will write to you and other colleagues, posing the immediate issues - I hope on the basis of a paper agreed by officials of Departments represented on the Group and others closely involved in its work.

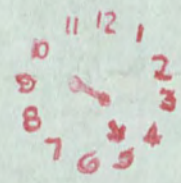
I am copying this letter to the Prime Minister and the Secretary of State for Foreign and Commonwealth Affairs.

Yours sincerely
Nicholas

NICHOLAS RIDLEY

TRANSPORT : Channel Tunnel. Pt 2

6 FEB 1985



CONFIDENTIAL

B/P will pu
Comments

AP 31/1

CCMO

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1

29 January 1985

John Nick

CHANNEL FIXED LINK

I have been looking at how far forward the private consortia are towards a credible scheme to build and operate a fixed link across the Channel without government money or government guarantee. We are now defining government guidelines with the French, and will then consider with the French the bids we get in response. A realistic view of how much remains to be done is important as we are to be sure of getting the information we need for that choice. Officials are of course in touch on that, but I am impressed by the extent to which the promoters have still to go to satisfy our basic requirements.

Apart from the technical problems, including the safety of the link itself and of shipping, it will above all be important to be satisfied that we are dealing with an organisation capable

- (i) of raising the necessary funds,
- (ii) of building and operating the link, and
- (iii) of carrying the financial risks of failure.

All three are very demanding requirements. The EuroRoute project in particular will be subject to risk from stage to stage over a long period, and if it fails after beginning it will be more trouble to clear up.

We also have to get clear before proceeding what the different schemes would mean for our inland infrastructure. If they were to involve significant public expenditure in addition to what it will be right for the promoters themselves to fund, we should have to adjust priorities to accommodate this. But



a significant reordering in favour of the South East could add strong hostility from the regional lobbies to that which we shall in any case face from the environmental lobby.

We also need to be sure that the tariff policies of a fixed link will work in the public interest, not just in the short term but over a very long period during which it may come to be in a dominant position on the short routes. We need to consider carefully what is to be said from the outset about the Government's right to step in should that become necessary. This is too central for governments, the promoters and the public interest not to be taken head on and, although it may be complicated by the French position, we must consider it together very quickly.

We shall also have to pay particular attention to the vulnerability of a fixed link, both to industrial action and to terrorism. Any form of fixed link is bound to be an exceptionally attractive target. This is more serious to the extent that ferry services' share of the market is reduced on the short crossings, leaving our economy more vulnerable to interruption. The security measures needed to reduce this risk - and nothing can entirely remove it - may considerably reduce the public attractions of a link and prove costly.

In terms of the relative merits of the two main schemes, incidentally, the twin-tunnel scheme not only presents much lower risks - technical, financial, environmental and probably security - but also looks less unattractive to motorists than appears at first sight.

These major issues do not of course tell against the course we are set on. Rather, they underline the natural pressures on promoters to push on to governments financial and other risks that could prove very expensive. So we need to be very careful to set the rules of the game strictly at this stage. Otherwise the prospect of a soft option may lead to bids which include a degree of wishful thinking, rather than the hard-headedness that any successful venture will most certainly require.

I am copying this letter to the Prime Minister and Secretary of State for Foreign and Commonwealth Affairs.

NIGEL LAWSON

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a long horizontal line extending from the bottom right of the signature.

Qz.04043

MR POWELL

File

E.I.B.

Jurds

CHANNEL FIXED LINK

The main points of the communique issued last night by the Secretary of State for Transport and the French Ministers responsible are:-

- (i) there would need to be essential political guarantees from the two Governments;
- (ii) any project would be financed without any support from public funds or Government financial guarantees and on the basis of international market conditions;
- (iii) the initiative would have to come from the market itself;
- (iv) Governments would require certain conditions on safety and environment to be respected;
- (v) an official working group is to be set up;
- (vi) any proposals from enterprises would be submitted jointly to the two Governments.

I am sending a copy to Sir Robert Armstrong.

DF Williamson

D F WILLIAMSON

15 November 1984



CABINET OFFICE
70 Whitehall,
London SW1A 2AS
Telephone 01-233 3340

8 November 1984

John Nich

CC 100

NSP

FIXED LINK ACROSS THE CHANNEL.

Peter Rees in his minute of 31 October to the Prime Minister raised a number of points. But are these not inevitable problems which could be used to damn any fixed link proposal? By the nature of the project there will be pressure to accept a contingent liability against which we are committed. We will just have to resist it.

Patrick Jenkin rightly says in his letter of 31 October that there will be environmental opposition: The Party will be involved, as this is a sensitive area of the South East. Nevertheless we are being bedevilled by environmentalists with their knee-jerk 'Noes' and we aid them by the complications and delays endemic in planning procedures. Is it not time we cleared the way for some entrepreneurial achievement in this area?

I am sending a copy of this letter to the members of E(A), Michael Heseltine, David Young and to Sir Robert Armstrong.

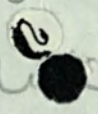
John Selwyn Gummer

JOHN SELWYN GUMMER

The Rt Hon Nicholas Ridley MP

Energy June 80

Cross Channel Ltd



29 NOV 1984



CONFIDENTIAL



hte
CCPC
[Signature]

10 DOWNING STREET

From the Private Secretary

5 November 1984

Channel Fixed Link

The Prime Minister has noted the Foreign Secretary's minute of 2 November on this subject. The Prime Minister's views on this subject have already been conveyed in Tim Flesher's letter of 1 November to Henry Derwent.

C D Powell

Colin Budd Esq
Foreign and Commonwealth Office

CONFIDENTIAL



PM/84/166

PRIME MINISTER

PP's
 4203 2
 CD
 SWI
 Prime Minister:

To write

Dr

2/4

Channel Fixed Link

1. In his minute of 24 October Nicholas Ridley asked for comments on the line to take on the link when he meets the new French Transport Minister on 14 November.
2. I agree that the time has come to take a firm position on this subject.
3. I have always been profoundly sceptical about the possibility of such a large investment being carried through without the Government being drawn in financially at some stage. I am also very concerned about the potentially serious impact which a project of this scale would have on existing cross channel transport links - probably without generating any compensating economic or technological gains. Nevertheless, I accept that we have probably come too far down the road described by Nicholas Ridley to leave much room for a fundamental change in position: to do so would lead to accusations of bad faith both at home and from the French Government.
4. I therefore agree with you that if a viable package can be put forward without a requirement for taxpayers' money, we should be prepared to look carefully at it. I also believe that it will be essential to ensure that the promoters and the French Government are in no doubt of our unqualified firmness in refusing to offer any kind

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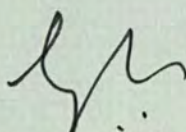


of Government guarantee now or in the future. Private investors may otherwise imagine that any "political" guarantee we might give could be converted into financial assistance one day. It will be important to leave no ambiguity whatsoever that a "political" guarantee would mean no more than a willingness to give planning permission and undertake essential infra-structure work associated with the project.

5. We will of course need to handle this issue so as to avoid as far as possible friction with the French Government. I am particularly concerned about the serious adverse impact on UK/French relations of any misunderstandings which may arise now or in the future. I think that a frank statement of our position would be the best course. We have taken an entirely consistent line since the 1981 UK/French Summit. This course would also leave no hostages to fortune. In the short run, we need to convince the French Government that our position on guarantees is serious and not intended merely to sabotage the project. If we can do this, it should help to ensure that the French accept private financing without guarantees as the only basis on which the project could go ahead, and that they are not in a position to blame us should the project eventually flounder for commercial reasons.

6. On this basis, I agree with the line which Nicholas Ridley proposes to take with M. Auroux.

7. I am copying this minute to other members of E(A), Nicholas Ridley, Michael Heseltine, David Young and to Sir Robert Armstrong.


(GEOFFREY HOWE)

ENERGY: Cross-Channel Electricity Link

June 80

22 NOV 1984

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CC/10

NBRM

MO 21/8/5

PRIME MINISTER

FIXED LINK ACROSS THE CHANNEL

with TF?

In his minute to you of 24th October, Nicholas Ridley sought colleagues' views on whether a fixed link across the Channel should be authorised if all our conditions are met. I see no overriding objection to any form of fixed link but I should, of course, be grateful for an opportunity to consider any proposed design at a very early stage in order to assess its implication for defence interests.

2. Copies go to other members of E(A), Geoffrey Howe, Nicholas Ridley, David Young and to Sir Robert Armstrong.

Ministry of Defence
1st November 1984

LONDON

X - channel Elec. work

— ENERGY June 80.

NOV 2 1980



CONQUEROR
LONDON

CONFIDENTIAL

file

ecu



10 DOWNING STREET

cc HMT
NIO
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P Gen O.
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Min without P.
CO

1 November 1984

From the Private Secretary

FIXED LINK ACROSS THE CHANNEL

The Prime Minister has seen your Secretary of State's minute of 24 October about a fixed link across the Channel. She has also seen a number of responses from Cabinet colleagues including one from the Chief Secretary of 31 October. The Prime Minister believes that the Government's position on the fixed Channel link is quite clear and correct: if a viable package can be put forward with no requirement for taxpayers' money the Government would welcome it and look carefully at it. She sees no reason at this stage to change the tone of public statement on the matter either to suggest that such a package is more or less likely.

I am sending a copy of this to the Private Secretaries to members of E(A), the Foreign Secretary, the Secretary of State for Defence, the Minister without Portfolio and Sir Robert Armstrong.

(Tim Flesher)

Henry Derwent, Esq.,
Department of Transport.

CONFIDENTIAL

BM

CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF
6400
Telephone Direct Line 01-213.....
Switchboard 01-213 3000

W B M

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1

1st November 1984

Dear Secretary of State,

FIXED LINK ACROSS THE CHANNEL

I have seen a copy of your minute to the Prime Minister of
24 October. *with AT?*

My own view is that provided we stick firmly to the criteria set
out in paragraph 1 of your minute (particularly resisting
pressure for any kind of commercial guarantee from Government),
and they are accepted by the French, we should be prepared to see
whether the market can come up with proposals which satisfy those
conditions.

I do not believe we should announce a preference for any
particular type of link but should leave it to the market to
decide which of the various options are technically feasible
and capable of being financed.

I am copying this letter to the Prime Minister, other members of
E(A), Michael Heseltine, Geoffrey Howe, John Gummer and to
Sir Robert Armstrong.

Yours sincerely,

[Approved by the Secretary of State
and signed in his absence.]

CONFIDENTIAL

LEWIS & Clark Club Aug 84



PAID 1.00

PRIME MINISTER

Fixed Link Across the Channel

You have already seen Nicholas Ridley's minute asking for a steer on the line he should take when he meets Monsieur Auroux (Flag A). Since then, we have had responses from, amongst others, David Young (Flag B) and the Chief Secretary (Flag C). The Policy Unit have also submitted a note (Flag D). The positions taken are essentially these: the Transport Secretary is essentially firmly optimistic about the chances of a viable package being put together and accordingly wants to sound optimistic. David Young supports this. The Chief Secretary, on the other hand, does not think that a viable project is likely and accordingly wants to sound pessimistic. The Policy Unit see no reason at all why we should shift from our present position, i.e. that the Government has no need to change its tone at all. Its position is quite clear - that if a viable package is put forward with no requirement for taxpayers' money, the Government would look carefully at it. To sound optimistic risks being drawn into the political and, hence, financial commitments. But equally there is no reason to sound pessimistic.

Do you agree with the line proposed by the Policy Unit that the Government should, if necessary, simply reiterate its existing position without sounding either bullish or bearish about the possibility of the likelihood of a viable package?

TIM FLESHER

31 October, 1984

D *Yes not*

MR TURNBULL

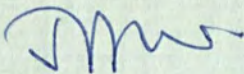
31 October 1984

FIXED LINK ACROSS THE CHANNEL

The present Government position on the fixed link is quite clear and is correct. Private sector interests, if they wish, should come forward with a financing package and positive proposals.

So far, the banks' review of the problem has made it quite clear that the link could not be financed without substantial "political" guarantees and even some financial guarantees. In practice, the kind of political guarantees they imagined will turn out to be financial guarantees as well.

We do not wish to discourage the idea of a link, whilst making it clear that there are no Government resources available to ease the financing of it. It would be best at this stage to background brief the Press again to the effect that we welcome a link but the taxpayer will not pay for it.



JOHN WYBREW

010

NBPM HT 1/4 EAO



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
London SW1P 3EB

31 October 1984

FIXED LINK ACROSS THE CHANNEL

Thank you for keeping me in the picture on recent developments in this area. I am content with the line you propose, but I would like to put up two markers for the future.

Firstly, I should like to underline the points which we have made in correspondence that in looking at any proposals for a fixed link, we need to take full account of import control and smuggling risks as well as the increased possibilities of spread of disease by wildlife. As you will understand, the principal concern is with any greater risks that might arise in relation to our rabies defences.

Secondly, it is extremely important for us to be kept fully informed in the preparatory planning stages, insofar as these involve land on this side of the Channel. This will ensure that we are fully able to consider the implications under present Government policy for the protection of agricultural land.

I am copying this letter to the other members of E(A), to Michael Heseltine, Geoffrey Howe, David Young and Sir Robert Armstrong.

MICHAEL JOPLING

30 OCT 1984



CNO

CONFIDENTIAL



FROM: CHIEF SECRETARY
DATE: 31 October 1984

PRIME MINISTER

FIXED LINK ACROSS THE CHANNEL

Nicholas Ridley's note of 24^{with AT} October sought colleagues' views about the line to take with the French authorities over the future of this project.

2 In principle, our policy is clear. We are willing to facilitate a fixed link if a private sector consortium comes forward to undertake the project without financial guarantees from us. In practice, I agree with Nicholas that we must soon judge whether or not we think it likely an acceptable scheme can be found within the policy constraints we have laid down. Because if we do, it would be appropriate to adopt a positive line with the French, encouraging them to look at new possibilities and being prepared to do so ourselves. But if not, it is time to start steering the French towards a low key, mutual recognition that there probably is no way forward.

3 Against this background, I would ask three questions about our policy towards a fixed link:

- (i) can we really avoid/^a contingent liability of a kind which we would not be willing to accept? All projects of this size and nature carry a risk of failure - through cost overruns, or changes in circumstances. Nuclear power stations, the Thames Barrage and the Humber Bridge illustrate the problem. It seems clear that the French still want some sort of understanding that if the project is to go ahead, the two governments must de facto accept the risk of public funds being needed to complete it. Can we maintain an absolutely firm line that

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at all stages the market must decide - whether it still makes commercial sense to go ahead and funds can be found, or it does not, in which case the project must be allowed to lapse whatever the stage reached.

(ii) If and when built, will we (and more so the French) be able to stand back from its operation? In practice, we will be under constant pressure especially on tariffs and on its comparative position vis- a - vis other modes of crossing the channel;

(ii) Is it a transport priority? A fixed link will require improvements to the existing road and rail infrastructure. Present plans provide nothing for this. To avoid higher public expenditure would require adjustment of present priorities.

4 If a consortium had clearly come forward by now there would have been grounds for more optimism. Despite the further stirrings of interest Nicholas reports, I am becoming more sceptical that a suitable consortium will come forward.

5 None of these questions is easy to answer. But my feeling is that unless a consortium now emerges very quickly the time has come to consider whether we should now approach our dealings with the French on the basis of mutual recognition that a fixed link is unlikely to be constructed in the foreseeable future.

5 I am copying this minute to Nicholas Ridley, members of E(A), Michael Heseltine, Geoffrey Howe, David Young and to Sir Robert Armstrong.



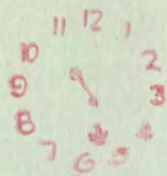
PETER REES

CONFIDENTIAL

Energy Aug 87

Cross channel wire

30 OCT 1984



COMMUNICATOR



CONFIDENTIAL

Upp

PP
CCW

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

31 October 1982

Dear Secretary of State

FIXED LINK ACROSS THE CHANNEL

Thank you for sending me a copy of your minute of 24 October to the Prime Minister.

You ask if colleagues are ready to see a Fixed Link being authorised or if, on the contrary we see overriding objections to any or all forms of it.

Both as sponsoring Minister for the construction industry, which badly needs work, and personally, I would welcome the project if it can go ahead, without Government guarantees. I should however draw colleagues' attention to the environmental implications and the associated procedures which may constitute problems for the promoters.

Any form of fixed link involving a bridge making a landfall on this highly sensitive part of the south coast will certainly arouse very strong opposition on environmental grounds, particularly when the associated access road works are also taken into account. Whether such opposition would ultimately prevail is a matter of judgement but in my view there is a very good chance that it would, even if all other obstacles were overcome. Certainly I think that both the French and financial backers should be made aware of this possibility - to put it no higher - an early stage if they are inclined to favour any type of bridge scheme.

A tunnel project would also cause environmental problems, but of a much more manageable kind, and these could probably be dealt with.

I should also mentioned the problem of the procedures that would be necessary before any link project could be carried out. I understand that a private or hybrid Bill would be necessary in any event for the Railway side of the proposals, but it seems doubtful whether such Parliamentary procedures would give the local public an adequate hearing on the many important aspects on which they would be affected. Any high-handedness on this matter could well be counter-productive. All this would need further serious consideration before the project is launched. But whatever form these procedures took, they are likely to involve a good deal of time and manpower; nor could their outcome be predicted at this stage with absolute

confidence. Again, it seems to me that both the French and financial backers should be made more aware of this problem in general terms at an early stage.

I am copying this minute to the Prime Minister, other Members of E(A), Michael Heseltine, Geoffrey Howe and to Sir Robert Armstrong.

Yours sincerely

A.H. Davis
for
PATRICK JENKIN

*Approved by the Tsad
signed in his absence*

Energy August

Cross-channel work

20 OCT 1984

11 12 1 2 3 4 5 6 7 8 9 10

CONFIDENTIAL

CENO



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Henry Derwent Esq
Private Secretary to the
Secretary of State for Transport
2 Marsham Street
London
SW1P 3EB

31 October 1984

Dear Henry

FIXED LINK ACROSS THE CHANNEL

In a minute to the Prime Minister on 24 October your Secretary of State asked for his colleagues' reactions to the news that the fixed link project might now go ahead subject to satisfactory discussion with the companies and banks involved.

I am writing to confirm that my Secretary of State has no objections in principle to a fixed link. If the project does get under way, however, he would wish to be consulted in advance over the choice of route to ensure that it would not prejudice our offshore oil activities in the channel, nor cause problems for energy links between the Continent and the UK.

I am copying this letter to the Private Secretaries to the members of E(A), the Foreign and Commonwealth Secretary of State, the Secretary of State for Defence, the Minister without Portfolio, and to Richard Hatfield.

Yours

John

J S NEILSON
Private Secretary

CONFIDENTIAL

31 OCT 1984



CONFIDENTIAL

3 PPS.
CC PC
NO

PRIME MINISTER

FIXED LINK ACROSS THE CHANNEL

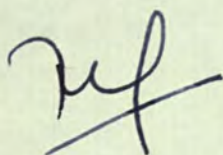
I have seen Nicholas Ridley's minute of 24 October.

I agree with him that we must now make our position clear. It would be fruitless to allow speculation about a link to build up if we have no real intention of supporting one. If we are prepared to see a link go ahead, subject to the necessary guarantees, then we should say so and obtain the credit for it.

The crucial element must be the absence of a financial guarantee. As you know, Nigel Broackes has told me that his consortium is not seeking such a guarantee from us and I understand the same to be true of at least one of the other schemes. In this case the principle of a link becomes highly attractive. It would be bound to be seen as a mark of private sector confidence in the economy and, depending on which scheme was eventually accepted, could bring large numbers of jobs to areas of high unemployment during the next few years.

Clearly if the principle of a link is acceptable both to us and the French Government, we shall have to consider very carefully the merits of the alternative proposals now on offer. We would need to weigh up the wider implications of a rail only as opposed to a road/rail link. But these are questions which, in fairness to all concerned, should be addressed only if we are ultimately prepared to see the link established.

I am copying this minute to Nicholas Ridley and the other recipients of his minute to you.



YOUNG

30th October, 1984

Georgy Aug. 89

Cross-Channel - UK.

010



CABINET OFFICE
70 Whitehall,
London SW1A 2AS
Telephone 01-233 3340

END.
AT

24 October 1984

Dear Henry,

FIXED LINK ACROSS THE CHANNEL

will request if required
The Paymaster General has seen your Secretary of State's minute of 24 October. Mr Gummer strongly supports a fixed link across the Channel. He very much hopes that the project can be facilitated, and that it will be presented as an example of Britain getting up to date with private enterprise finding the means.

I am sending a copy of this letter to the Private Secretaries to the members of E(A), the Secretary of State for Defence, the Foreign and Commonwealth Secretary, the Minister without Portfolio, and to Richard Hatfield (Cabinet Office).

Yours ever,

Alex Galloway

A K GALLOWAY
Private Secretary

Henry Derwent Esq
Private Secretary to the
Secretary of State for Transport
2 Marsham Street
LONDON SW1P 3EB

24 OCT 1984

17 1
9 2
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Prime Minister (2)
 To note while awaiting
 replies from colleagues.

AT
 24/10

B/f with CST's comments

AT
 25/10

Prime Minister

FIXED LINK ACROSS THE CHANNEL

When the report of the Anglo/French Banking Group was published in May of this year, I made it clear that it remained the Government's firm position that any fixed link would have to be financed entirely without the assistance of public funds and without commercial guarantees from Government. Guarantees against "political risk" would be considered but, as you stressed at the time, these would need to be very carefully defined. The government would need to be convinced that sufficient funds would be available to ensure completion, that the project was acceptable from the point of view of maritime and structural safety and consistent with planned capacity of inland road/rail infrastructure. Provided these criteria were met the Government would be willing to consider facilitating a fixed link in collaboration with the French government.

The market has been slow to respond. There have been assertions by promoters, echoed in the press, that financial institutions will not take a serious interest until the two Governments have indicated a will to proceed. I have made it clear to potential promoters and financiers that it is the market which must demonstrate a will to proceed and that the role of Government is to measure specific proposals against the stated criteria and consider whether it should facilitate by treaty and legislation.

Market interest has nevertheless been developing. National Westminster Bank, with Midland not far behind, has indicated its interest in piecing together an international group capable of carrying forward the project for rail tunnels catering primarily for roll-on/roll-off vehicular traffic. In the strictest confidence they have told us that P&O is ready to consider becoming involved. There are indications that substantial American banking interests are strongly interested in participating in this project on a "no guarantee" basis.

EuroRoute - the bridge/tunnel group - has secured the active involvement of two major French industrial undertakings in the engineering development of the scheme and the interest of a major French bank in its financing. They aim to put firm proposals to the two Governments by the end of the year. Ian MacGregor has given up the chairmanship. Sir Nigel Broackes has expressed a strong interest in taking it on. Active involvement by Trafalgar House, already in the "people moving" business, would certainly give the scheme added credibility.

CONFIDENTIAL

The new French Government has taken time to digest the "dossier" and has only recently signalled its readiness to renew discussions. I expect to meet the new French Transport Minister on 14 November. Preliminary indications are that the French share our desire for "no guarantee" market financing and are prepared to accept as a corollary, that the owner/operator must be accorded the necessary degree of commercial freedom in deciding operational policies. Like us, they would want to be sure that there would be no abuse of a dominant position and would wish to consider with us how relevant national legislation could be applied to ensure fair competition between the fixed link, shipping and air services.

They still hanker after some sort of understanding between the two governments that they should be ready to intervene jointly if, for some circumstance unprovided for, the market was unable or unwilling to complete in circumstances where it still made commercial sense to do so. I will, of course, make it clear to M Auroux when I meet him that the Government is unwilling to accept any prior commitment in that respect.

If we insist on that, the French may lose interest, but I think we must now reckon with the possibility that the French will be prepared to go along with us in defining "rules of the game", applicable to all forms of link, sufficiently attractive to induce the market to come up with one or more proposals which satisfy our conditions.

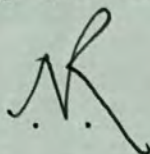
I need to know before I meet M Auroux whether you and other colleagues are ready to see a Fixed Link actually being authorized, if all our conditions are met. If we see overriding objections to any or all forms of fixed link, then I should seek to steer the discussion with M Auroux towards a mutual recognition that there is no way forward.

If that is to be our decision, we must consider carefully how it should be presented to Parliament, to the French, to the promoters, the banks, the press and the public at large.

If for any reason we do not want this project to proceed we should make that clear now in whatever way is appropriate. We should not seek to block it by erecting bigger and bigger hurdles which still induce people to spend more and more money in the belief that they can be leapt. Conversely, if we now specify in detail conditions to be met, we must be honour bound to facilitate the project if they are met.

It would be helpful if we could have the reactions of colleagues by 1 November 1984 so that, if necessary, we can meet to discuss the issues before I meet M Auroux.

I am copying this letter to other members of E(A), Michael Heseltine, Geoffrey Howe, David Young and to Sir Robert Armstrong.



NICHOLAS RIDLEY

24 October 1984

With the Compliments of

Sir Nicholas Henderson, G.C.M.G.



The Channel Tunnel Group

28 Hammersmith Grove, London, W6 7EN

Telephone: 01-846 3113

Telex: 25666

*WBM AT 1/11
cc J.R.*

do
The Rt. Hon. Nicholas Ridley, M.P.,
Secretary of State for Transport,
2 Marsham Street,
London SW1P 3EV

23rd October 1984

Dear Nicky,

Re: Channel Tunnel

Could I bother you to let me know how we stand? At the meeting with you on the 10th July you indicated that the Channel Tunnel Group had complied with the criteria regarding private finance as required by H.M.G., but you said that you would have to allow time for other possible promoters to come forward. Some sort of decision would be reached by the end of September and you said that you would get in touch with us, and, in the meantime, you required nothing more in writing from us.

Since then, I should tell you that the Channel Tunnel Group have revised their construction programme in order to reduce the construction period to 4½ years as opposed to the original 6 years. This new programme is supported by both the consulting engineers and banks. You will, no doubt, see the letter from Stannard of the National Westminster Bank to Peter Lazarus of the 22nd October which confirms the National Westminster's view that a project on the lines we are now thinking of would conform with H.M.G.'s insistence that the Channel Tunnel project should be funded exclusively by the private sector on the UK side.

I must say that I was surprised to read in the Sunday press about the attention being given to the Euroroute scheme - surprised simply because my impression has been that the bridges/tunnel is just not financable from the market. But, if I am wrong about this, I would be very grateful for your view.

Would the best way of dealing with all this be to have another meeting with you or is there something you can let me have in writing? I am very conscious of the fact that there is an important Anglo-French bilateral meeting in Avignon at the end of November, to be attended by the Prime Minister. I would like to think we had some sort of lead by then.

Yours ever,

Nicko.

Sir Nicholas Henderson

11/1/84
11/1/84

1 NOV 1984

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10 9 2
8 7 6 5 4 3



CF: bff to me on Tues 10 July pm.
with channel tunnel file.



Dms
97

10 DOWNING STREET

DB - she discussed
this very briefly
with MacGregor.
PM should also glance
at Keadley's answer
on Banks report

AT

MR BARCLAY

cc. Mr. Turnbull ✓

EUROPEAN ATLANTIC GROUP DINNER

I had a call this morning from Nick Edwards' office to say that they had heard on the grapevine that the Prime Minister was going to sit next to Lord Layton. If this is correct he will almost certainly bring up the question of Euro-bridge.

Apparently the Prime Minister knows all about this and does not require further briefing.

Correct?

6 July, 1984

CP



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM
AF
31/5

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

29 May 1984

Dear Norman

FIXED LINK ACROSS THE CHANNEL

I was grateful to the agreement of you and others to the draft statement attached to my earlier minute to the Prime Minister. I attach a copy of the statement as issued.

In his letter of 17 May, Norman Lamont asked whether a treaty with the French would help us by showing support for the principle of a link without an implicit financial commitment. I think, however, it is premature to consider drawing up a treaty for the present, as this would require a good deal of detailed work which could not sensibly be undertaken until it was much clearer than it is at present that the project would be likely to go ahead, and if so in what form.

I am copying this to the recipients of our earlier correspondence.

Tonson

Nicholas

NICHOLAS RIDLEY

Transport

Press Notice

235

22 May 1984

GOVERNMENT RECEIVES ANGLO FRENCH BANKS' REPORT ON FINANCE FOR CROSS CHANNEL LINK

Mr Nicholas Ridley, Secretary of State for Transport today (Tuesday 22 May) announced he has received the Anglo-French Banking Group's report on finance for a cross channel link.

Mr Ridley stated in an answer to a Parliamentary Question from John Wells MP and Michael Howard MP.

"The Anglo-French Banking Group's report on finance for a fixed cross Channel link has now been submitted to the French Minister of Transport and myself. Copies are being made available in English by the two British banks concerned, Midland and National Westminster. I have arranged for copies to be placed in the Library of the House of Commons.

"The Banking Group formed themselves in June 1982. The purpose of their report was to examine the scope for private sector finance for the Channel link.

"The report is a substantial and detailed document, and the Government will need time to study it and assess wider reactions to it before reaching conclusions and having substantive discussions with the French Government. In studying the report I shall of course be in close touch with the French Minister.

"Briefly, Part I of the report concludes that of the various types of scheme proposed (bridges, tunnels and combined schemes) only a twin-bored rail tunnel with a vehicle shuttle service would be likely to attract adequate private financing. Part II analyses two possible financing methods for this option, but does not make a precise proposal on the best way to proceed. This would require consultation between potential investors and other interested parties. However both the financing methods suggested

"It has been and remains the Government's firm position that any project would have to be financed entirely without the assistance of public funds and without commercial guarantees by the Government. So far we have seen no proposal which demonstrates that it can meet this condition. Nevertheless the Government remains willing to consider facilitating a fixed link, in collaboration with the French Government, provided that the necessary financial, technical and other aspects are satisfactorily dealt with. As well as meeting the condition already mentioned, before there could be any question of a firm commitment by the Government to facilitate the project, any fixed link scheme would need to be supported by evidence that sufficient funds would be available to ensure completion: that proper account had been taken of maritime and structural safety requirements: and that attention had been given to the implications of the scheme for inland road and rail infrastructure capacity.

"We shall now allow time for prospective promoters to consider this report and assess whether they can secure the financial backing necessary for a scheme to proceed without financial support from the Government".

NOTES FOR EDITORS

In June 1982 an Anglo/French official group reported on the case for a fixed Channel link (Cmd. 8561). The report said that, while shipping services could be developed to cope with foreseeable traffic growth, a fixed link would probably offer benefits outweighing the costs. The report also favoured twin 7 metre bored rail tunnels providing both for through-rail services and for a vehicle shuttle service. Drive-through schemes (bridges, immersed tubes and combined bridge/tunnel schemes) were not ruled out, but they would require more study to establish whether they were feasible and financeable.

Throughout the UK Government has made it clear that any form of link would have to be financed entirely by the market and without Government guarantees against technical or financial risks - eg there would be no question of Government guarantees against construction costs overruns or against unexpectedly low revenue from passengers. Ministers have repeatedly made this clear to Parliament.

Following publication of the Anglo/French report, the two Governments accepted an offer by a group of banks - Midland, National Westminster, Credit Lyonnais, Banque Indo Suez and Banque Nationale de Paris - to examine the possibility of a link, of whatever sort, being financed by the private sector.

The contents of the report are entirely the Banks' responsibility. The Banks volunteered to undertake the study, an offer which was welcomed by the Governments. The Banks did however receive a contract from the European Commission to look at ways in which existing or proposed European Community instruments might be used.

Among the Banks' report's conclusions are:

- i. The technical risks and financing commitments associated with 'drive-through' schemes are beyond market acceptability:

ii. the only scheme that is both technically acceptable and capable of being financed by the market is a twin 7 metre rail tunnel, with vehicle shuttle;

iii. that even this would require some measure of Government guarantee.

However it is for the Banks themselves to explain their conclusions in detail.

Press Enquiries: 01-212 0431

Public Enquiries: 01-212 3434
ask for Public Enquiry Unit

Transport : Channel Tunnel A2.

30 MAY 1993
UK

12 1 2 3
10 9 8 7 6 5 4



NSPOT AT 17/5

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5186
GTN 215
(Switchboard) 215 7877

From the Minister of State for Industry

NORMAN LAMONT MP

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON
SW1

17 May 1984

Saw Nick

FIXED LINK ACROSS THE CHANNEL

Thank you for copying to Norman your minute of 8 May to the Prime Minister. As he is in the United States this week, I am replying on his behalf.

We endorse your proposal to reaffirm our position that any project would have to be financed entirely without assistance of public funds and without commercial guarantees by the Government. Clearly the report of the Anglo-French bankers does not hold out much hope of the private sector meeting this condition.

However, at this stage, we are concerned that we should not be seen to be coming down against any of the options put forward. Although the report concludes that the private sector could not finance Ian MacGregor's Euroroute scheme (nor the all-bridge schemes) we do not think that we should rule them out entirely. We are happy, as you suggest, to leave the final judgement on this to the market, subject of course to our overriding conditions.

We agree that the discussions with the French Government will be sensitive. Would a Treaty show our support for the principle without an implicit financial commitment?

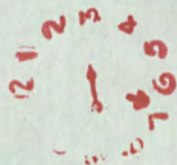
I am copying this to the Prime Minister, other members of E(A); to Geoffrey Howe and Sir Robert Armstrong.

Gen
NL

NORMAN LAMONT

TRANSPORT: Channel Tunnel
Pt 2

17 MAR 1984



RRY

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



NBM

15/5

From the Minister

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street,
London SW1P 3EB

15 May 1984

Nicholas Ridley

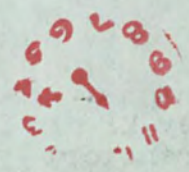
Thank you for letting me see your proposals on handling the publication of the report of the Anglo-French banking group on the financing of a fixed cross-Channel link. I am content with the line you propose. I am of course assuming that any proposals which involved substantial losses of high-quality agricultural land would be subject to detailed evaluation at the appropriate stage.

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

Michael Jopling

MICHAEL JOPLING

Transport: Channel Tunnel Pt 2,



16 JUN 1991

COMMUNICATIONS
The Channel Tunnel
Leamington Spa
CV32 5NF
London

Faint, illegible text, possibly a letter or document content, appearing as bleed-through or very light print.

cc: Bob Young.



cc: CO DJE
FCO LPSO
HMT DTI
NIO CDLO
DIPEN. DTEMP
MAFF
S O CSO, HMT
WO DTRANS.

10 DOWNING STREET

From the Private Secretary

14 May, 1984

Dear Dinah,

Fixed Link across the Channel

The Prime Minister has seen your Secretary of State's minute. She endorses his conclusions and is content with the draft of the PQ responding to the Report of the Anglo-French Banking Group. She has commented that, if "political" guarantees are to be given, they will need to be very carefully defined.

I am copying this letter to Private Secretaries to members of E(A), to Len Appleyard (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

Miss D. A. Nichols,
Department of Transport

CONFIDENTIAL



CS/84/140

SECRETARY OF STATE FOR TRANSPORT

- with AT?*
1. Thank you for sending me a copy of your ^{with AT?} minute to the Prime Minister on the publication of the Anglo-French banking group's report on the Channel Fixed Link. I agree with your conclusions and I am content with your proposed arrangements for handling the publication of the report.

 2. Although there may be less enthusiasm for the fixed link in the French Channel ports and within the Ministry of Finance, there can be no doubt of the importance attached to this project by M. Mauroy and M. Fiterman. It is therefore necessary, as you underline in your conclusions, for us to maintain a completely noncommittal stance until the end of the French Presidency. In view of the forthcoming European elections we should also, as you suggest, avoid any negative comment at this stage on the possibility of EC assistance over funding or financial guarantees. The draft Parliamentary statement strikes the right balance by making it clear that none of the banks' proposals meet the Government's stipulation of no requirement for government funding or financial guarantees, whilst leaving it open for any promoters with adequate financial backing to come forward. I continue to have misgivings about the public expenditure implications in paragraph 16(iii), even though it is thought that most of it could be contained within British Rail's current annual investment according to the figures in Annex C. However that may be, I am persuaded that we would lay ourselves open to French charges of perfidiousness, if we appeared at the present time to be undermining any prospect of private promoters coming

/forward



forward by casting doubts on HMG's willingness to facilitate the project by accepting the political commitment and public expenditure consequences which even a wholly private project would entail.

3. I am grateful for the care your officials have taken to keep us informed, so that due account could be taken of French susceptibilities. I am glad that you intend to inform the French beforehand of our initial noncommittal reaction to the release of the report. We shall need to keep in close touch when the time comes for substantive discussions with your French colleagues.

4. Copies of this minute go to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

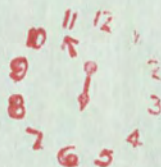
GEOFFREY HOWE

Foreign and Commonwealth Office

14 May 1984

Transport: Channel Tunnel
Pr 2

14 MAY 1984



CONFIDENTIAL

~~ce 10~~



Chancellor of the Duchy of Lancaster

SECRETARY OF STATE FOR TRANSPORT

FIXED LINK ACROSS THE CHANNEL

attached

You sent me a copy of your minute to the Prime Minister.

The only comment I would make at this stage is that while in paragraph 6 you say

"On publication of the report, I propose to say only that I am studying it, etc."

the draft statement at Annex A is a pretty full exposition of the Government's views and could well be regarded by the French as a douche of cold water.

I am copying this minute to the recipients of yours.

A.C.

A C

11 May 1984

CONFIDENTIAL

TRANSPORT : Channel Tunnel
A2

Yes - where
ought to
define "political"
guarantee Prime Minister

PRIME MINISTER

Prime Minister

Agree to Ridley's proposed response?

see paper of this note

MT HT 4/5

Policy Unit
11 May 1984

FIXED LINK ACROSS THE CHANNEL

We judge that Mr Ridley has reached impeccable commercial conclusions. We support them.

There is a rough parallel here with A320 - the European dimension, job creation, technological excitement, indeed, a whole toybox of temptingly expensive things. Lots of people will find it attractive if they think they do not have to pay for it.

For these reasons, Mr Ridley's firm line will need careful presentation.

1. Do we need a Fixed Link?

Technically, no. The present pattern of sea and air modes provides ample capacity, and is easy to extend. Within as well as between modes there is vigorous competition.

Of course it would be convenient for the private motorist, the road haulier, the business traveller and the railway system to have yet another mode available. But "would be nice" is not the same thing as "must have". And "would be nice" is a matter for the market, not for Government. Those who want the link should pay for it. On any other basis, millions of taxpayers will foot the bill but will see nothing for their contribution.

2. What are the True Costs?

It is entirely misleading to present the cost of any scheme in constant (1983 or 1984) prices. Planning, construction, and the earning of sufficient revenues to repay all debt will take between two and three decades. Even modest levels of inflation and interest will add enormously to the current cost of the schemes. Thus the bankers' preferred option (which appears to have the quickest cash payback of all - 24 years) has an estimated outturn cost of £5-£6 billion, against a cost in constant prices of under £2½ billion. And Euroroute, with a 38-year payback, will cost between £25 billion and £54 billion, depending on whose assumptions you wish to take - not the £7 billion of 1983 money set out in Mr Ridley's paper and elsewhere.

Our public presentations should dwell heavily on the enormous outturn expense, not on misleading constant prices.

We must also be careful about the infrastructure costs, the size of which was material to the abandoning of the 1974/75 tunnel attempt. The outturn cost will be well above the

£500 million or so which 1984 prices suggest.

We also suggest that the private promoters could and should finance most, if not all, of the road and rail infrastructure. The necessary capital can be remunerated by road tolls and/or a component of rail charges.

3. Should Government adjudicate between Schemes?

Emphatically no - whatever the temptations. The market must strike its own balance between technical risk, customer appeal and financibility. We judge that, in the long term, Government support for any one scheme will come to have the force of a guarantee for that scheme because Government (not the market) will have ruled out the others).

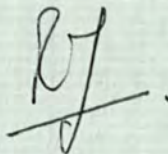
4. Are there any guarantees the Government can give?

We should be prepared to welcome (rather than merely accept) any scheme which is entirely self-financing. But we cannot bind a successor Parliament, so it is technically impossible for us to underwrite it.

The banks' report and, to a lesser extent, Mr Ridley's paper draw a distinction between political guarantees (which are thought to have no cost) and financial guarantees. We doubt that the distinction is valid. A "political" guarantee cannot provide assurance that a specified event will not happen, but it effectively makes the offending party liable to compensate the offended. Ultimately, then, even political guarantees are financial.

5. Are there other options?

Yes. What would we do if the French (or for that matter a consortium of nations) offered to build and own the link entirely on their own account? Should we actually canvass the idea? Is this an honourable solution to the problem which could arise if (as is possible) no UK promoter emerges but the French wish to proceed?



ROBERT YOUNG

SENO



Prime Minister

FIXED LINK ACROSS THE CHANNEL

1. I expect to receive shortly the report of the Anglo-French banking group which has been studying the financeability of a fixed link. The group will simultaneously deliver its report to the French and to the European Commission and is now expected to publish it on 22 May. Publication will stimulate new interest in the subject. We need to decide how to handle publication and next steps.

Background

2. E last considered this in May 1982. A note on the various schemes is at Annex B. E was opposed to a 'railway only' link but thought that drive-through schemes might merit further study. You then told M. Mauroy of our preference but agreed with him that studies should continue with all options open. The banking group developed from that; but we did not commission its study or pay for it.

3. E firmly agreed that no scheme should involve taxpayer finance or public sector guarantees. The most we should be willing to consider would be guarantees against a political cancellation. I have repeatedly emphasised this point to Parliament.

The Banking Group Report

4. The report's main conclusions are:

- a) None of the schemes could be financed privately without some Government or EC commercial guarantees;
- b) the best scheme for financing is a twin rail tunnel large enough to provide a shuttle service for cars and lorries carried on special trains. But even this would need public guarantees covering the estimated £20m development costs in the first two years, major cost overruns if they occurred, and possible revenue shortfalls;
- c) the private sector could not finance Ian MacGregor's Euroroute or bridge schemes because of their technical and commercial risks and higher costs.

The banks think several schemes show good financial returns. But they think guarantees are needed because the cost is high (£2 to £6 billion before allowing for major overruns), the payback period is long and because no promoter has appeared with a sufficient asset base to carry all risks.



5. The group's conclusions will certainly be challenged. The construction industry, the European lobby, exporters and the promoters of drive-through schemes will probably all argue it takes too pessimistic a view and ignores the wider economic benefits. But none of these have begun to demonstrate adequately that their own proposals would do without any Government guarantees. Others, eg the shipping industry and the Dover Harbour Board, will no doubt renew their opposition.

6. On publication of the report, I propose to say only that I am studying it, and will in due course discuss it with M. Fiterman. I will reaffirm our essential condition that any link must be wholly financed by the private sector. A draft arranged answer is at Annex A.

7. Our final decision should depend on the reactions of the market to the report. But I think it worth beginning considering now the main questions which arise.

Do we need a fixed link?

8. A fixed link would certainly bring savings in time, convenience and reliability; and these benefits would probably exceed the costs of tying-up capital for so long. In that sense, the country would probably be better off with a fixed link than without one. But there would be a price, in the form of reduced competition and vulnerability to disruption. Without a fixed link, existing sea and air services will doubtless be able to develop the capacity to meet foreseeable demand. The wider economic benefits of a fixed link, eg from net long-term job creation, are too uncertain to take into account.

9. I therefore think we should stick firmly to our line of refusing to influence the judgements of the market by offering taxpayer finance or public sector guarantees. This fits well with our policy of reducing state intervention in international transport by disposing of Sealink and British Airways and reducing regulation of air and road transport services.

Would we back a privately-financed scheme?

10. Our policy of letting the market decide implies that we would be ready to facilitate a scheme which meets our conditions. Facilitating would include: detailed agreements with promoters and the French (including a treaty); legislation to give effect to them; and authorising public expenditure investment in road and rail infrastructure link. (See Annex C for an indication of these public expenditure costs). For Euroroute or other drive-through schemes it also means we should have to conduct international negotiations about the effects on Channel navigation (see Annex D). All this would imply an increasing political commitment on our part, if a serious backer came forward.



11. If we firmly ruled out the possibility now of our sanctioning any link we should be criticised for retreating from our belief in the market and accused of bad faith by the French and the promoters. I propose therefore that we should continue to re-emphasise our position that the Government would be prepared to let the link go ahead subject to our firm conditions about no Government financial involvement, in the expectation that in practice - as the banks' report now provides new evidence - it is most unlikely that any promoter will appear who can meet our conditions.

Community participation

12. Community (EC) assistance offers no way out. The banks' report includes, at the Commission's request and at EC expense, a section on EC aspects. There has been public speculation that private finance and EC funds will provide a link without cost to the British taxpayer. M. Fiterman attaches importance to EC funding for major transport projects of this kind.

13. But EC funding does not meet our condition of no taxpayer involvement, since we should, of course, have to contribute to any EC funding. (Until we know the final outcome of the EC budget negotiations, we cannot say what our share might be). Any direct expenditure by the EC on a link, to be significant, would need to be on a scale very much larger than existing agreed EC infrastructure funding. And I am strongly opposed to any substantial EC transport spending programme. Even if only guarantees were involved, there seems no obvious reason why other member states (apart from the French) should agree. So while there is no point in going out of our way to reject the possibility of EC assistance, we must recognise that it is unlikely to help.

Handling with the French

14. The French are likely to remain in favour of a link, particularly the twin rail tunnel/vehicle shuttle. I have told M. Fiterman we are unlikely to reach an early financial decision. He himself does not want to have substantive discussions with me before next month's European elections. I propose to confine initial contacts with the French to exchanges about the timing of the Government's reactions to the report, (and I propose to inform the French in advance of our proposed initial reaction to the publication of the report); but I should not object should Fiterman want to discuss a timetable for substantive discussion. I would not propose any joint announcement; but if he insisted on some short formal joint statement after publication, I would not object in principle. I would continue to seek a definitive French view on drive-through schemes.

15. The exact timing and presentation of any decisions will obviously have to take into account Anglo-French relations. We shall in any case need to ensure that the French are fully aware of the conditions we should impose. We could then face them with the dilemma of either agreeing to our conditions as the only way



forward or of rejecting them. No public guarantees on the British side would of course mean no compensation by us to French interests in the event of default by British promoters. If the French could not accept that, they would at least share the blame for a decision not to proceed.

Conclusions

16. My conclusions are:

- i. our immediate response to the publication of the report should be a holding statement only, and we should tell the French beforehand. We should maintain a completely non-committal position until after the European elections and the end of the French Presidency;
- ✓ ii. we should maintain our firm position that we should not provide taxpayers' money or public guarantees against commercial risks;
- iii. we should leave the judgement about providing a link to the market. I think it unlikely a promoter will appear who will fully satisfy our conditions. But on balance I would not deny the market a final opportunity. If our conditions were met, we should be prepared to facilitate the project, with the political commitment and public expenditure consequences this would entail;
- iv. bridges and combined bridge/tunnel schemes present much greater financial and technical difficulties. It is very doubtful if a satisfactory privately-financed scheme could be produced: ^{??}
- v. relations with the French will need very careful handling, to avoid in particular accusations of bad faith.

17. Copies of this minute go to other members of E(A), to Geoffrey Howe and Sir Robert Armstrong. I should be grateful for any comments from colleagues by 15 May.

A handwritten signature in black ink, appearing to be 'NR' with a flourish.

N R

May 1984



CONFIDENTIAL

ANNEX A

DRAFT WRITTEN QUESTION AND ANSWER ON CHANNEL FIXED LINK

Question

To ask the Secretary of State for Transport, if he has now received the report of the Anglo-French Banking Group on the financing of a cross-Channel fixed link; and if he will make a statement.

Answer

The Anglo-French Banking Group's report on finance for a fixed cross Channel link has now been submitted to the French Minister of Transport and myself. Copies are being made available in English by the two British banks concerned, Midland and National Westminster. I have arranged for copies to be placed in the Library of the House of Commons.

The Banking Group was established in June 1982, and the report was prepared at their own initiative. Its purpose was to examine the scope for private sector finance for the Channel link.

The report is a substantial and detailed document, and the Government will need time to study it and assess wider reactions to it before reaching conclusions and having substantive discussions with the French Government. In studying the report I shall of course be in close touch with the French Minister.

Briefly, Part I of the report concludes that of the various types of scheme proposed (bridges, tunnels and combined schemes) only a twin-bored rail tunnel with a vehicle shuttle service would be likely to attract adequate private financing. Part II analyses two possible financing methods for this option, but

CONFIDENTIAL



does not make a precise proposal on the best way to proceed. This would require consultation between potential investors and other interested parties. However both the financing methods suggested by the report would require some government commercial guarantees.

It has been and remains the Government's firm position that any project would have to be financed entirely without the assistance of public funds and without commercial guarantees by the Government. So far we have seen no proposal which demonstrates that it can meet this condition. Nevertheless the Government remains willing to consider facilitating a fixed link, in collaboration with the French Government, provided that the necessary financial, technical and other aspects are satisfactorily dealt with. As well as meeting the condition already mentioned, before there could be any question of a firm commitment by the Government to facilitate the project, and fixed link scheme would need to be supported by evidence that sufficient funds would be available to ensure completion; that proper account had been taken of maritime and structural safety requirements; and that attention had been given to the implications of the scheme for inland road and rail infrastructure capacity.

We shall now allow time for prospective promoters to consider this report and assess whether they can secure the financial backing necessary for a scheme to proceed without financial support from the Government.

TYPES OF FIXED LINK CONSIDERED BY THE BANKERS' REPORT

1 The types of fixed link considered by the bankers were essentially the same as those considered earlier by the Anglo/French Study Group (AFSG) report of June 1982. These were:-

- (a) bridges, suitable only for road traffic;
- (b) composite schemes, of the type being proposed by Euroroute under Mr MacGregor, using both viaducts and immersed tubes and suitable for both road and rail traffic;
- (c) bored rail tunnels, on most versions of which trains would carry road vehicles as well as ordinary passengers.

2 These schemes are described further below.

(a) Bridges

3 These would be suspension bridges, with possibly 15 bridge piers in the sea, including 3 or 4 in each of the main shipping lanes. The piers would all need to be protected by artificial islands. Bridge spans of about 2km in length would be needed to allow the largest ships to pass between the islands. The largest span constructed so far is 1.4km, but it is believed that the technology could be extrapolated successfully. The artificial islands could have significant effects on Channel currents, which would need to be studied further. Maintenance of a bridge would be difficult and costly, amounting possibly to some £20m per year. The bridge would also be vulnerable to the harsh Channel weather conditions. Construction cost estimates vary from some £2b to £4b, with a significant risk of cost over-run because of the technical risks. Provisions for ensuring the safety and freedom of shipping would have to be drawn up and approved by the relevant international organisations.

(b) Composite schemes

4 Under these proposals road traffic is carried on viaducts (or bridges) from the coast to two artificial islands, where the road descends to an immersed tube placed under the main shipping lanes. A rail track is carried in an immersed tube from coast to coast. Compared with a bridge, these schemes reduce the obstacles created by bridges to shipping in the main shipping lanes. But the islands create a potential hazard and there could be ventilation problems from road traffic using the immersed tube (which might in itself require further artificial islands). The gradients required on the road at the artificial island could create a further difficulty for traffic. Both the islands and immersed tube could create problems for Channel currents. As with the bridge, provisions for safety and freedom of shipping would need to be agreed internationally. Construction costs have been estimated at some £5-6b, but again there must be a significant risk of cost over-runs.

(c) Bored tunnels

5 A number of variant types of scheme were considered. The main options are to build a single bored tunnel or two separate tunnels. If dual tunnels were built, it would also be possible to phase construction so that the first opened before the second. Under either option, unless the tunnel were narrow, vehicles could be carried in quite large numbers on train wagons. A dual tunnel would have about four times the capacity of a single tunnel, because the latter would require trains to be operated in "flights" (ie groups of trains in the same direction alternating with

groups in the opposite direction). The construction cost of these schemes has been estimated at between about £1b and £2b. Clearly there is still scope for cost over-runs (eg due to unexpected geological hazards); but the technology is relatively proven and the technical risks are expected to be significantly less than with the other schemes. There are unresolved technical questions associated with ventilation; but it is believed that further studies could produce effective solutions at an acceptable cost. Bored tunnels also avoid the problems with shipping and the marine environment associated with the other possibilities.


Banking Group's evaluation

6 The bankers' clear view was that from the financial point of view bored tunnels (with a vehicle shuttle) was the best option. They also considered that of the possible variants for bored tunnels, the best option was that involving dual tunnels, with the construction of both starting at about the same time. Their main reasons for these conclusions were:-

- (i) The considerably greater technical risks associated with bridges and composite schemes, with the risk covering not only the construction period but also beyond that (because of the risk of subsequent damage).
- (ii) The higher capital costs of road bridges and composite schemes compared with bored tunnels; they felt this would make it very difficult to obtain the necessary level of private sector finance.
- (iii) On central assumptions (ie before allowing for major over-runs) the dual tunnel, with both tunnels being constructed at about the same time, produced the best rate of return, except for the road bridge. But the difference with the road bridge was not sufficient to cancel out the other disadvantages of the bridge at (i) and (ii). The dual tunnel had a further advantage over the road bridge in relying on two sources of traffic (road- and rail-generated); this made traffic projections more robust.

7 A summary of the main financial features of each variant, as assumed by the bankers, is shown below.

	<u>Capital cost*</u> <u>fb at 1983</u> <u>prices</u>	<u>Maximum</u> <u>indebtedness</u> <u>fb at 1983</u> <u>prices</u>	<u>Year all</u> <u>debt repaid</u>	<u>Real rate</u> <u>of return</u> <u>%</u>
Road bridge	3.1	3.6	2010	8.5
Composite scheme (viaducts and immersed tubes)	6.1	7.2	2022	5.1
Bored tunnel				
(i) single				
(a) without shuttle or road vehicles	1.1	1.3	2020	5.4
(b) with shuttle for road vehicles	1.6	1.9	2023	4.8
(ii) dual - with shuttle				
(a) phased	2.1	2.2	2012	7.9
(b) unphased (bankers' preferred option)	2.0	2.4	2008	8.3



PUBLIC EXPENDITURE IMPLICATIONS

1. The Government has made it clear that the cost of the fixed link itself should be met without any calls on public expenditure. But it has been assumed that the associated infrastructure costs in the UK would involve public expenditure. These costs are primarily for rail terminal, track and rolling stock investment and in the case of drive-through schemes, for some road improvements.

2. This note summaries the transport infrastructure costs that are likely to be incurred by the public sector in the event of a fixed link. For simplicity the examples are confined to the dual metre rail/vehicle shuttle tunnel favoured by the Banks and the composite scheme of the type favoured by Euroroute. Attention is limited to the direct impact on BR investment and on road construction. No account has been taken of possible wider public expenditure implications, such as on tax revenue or from the effects of changes in employment.

3. The estimates are based on the work of the Anglo French Study Group in 1981. Costs are updated to January 1984 price levels, using the Retail Price Index for compatibility with work of the Banking Group. Because of uncertainties, these estimates provide only an indication of the likely order of magnitude of public expenditure effects.

4. For a Dual 7 metre Tunnel, the initial expenditure by BR on conventional rail facilities and rolling stock over the ten years or so up to the opening of the link is put in total at £365 million. This includes expenditure on improvements to terminals and rolling stock, much of which would be needed anyway. It could be contained within BR's current annual investment of roughly £300 million per year. Subsequent investment of £182 million would be required up to 2030 AD (in 1984 prices, undiscounted).

5. For the composite scheme, BR costs would be almost identical. In addition, however, additional road construction costs of some £100 million would be required, taking total initial costs to £465 million with subsequent costs of £182 million.



6. The breakdown of these cost estimates is shown in the attached Table, both (a) undiscounted and (b) discounted back to the year in which construction is started, at 7 per cent per annum. All costs are in January 1984 prices.

7. There is a degree of uncertainty in the estimate of BR costs. The precise allocation of costs to BR would depend upon the detailed agreements reached between BR and SNCF, and between the Railways and the link promoters. The estimates of the additional cost of road infrastructure are very tentative, but exclude the cost of connections to the existing network at the portal (to be borne by the promoters), and also the cost of improvements to the M20 and A20 which are planned regardless of the fixed link.

UK PUBLIC SECTOR INFRASTRUCTURE COSTS

January 1984 Prices. £ millions.

<u>A. DUAL 7 METRE TUNNEL</u> <u>Initial Investment.</u>	<u>(a) Undiscounted</u>	<u>(b) Discounted.</u>
1. BR Portal Infrastructure	95	68
2. BR Inland Rail Works		
a. London terminal	75	
b. London network	48	
c. Track to Saltwood	31	
d. Saltwood facilities	32	
e. Equipment	4	
	<u>190</u>	<u>141</u>
3. BR Rolling Stock	<u>80</u>	<u>54</u>
<u>Total Initial Investment</u>	<u>365</u>	<u>262</u>
<u>Subsequent Investment</u>		
1. Portal Infrastructure	68	14
2. Inland Rail	70	12
3. Rolling Stock	<u>43</u>	<u>8</u>
<u>TOTAL</u>	<u>182</u>	<u>34</u>
<u>TOTAL INVESTMENT TO 2030</u>	<u>547</u>	<u>296</u>
<u>B. COMPOSITE SCHEME</u>		
Total Initial BR Investment	365	262
Road Infrastructure	<u>100</u>	<u>71</u>
Total Initial Investment	465	333
Subsequent Investment	<u>182</u>	<u>34</u>
<u>Total Investment</u>	<u>647</u>	<u>367</u>

Drive-through schemes

1. Though drive-through schemes have attractions, they also present some particular difficulties.
2. The schemes proposed which would allow cars, lorries and coaches to drive the whole distance are bridges and the Euroroute project. This is a composite scheme combining bridges and immersed tubes. Both types of scheme would cost more and be subject to greater technical risks than bored tunnels (see Annex B). They would be more difficult to finance.
3. All drive-through schemes would involve some interference with navigation in the Channel in the form of artificial islands to support bridges or for ventilation shafts for immersed tubes. Obstructions to navigation in an international seaway would require international agreement by the Intergovernmental Maritime Organisation (IMO), and possibly with individual states whose shipping might be affected. This would be for the governments to pursue.
4. Drive-through schemes would involve expensive preparatory work on design; hydrological studies of the effect on sandbanks in the Channel; and environmental and ecological studies
5. It seems unlikely that any promoter would be willing to put up the substantial front end money required without a commitment from the governments that they would back his scheme politically and financially.
6. The current French government attitude to bridges and composite schemes is not known. They have in the past favoured bored rail tunnels, which would provide a shuttle service for the carriage of cars, coaches and lorries on railway tracks between loading points near the tunnel entrances.



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RESTRICTED

Noted
AT 2/5

MR REDWOOD

File

cc Mr Turnbull ✓
Dr Nicholson (Cabinet Office)

FIXED CHANNEL LINK

I learned today that the simultaneous release of the English and French versions of the clearing banks's report on the Fixed Channel Link will take place at a press conference on 22 May.

A copy will be formally lodged with Nicholas Ridley on 17 May, although a draft has been with his private office several weeks past.

NatWest are providing me with an advance under the counter copy tomorrow.

RJ.

ROBERT YOUNG

Policy Unit

2 May 1984

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

14 March 1984

MEETING WITH MR. MACGREGOR TO DISCUSS CHANNEL
CROSSING

Mr. MacGregor came to see the Prime Minister today to discuss the Channel crossing. He argued that any crossing must provide for road traffic. The rail only tunnels would perpetuate and even enhance the monopoly power of rail unions on both sides of the Channel and would fail to cater for the predominant form of freight traffic. EuroRoute did not provide a monopoly for any mode of transport.

The Prime Minister put forward the argument in the brief provided by your Department that the technology of bored tunnels was well known while the EuroRoute proposal would involve advancement of technology in a number of areas. Mr. MacGregor challenged this argument. He said that his experience in mining had taught him that bored tunnels were almost invariably much more difficult to construct than at first envisaged. It was extremely difficult to assess rock conditions in advance. He denied also that the technology involved in EuroRoute required major advances. When the proposal had been originally developed by BSC, long span bridges were involved. This reflected the interests of BSC's bridgebuilding subsidiary, Redpath, Dorman, Long. The current EuroRoute proposal was based on piers with spans of only 125 meters. The trenching and laying of pre-fabricated tunnels which was proposed had been used to construct the Bay Area Rapid Transit System in San Francisco and was being employed in the Fort McHenry Tunnel in Baltimore.

The discussion was brief and the cost of EuroRoute and its method of finance were not raised.

I am copying this letter to John Kerr (H.M. Treasury) and Roger Bone (Foreign and Commonwealth Office).

ANDREW TURNBULL

Miss Dinah Nichols,
Department of Transport.

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London
SW1

12 March 1984

Dear Andrew

CHANNEL FIXED LINK - MR IAN MCGREGOR'S
MEETING WITH THE PRIME MINISTER

/ I attach the briefing you requested
for this meeting - which I understand
will now be on Wednesday 14 March.

The briefing refers to the long delayed
banks' report. Within the next
10 days my Secretary of State will
be putting to colleagues his proposals
for handling the report when it arrives.

I am copying this letter and brief
to the Private Secretaries to the
Chancellor of the Exchequer and the
Foreign Secretary.

Yours sincerely

H C S Derwent

H C S DERWENT
Private Secretary

C O N F I D E N T I A L

CHANNEL FIXED LINK (CFL)

MR MACGREGOR'S MEETING WITH THE PRIME MINISTER TO DISCUSS
THE EUROROUTE PROJECT

1. Mr MacGregor is to meet the Prime Minister on 14 March. There was a previous meeting on this subject on 17 November 1981. A copy of a letter recording the discussion is at Annex A.
2. Mr MacGregor will no doubt want to urge on the Prime Minister the need for a fixed link across the Channel allowing cars and lorries to drive between the UK and France, adding that his "EuroRoute" concept caters also for through rail passenger and freight traffic. His scheme is described in EuroRoute's own brochure at Annex B.
3. He is likely to say that the project could be started quickly and finished quickly, that it is based on proved technology, and that it would cause no navigational problems in the Channel. These points are covered in Annex C which summarises the various forms of fixed link proposed. So is the question of cost.
4. The Prime Minister will recall that "E" Committee in May 1982, under her chairmanship, decided that the UK interest in any CFL would have to be financed entirely from market sources without any government guarantee against commercial or technical risks. When she met the French Prime Minister at the meeting of the Franco/British Council in Edinburgh soon afterwards she expressed a strong preference for a "drive through" form of link while agreeing that a group of British and French banks (Midland, Nat West, Credit Lyonnais, Banque Nationale de Paris, Banque Indo-Suez) should study and report to the two Governments on whether any or all of the various schemes could be financed by the market on these terms.
5. The report, long delayed, is expected to be delivered about the end of March. Its content has leaked. Mr MacGregor will know that it is likely to conclude that the only scheme which could attract market finance is that involving twin bored tunnels providing a shuttle service for cars and lorries. (This scheme is described and illustrated in the brochure at Annex D issued by 5 construction companies who have just merged into a single promoting group.) Even that, in the opinion of the banking group, would

require some element of government guarantee, Mr MacGregor's EuroRoute scheme is considered to be beyond the capacity of the market because of its cost and the technical uncertainties associated with it.

SUGGESTED LINE TO TAKE

6. The Prime Minister may want to say that she is interested in but certainly not committed to the idea of a fixed link. She will no doubt want to stress the "no public money, no commercial guarantee" condition. She may want to ask Mr MacGregor where, given the leaked information from the Banking Group report, he sees the money coming from, what he sees as the role of the EuroRoute Group (see Annex B for its composition) and who he sees as the client commissioning the project, financing it and carrying it through construction into operation.

7. She may want to end on the note that she and Mr Ridley will want to see how international financial institutions and industry generally react once the Banking Group report is published.

8. She may also want to say that this of course cannot be exclusively a matter for the UK Government. There will have to be consultation with the French Government, but she knows that Mr Ridley would like to see how the market has reacted before he gets into discussion with his French colleague on the decision to be taken by the two Governments.

BACKGROUND (TECHNICAL)

SCHEMES PROPOSED

1. Numerous schemes have been put forward for "fixed links" across the Channel. They fall into four main categories:

i. Tunnels bored through the chalk (the kind of scheme abandoned by the Labour Government in 1975) providing a shuttle service for cars and lorries, but catering also for through rail passenger and freight services. No one is now promoting the idea of a tunnel for through rail services only.

ii. Multiple span suspension bridges, with individual spans of 2-3 km (the biggest single span suspension bridge so far built is the Humber: 1.4 km).

iii. Immersed pre-fabricated tubes, incorporating a road and a railway. These pose enormous ventilation problems. No one is currently promoting such a scheme, but there is still some interest on the French side.

iv. A composite scheme, Mr MacGregor's concept, which involves vehicles driving out over viaducts to an artificial island, spiralling down to an immersed tube under the main shipping lanes, then up through another island and back onto a viaduct. There would be a railway in immersed tube throughout, linking up with the roadway in the central section.

TECHNICAL PROBLEMS

2. The technology of bored tunnels is well known. Surveys have shown that the chalk below the sea-bed is virtually ideal, with little risk of major faults being found. Work still has to be done to ensure that adequate ventilation can be achieved and overheating avoided. But these should be soluble at modest cost.

3. Multiple span suspension bridges, with individual spans of 2-3 km represent a great leap in technology. Lengthy and costly study would be necessary to affirm their technical feasibility.

4. Immersed tubes do not require a technological leap from a constructional point of view. The composite scheme would present fewer ventilation problems. But even that is a considerable extrapolation of what has already been done elsewhere (Mr MacGregor will cite the Chesapeake Bay Bridge/Tunnel). The fact is that there is no experience of dredging trenches (the size of a Marsham Street tower) at depths experienced in the Channel nor of laying units of 125 m long, weighing about 60,000 tonnes, in the midst of the kind of traffic experienced in the Channel.

NAVIGATIONAL PROBLEMS

5. Bored tunnels pose no navigational problems. There is no obstacle to shipping.

6. A bridge with multiple piers would pose a major hazard, both to the bridge and to shipping. Navigating a super-tanker through a 2 km span is not easy even in the best light and weather conditions.

7. The islands and ventilation shafts required for the composite scheme would create a similar hazard, though Mr MacGregor is likely to assert that the former would serve to re-inforce lane discipline in the Channel.

8. But the fact is that no one knows what effect the artificial islands in particular would have on currents in the Channel and whether they would result in any shifting of the large sand banks which already constitute an obstacle to navigation. EuroRoute recognise the need to study this by hydraulic modelling. This will take time and cost millions of pounds. Britain and France would have to satisfy themselves that safe passage could be ensured and would have to indicate to the International Maritime Organisation how this could be achieved.

COSTS

9. An official Anglo/French Working Group which reported in June 1982 estimated the cost of twin bored tunnels providing uninterrupted vehicle shuttle services and through rail services at under £2,000M. The probable cost of Mr MacGregor's scheme was put at around £5,000M (both January 1981 prices). Mr MacGregor is likely to assert that, as a result of further costing, taking into account

developments in techniques, the cost of his scheme is now lower than that at 1983 prices. He is likely to protest at what he considers is the false impression given by the Anglo/French Banking Group that, assuming inflation at 9% per annum and a real interest rate of 4%, the maximum outstanding loan incurred in financing the project could be as high as £54 billion.

File
7 March 1984
Policy Unit

- MR TURNBULL

cc Mr Redwood
Mr Owen

CHANNEL TUNNEL LINK

In line with our conversation the other day, I am minuting you purely for advance information.

1. The recent history

In June 1982 an Anglo-French Study Group (AFSG) comprising officials from the UK and French Governments completed an assessment of six options for a fixed Channel link - three tunnel schemes, two bridge schemes, and a composite bridge and tunnel. It found in favour of a double bore rail only link. (The term 'double bore' is slightly misleading, as there would be a third bore running between the other two for maintenance and emergency purposes).

Armed with the AFSG analysis, the two Governments asked an independent group of banks (comprising NatWest, Midland, Banque Nationale de Paris, Credit Lyonnais, and Banque Indosuez) to assess the financial feasibility of all the schemes proposed, to advise on a legal and organisational structure and to devise financial concepts.

The Banking Group delivered Part I of its Study in July 1983. This confirms the AFSG recommendation that the double bore rail link was the preferred option, financially as well as technically.

Part II, which deals with the financing arrangements and the legal, organisational and political aspects of the link, is due to be published late this month or early next. It seeks specific responses from both Governments, and in my view will re-awaken public interest in the project after years of hibernation.

2. What will Government be asked to do?

It will be asked:

- (a) To approve the idea of a fixed Channel link.
- (b) To approve the recommended form of link.
- (c) To agree a legal and organisational structure.
- (d) To make certain political and financial guarantees, which themselves are bound up with the selection of a financial structure.
- (e) To fund part of the Development Phase Costs, which are put at £18 million over two years at 1983 prices. This phase covers project detail design, legal and parliamentary drafting, and fund raising.

Commitment to (e) above will be taken as commitment to the project unless insuperable technical obstacles arise.

Finally, the report seeks responses from both Governments within six months.

3. Why a Fixed Channel Link and why this form of Link?

I understand that the need for a link is based on forecasts of increasing traffic demand as used in the 1982 AFSG study. I expect to obtain the up-dated calculations shortly. Suffice it to say for the moment that the fixed link promoters see the markets for the link as freight, the business traveller and the holiday-maker in that order.

The double bore rail tunnel was chosen because it offered the least technical risk in combination with the greatest financibility (the two are of course related). Bridge schemes were ruled out as too hazardous to be insurable, and in view of the long bridge spans which would be involved, technically too risky as well. Tunnels for road vehicles over such a length present unsolved problems of ventilation and a relatively high risk of accident hazard. The composite Euroroute

scheme which involves a bridge out to an island, then down to a cast iron tunnel lying on the seabed, then back up to an island and bridge, was ruled out on grounds of time scale and financibility (again, the two are related) and technical uncertainty.

The scheme proposed provides a rail shuttle between a site near Folkestone and a site near Calais. The shuttle will accommodate passengers and roll on/roll off vehicles from cars up to heavy lorries. It will also permit long distance through services by rail for passengers and freight, between UK and Continental destinations.

4. Legal and Organisational Structure

What is proposed is an Anglo-French Government to Government Treaty which gives birth to an Anglo-French Channel Tunnel Authority which in turn will produce a Joint Venture Agreement binding two national companies. An Arbitration Body is also proposed. It is intended that the Treaty should give the Authority a fifty year licence to operate the link.

5. Financial and Political Guarantees

The two principal problems are:

- (i) The scale of the finance to be raised and
- (ii) The differing attitudes of the Conservative UK and the Socialist French Governments.

5.1 Taking finance first, we should note that statements of cost of the various options in 1983 money are entirely misleading. The period of detail design (two years), construction (upwards of six years) and operation before cash neutrality is reached (upwards of a further eight years) mean that financing costs will greatly outweigh those of labour and material inputs. The recommended dual bore rail link is

priced at £1.9 billion in 1983 money, but at roughly £5 billion in outturn terms. Euroroute, c£5 billion in current money, is forecast to cost £50 billion plus in outturn terms.

Furthermore, it is highly desirable, and probably essential that the scheme promoters should be assured of access to funds over the whole period of 16 to 20 years before cash flow turns positive. Finance on a year by year basis does not look suitable.

There is, according to the Banking Group, no tried and tested method in the Western World of financing such a large single project over such a long period; so novel methods will be required. These are complicated by the fact that the UK side wishes to see its half share privately financed while the French wish their half share to be under public ownership. Furthermore, the French, it is said, will take a deeply suspicious view of the untrustworthy British, who have pulled out before. They will look for especially tight guarantees of continuity.

The Banking Group has outlined two financing concepts, known as 'Procedural Structures' 1 and 2. Structure 1 is essentially a UK proposal and Structure 2 the French proposal. I attach a summary of both procedures in the Annex to this note, with key points underlined.

5.2 In reality it is hard to distinguish a dividing line between political and financial guarantees.

Towards the political end of the spectrum are guarantees of non-cancellation (other than for insuperable technical reasons) and the provision of planning consent and connecting infrastructure.

At the financial end lie some form of contribution to the Development Phase Costs, guarantees of further funds if costs over-run even the insured limit, and some form of support to the Link Company when it needs to convert bank debt to bond financing. The thought here is that the Company will need Triple A rating to bring this off, but that it will have too little record to have earned it, so that some sort of guarantee might be needed.

6. Presentational Issues

Once Part II of the Banking Group Report is published, the ball will effectively bounce into the court of the UK and French Governments. Both will need to play a shot, and not take too long over it.

At very least, each Government will have to say whether or not it supports the idea of a fixed Channel link and whether it supports the particular scheme recommended. There will of course be a cacophony of lobbying throughout - from the anti-link groups, from rival scheme promoters (especially, I think, Euroroute), from the road and rail lobbyists, from MPs and MEPs, from industry, and of course, from the French. It will seem like A320, but much much worse.

All that apart, the Governments will have to decide whether they can reach any decision in the six months suggested, let alone commit to a financing procedure and the legal/operating proposals. In the case of A320, we took six months to get from final proposal by British Aerospace to an announcement of go-ahead. Can we expect to do the same for the Channel link, with a recess occurring part way through?

Do we have the right Government machinery in place to look at the scheme in detail? I doubt it. For instance, if we wanted to recheck the market for the fixed Channel link, and therefore the commercial soundness of the scheme, how would we do it? How will we communicate simultaneously with banks, promoters, and the French Government? Do we entrust the lead role to the Department of Transport, and if not where else?

To use a fashionable phrase, I do not see the fixed Channel link as a grade A banana skin. But I well recall the Prime Minister's opening remarks at the meeting of E(A) which took A320 - 'this looks pretty bad, so I guess we'll have to do it.'

R.J.

ROBERT YOUNG

Financing Concepts

A private sector led financing for a project of the size and nature of the Channel Link is unprecedented. Consequently it has not been possible to provide a tried and tested financing plan. This factor coupled with a strong demand on the French side that there must be Government undertakings to ensure completion of the Link on this occasion has led to the preparation of two Financing Plans referred to as Procedural Structures.

Procedural Structure I is essentially the work of the UK Banks and Procedural Structure II is essentially the work of the French Banks. The two concepts are outlined below on a comparative basis.

All figures are in £ millions and estimated repayment dates are based on January 1986 start of construction and the Medium Traffic profile.

The Internal Rate of Return of the Project is;

<u>Base Case</u>	<u>Overrun Case</u>
17.6	15.6

Procedural Structure I(a) Financing Structure

Concepts not well known within all sectors of the European and full International Banking Markets but have a similarity to those used in the USA for construction of utilities. However, such a financing structure has never been used for a project of the size and nature of the Channel Link.

(b) Funding

Requires all funds to be committed prior to start of construction.

(c) Investors

	<u>Base Case</u>	<u>Overrun Case</u>
Total Capital	£ 540	£ 849
Above in 1983 terms	£ 393	£ 542
Return to investors	20.4	17.3

Procedural Structure II

Concepts well known to International Banking markets as they have a similarity to those used in natural resource and related primary industry projects. However, some aspects of the financing structure have never before been presented to the markets.

Require progressive commitment of funds during the initial years of construction.

<u>Base Case</u>	<u>Overrun Case</u>
£ 540	£ 540
£ 393	£ 393
21.6	19.9

Procedural Structure I

The major part of equity is raised by issue of Convertible Loan Stock with further stock being issued in lieu of interest payments. Investors are allocated 25% of net revenue after payment of debt interest throughout repayment period subject to principal repayments being met. All excess revenue will be for the account of investors.

(d) Lending Banks: Non-Recourse Loan (NRL) risk

	<u>Base Case</u>	<u>Overrun Case</u>
Maximum NRL	£5,398	£5,936
Above in 1983 terms	£1,920	£1,776
Year of Final Repayment	2000	2002

Commitment from outset includes a specified amount of additional non-recourse monies in the event of limited cost overrun.

Substantial cost overrun cover to be provided if possible by the insurance market and/or in case of need Governments/EEC. In addition lending banks have a re-financing risk for which particular support is required from Governments/EEC.

(e) Contractors: Terms of Contract and Constructors Loan Stock (CLS) Risk

	<u>Base Case</u>	<u>Overrun Case</u>
Maximum CLS Value	0	£1,018
Above in 1983 terms	0	£ 235
Year of Final Repayment	-	2004

The terms of contract proposed involve acceptance of an overall target price. In addition certain uninsurable risks, if they occur, will result in issue of Constructors Loan Stock in lieu of direct payment. In effect this is a prescribed method of extended retention.

Procedural Structure II

The major part of equity is raised by issued of Convertible Loan Stock with further stock being issued in lieu of interest payments. Investors are allocated 10% of net revenue through the repayment period and share up to 50% of future excess revenue with non-recourse lending banks and Indexed Bonds holders until all debt has been repaid.

Commitment is expected to be after the first two years of construction. Funds provided in a manner which permits a progressive increase of non-recourse drawings within an overall committed limit. Normally, two years after completion all bank debt should be non-recourse.

Lending banks do not take any cost overrun risk before completion of the service tunnel but thereafter they may have to share additional cost overrun risk unforeseen at that time.

The terms of contract are not prescribed and it is envisaged that they would follow the cost reimbursable standard pattern established by Governments relative to major infrastructure projects

Procedural Structure I

(f) Insurance Market

All normal levels of insurance cover for construction and operation of a major infrastructure project will be obtained plus, to the extent possible, cover against failure of individual contractors and suppliers.

In addition insurance cover will be sought relative to major unforeseen cost overrun with particular emphasis on technical/geological difficulties and interest charges during resultant delay. The cover is intended to be obtained either through a direct claim insurance or by way of surety.

Indicative figures are £500 million for construction problems (increasing with inflation) plus £500 million fixed for interest charges.

(g) Governments/EEC

(i) Risk taken pre-completion

	<u>Base Case</u>	<u>Overrun Case</u>	<u>Base Case</u>	<u>Overrun Case</u>
<u>Recourse Loan (RL)</u>				
Maximum RL	0	£4,605	£ 868	£ 952
Above in 1983 terms	0	£ 691	£ 366	£ 338
Year of Final Repayment	-	2011	1995	1997
<u>Indexed Bonds (IB)</u>				
Maximum IB Value	N/A	N/A	£3,211	£8,008
Above in 1983 terms	N/A	N/A	£ 572	£1,428
Year of Final Repayment	N/A	N/A	2005	2009

NOTE: If it is not possible to issue Indexed Bonds then an equivalent Recourse Loan or Normal Bond attracting interest at 13% p.a. would increase the Governments/EEC guaranteed debt by £2,218 million in the Base Case and £5,214 million in the worst case of Cost Overrun and Low Traffic.

Procedural Structure II

All normal levels of insurance cover for construction and operation of a major infrastructure project will be obtained plus, to the extent possible, cover against failure of individual contractors and suppliers.

No additional insurance cover is envisaged.

(11) Risk Taken Post-Completion

Revenue Bonds
(RB)

	<u>Base Case</u>	<u>Overrun Case</u>	<u>Base Case</u>	<u>Overrun Case</u>
Maximum RB Value	£5,290	£5,758	N/A	N/A
Above in 1983 Terms	£1,222	£1,120	N/A	N/A
Year of Final Repayment	2007	2013	N/A	N/A

Governments/EEC must assess and accept technical and economic risk from the outset. At such time they are required to provide undertakings to cover uninsurable substantial cost overrun risk and post completion revenue decline risk after transfer of the Non-Recourse Bank Loan to the Bond Market.

The former referred to as a Continuity of Funding Undertaking is needed to support the raising of additional funds in the event of unforeseen cost overrun. However, the impact of the undertaking should be alleviated in terms of volume by virtue of initial commitments from investors, lending banks and contractors plus the provision of insurance cover. Furthermore the undertaking can only be triggered if the project is still demonstrated to be economically viable when calls for assistance are made.

The latter referred to as a Bond Issue Support Agreement is required in order to facilitate the transfer of non-recourse bank debt progressively to the capital markets by issue of Revenue Bonds. Such action is intended to take place as from the third year of operation. The acceptance by Governments/EEC of this post completion revenue decline risk is mitigated by the fact that Revenue Bonds can only be issued after it has been demonstrated that the estimated future net revenue over a maximum period of 25 years from the date of each issue is sufficient to repay the bond amount at maturity.

Governments/EEC must assess and accept full technical and economic risk from the outset. Initially Governments/EEC are committed to accept the market risk in case of any failure in the non-recourse loan syndication which is not strictly due to a deterioration in the project economics. Secondly, when bank debt is committed a part of it will be guaranteed until such time as any recourse drawings are converted to non-recourse debt in accordance with declining cover ratios on regularly re-estimated future net revenue. Governments/EEC must also undertake to guarantee the necessary level of Indexed Bonds to complete the base case financing plan. All cost overrun arising or estimated to arise before completion of the service tunnel are also guaranteed together with a limited stand-by bank loan arranged for covering cost overruns arising after completion of the service tunnel.

All of the guarantees required from Governments/EEC are intended to have concise limiting terms and conditions and the impact of some of them should diminish over time. Others are conditional upon events presently unforeseen such as failure of bank loan syndication, and construction cost overrun. All are limited by the requirement of continued economic viability of the project throughout the construction period. However, at start of construction Governments/EEC will bear all risks other than a downturn in project economics during the initial construction years. Furthermore, it has to be assumed that they will be bound politically to complete the project.

Procedural Structure I

Procedural Structure II

Both Procedural Structures require Governments/EEC support relative to:

- Development Phase costs, estimated at £18 million in 1983 terms;
- Political abandonment of the project: the notion of political risk covers any governmental act which either cancels or destroys the equilibrium of the project at any time during its life;
- Provision of all connecting infrastructure by or prior to the estimated completion date of the project.

(h) Assessment

It may be concluded that Procedural Structure I could be acceptable to Governments/EEC in so far as the levels of support required from them are considered to be the absolute minimum needed for implementation of the project. However, the risks proposed for investors and particularly lending banks are substantial. Therefore overall acceptability to all parties involved cannot be prejudged.

It may be concluded that Procedural Structure II could be acceptable to lending banks in so far as their assumption of non-recourse is geared to progressively increasing knowledge of project economics. However, the risks proposed for investors and particularly Governments/EEC are substantial. Therefore overall acceptability to all parties involved cannot be prejudged.

Conclusion

The two financing concepts presented are not mutually exclusive, there are obviously many variations inbetween and a definitive financing plan can only be reached by negotiation. If the two Governments are prepared to enter into discussions with the Banking Group then it should be possible to establish an initial financing plan that can be tested in the market. Although such a market test would not be conclusive it will enable Governments to obtain a clearer appreciation and understanding of market capacity.



10 DOWNING STREET

1) Mr Tumbull

2) CF

Meeting arranged for 3 pm
on Wednesday 14 March.

DFE and DTP will brief.

Sets for Energy will arrive
at 3.15 pm.

Dms

7/3

3/3.15 on Wed 14th

Andrew

Ian McGregor's secretary has just telephoned me.

Apparently he would now like to come to see the Prime Minister about more pressing issues than just the Channel Tunnel and was hoping for an earlier meeting that 29th March.

I explained that we had originally understood it was only about the Tunnel which he wanted to talk to the PM about and that the PM's diary was particularly overcrowded at present.

Ian McGregor would be very keen for an early opportunity to see the Prime Minister, and I said that I would pass this request on to the Private Secretary concerned. Do you think you or David could ring her this afternoon? She is called Sheila Mann and the telephone number is 235-2020.

Tessa
7.3.84



10 DOWNING STREET

Caroline

We spoke about the attached.

Could you let me have a time so that MA can ring Ian McGregor?

I will ask MA to explain to I McG that Andrew will be at the meeting - though no officials from any Department. OK?

Tessa

Tessa
29.2.84

14.30-15.15.
Fri 9 March
let me know
if it is
confirmed as I
have to tell
Andrew T.

CR 113

28th February 1984

Thank you very much for your letter of 23rd February. I will have a word with the Prime Minister and will then be in touch with Ian McGregor direct.

MICHAEL ALISON

Ian Gow Esq TD MP

Prime Minister

Would you be content to see Ian McGregor on the terms set out in the attached letter which I have received from Ian Gow, subject, of course, to diary commitments?

It would be a particularly appropriate opportunity for you to express your concern about his health following the mining assault.

Terrance

Yes

ms

M MICHAEL ALISON
28.2.84

IAN GOW, T.D., M.P.



HOUSE OF COMMONS
WESTMINSTER SW1A 0AA

23rd February, 1984

Ian Michael,

Ian MacGregor

The Prime Minister discussed with him (and also with John Howard) during the last Parliament their enthusiasm for a Channel Tunnel.

The Prime Minister took the line that she was in no way opposed to a Channel Tunnel, but that there could not be a penny piece of "public" money for the project.

I spoke to Ian MacGregor on the telephone this morning - really in order to enquire how he was after the assault upon him yesterday; he said that he would like to have a 1/4 hour with the Prime Minister, on his own (apart from you) in order to bring her up to date with his thinking about the Channel Tunnel idea.

I think that the Prime Minister will be very happy to see Ian MacGregor, if only to express her good wishes to him for a speedy and complete recovery; he was in some pain when I spoke to him today.

Do you think that it would be possible, please, for you to arrange for Ian MacGregor to have ten minutes or 1/4 hour of the Prime Minister's time, without officials being present?

Michael

The Right Honourable Michael Alison, M.P.
Parliamentary Private Secretary to the Prime Minister,
10 Downing Street,
London SW1



DEPARTMENT OF TRADE AND INDUSTRY

Room 11.01 Ashdown House 123 Victoria Street SW1E 6RB
Telex 8813148
Telegrams Advantage London SW1
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

JF5011

PS/ Secretary of State for Trade & Industry

4 August 1983

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

sk

Dear Michael,

EURORROUTE

You copied to me your letters of 19 and 22 July to Dinah Nichols (Department of Transport) about the desirability of the Prime Minister meeting Sir John Howard and Mr Ian MacGregor to discuss the Euroroute proposal.

2 So far as DTI are concerned, there are no new developments to report and we do not therefore recommend a further meeting with Mr MacGregor on this subject.

3 I am copying this letter to Dinah Nichols.

Yours ever,

Caroline Varley

CAROLINE VARLEY
Private Secretary

Transport
Channel
Tunnel #2

83

10/1



100-1000-11



10 DOWNING STREET

From the Private Secretary

29 July 1983

Dear Mr MacGregor,

The Prime Minister has asked me to thank you for your letter of 21 July, about another meeting on the EuroRoute Channel road and rail link.

The Prime Minister has asked me to write to you to say how sorry she is that it is just not possible to fit such a meeting, with yourself and Sir John Howard, in her very crowded diary at present. But she will very much bear in mind the case you advance for the EuroRoute scheme.

Yours sincerely,

Michael Scholar

Ian MacGregor Esq.



je

10 DOWNING STREET

From the Private Secretary

29 July 1983

Dear Sir John,

The Prime Minister has asked me to thank you for your letter of 19 July, about another meeting on the EuroRoute Channel road and rail link.

The Prime Minister has asked me to write to you to say how sorry she is that it is just not possible to fit such a meeting, with yourself and Ian MacGregor, in her very crowded diary at present. But she will very much bear in mind the case you advance for the EuroRoute scheme.

Yours sincerely,

Michael Scholar

Sir John Howard, DL.

je



10 DOWNING STREET

(1)

Prime Minister

letters attached

Mr MacGregor and Sir John

Howard are again wanting to see you

to make the case for the Channel
bridge / Euroroute. They can only

manage the afternoon of 4th August.

Tom King's office advise against:

nothing new to say, waiting for the British
and French banks' report.

Agree to decline?

Reyes-

MLS 26/7



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1A

25 July 1983

Dear Mr Scholar

EUROROUTE

Thank you for your letter about the suggestion that Ian MacGregor and Sir John Howard should meet the Prime Minister once again to discuss this project.

My Secretary of State saw them on 7 July. It seems clear that the Euroroute group has made little progress in developing its scheme for a cross-Channel link in the last year or so. Mr MacGregor had little to say that was new. I think it unlikely that there would be any advantage in a further meeting with the Prime Minister at the present time.

As you will know, we are awaiting the report of a group of British and French banks considering the financial feasibility of the numerous schemes under consideration. We expect their report around September. No progress can be made before then.

Yours sincerely
Andrew Melville

for
MISS D A NICHOLS
Private Secretary

PS The further letters enclosed with yours of 22 July add little, and a meeting still seems unlikely to achieve much, though the Prime Minister may wish to offer one as a matter of courtesy.

Transport,
Channel Tunnel,
PTZ

DEPARTMENT OF TRANSPORT
LONDON SW1P 3BU



CO-ORDINATOR

11



hls Transport (W)

10 DOWNING STREET

From the Private Secretary

22 July, 1983

EUROROUTE

Further to my earlier letter to you in which I sought advice as to whether the Prime Minister should see Mr. MacGregor and Sir John Howard about the Euroroute scheme, I enclose two letters received here today from these two gentlemen which I am sure you wish to take account of in proffering advice.

I am sending a copy of this letter to Jonathan Spencer (Department of Trade and Industry).

M. C. SCHOLAR

Miss D. Nichols,
Department of Transport



BRITISH STEEL CORPORATION

IAN MACGREGOR

21 July 1983

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

Dear Prime Minister,

Before I leave the B.S.C., Sir John Howard and I would greatly value another meeting with you on the EuroRoute Channel road and rail link.

Ministers indicate that the Government will take no further action until the current study by the two British and three French banks is completed. Although they were originally due to report eight months ago, I doubt that their findings will be conclusive. The sponsors of the EuroRoute scheme for example, have not so far been subjected to the critical questioning which would be required for the proper evaluation of their case.

The EuroRoute road and rail link, which I initiated, is a viable commercial proposition as the attached chart indicates. The origin of this scheme was an attempt to propose self-financing infrastructure projects of major proportions at a time when government expenditures were difficult. This example reflects similar activities in the construction of toll roads and bridges in the Eastern United States during the depression of the 1930's. These projects were self-financing and the infrastructure of roads and bridges around New York are a testimony to the far sighted officials at that time and the validity of their concept. It seems to me that we have a parallel situation today and with the EuroRoute modular design, the opportunity of harnessing across

/contd



The Rt Hon Margaret Thatcher MP

21 July 1983

/contd

the whole length of the country, human and other resources which are not currently occupied. This would have a dramatic impact on the public concern about future employment and bring benefits to the Government financially and politically.

I hope we may be able to meet.

Sincerely,

Jan Macpherson

JOHN HOWARD & COMPANY Plc

CIVIL ENGINEERING CONTRACTORS
FOUNDED 1927

VICTORY HOUSE,
MEETING HOUSE LANE,
CHATHAM,
KENT, ME4 4PP,
ENGLAND.

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D.E. WRATTEN M.I.C.E.

Associate
R.S. BURLEIGH B.A., B.A.I.

Secretary
P.D. GILL

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CABLES: HOWARDENCO CHATHAM
TELEX: 965365 HOWGRP G
TELECOPIER Gp 11: (0634) 405013

Our Ref: JGH/WMS

2 PPs

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
10 Downing Street,
London.

19th July, 1983.

Dear Prime Minister
EuroRoute

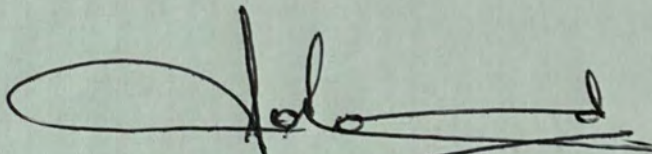
Mr. Ian Macgregor is particularly anxious to have a further word with you before he leaves the B.S.C. It was in November 1981 when we last discussed this very important project with you.

Since then apparently very little progress seems to have been made by the Government Departments due to the delay which is taking place in their receiving the long awaited Five Bank's Report on our submission that this project is financially without recourse to the taxpayer.

I do hope you will be able to spare the time to see us.

With kindest regards,

Yours sincerely,



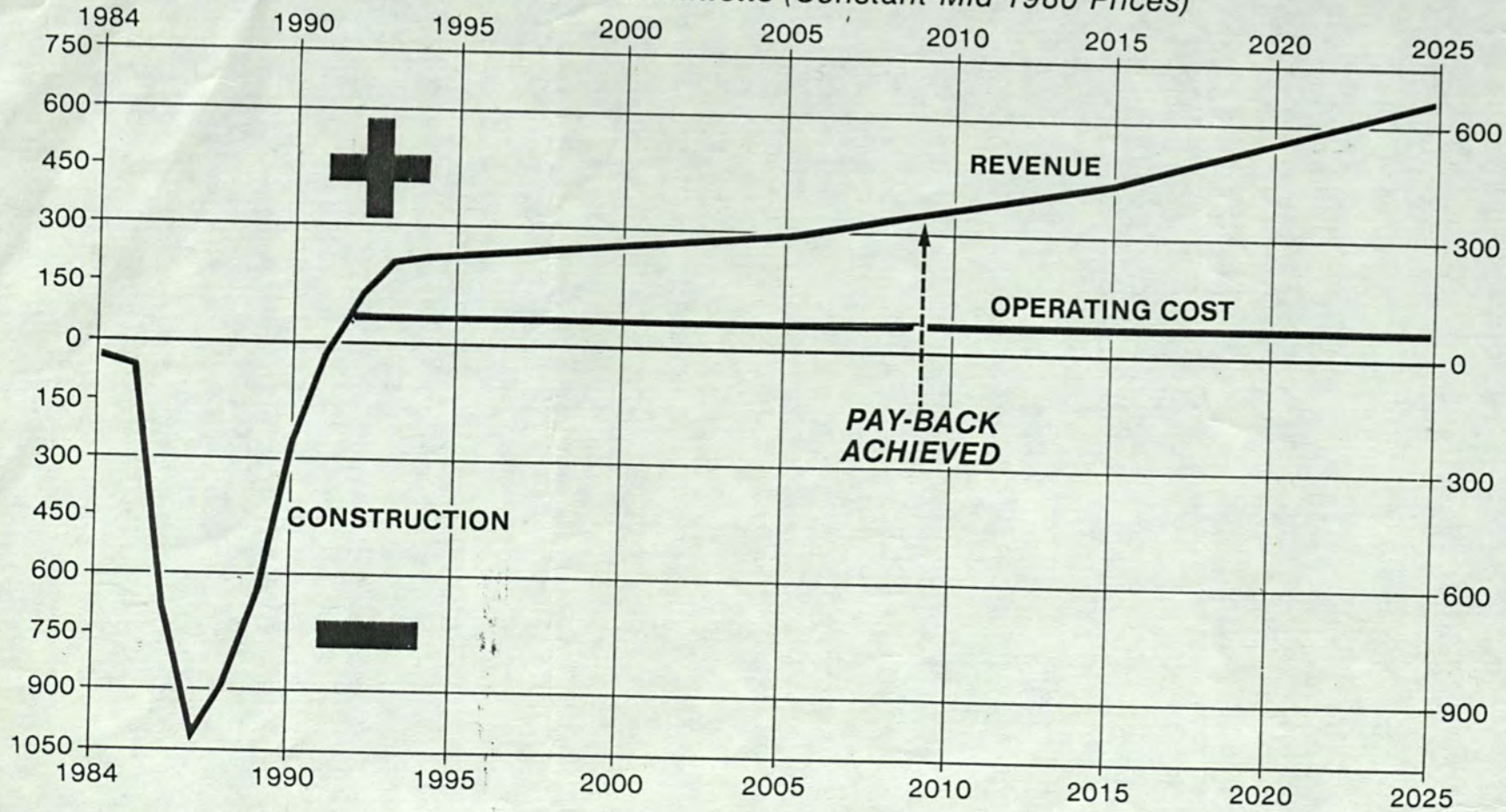
John Howard.

Transport: Chemel Tund: P72

[Faint signature]

REVENUE STATEMENT

Net Cash Flow - £ millions (Constant Mid-1980 Prices)



TRANSPORT: Chand Tunnel: Pt 2.



10 DOWNING STREET

From the Private Secretary

19 July 1983

Euroroute

We have had a tentative enquiry from Mr. Ian MacGregor of the British Steel Corporation about whether he and Sir John Howard could come in and see the Prime Minister on 4 or 5 August about the proposed Euroroute. The enquiry was made by Mr. James Siddons of the British Steel Corporation, and I understand that the suggestion that these two gentlemen should see the Prime Minister emanated from Mr. Edward Du Cann.

B.F.1
I pointed out to Mr. Siddons that the Prime Minister had already seen Mr. MacGregor and Sir John Howard on this subject, and I wondered whether there had been any changes which merited another meeting. I also made discouraging noises about the pressure on the Prime Minister's diary. I would be grateful for advice as to the desirability of the Prime Minister seeing Mr. MacGregor.

I am copying this letter to Jonathan Spencer (Department of Trade & Industry).

M. C. SCHOLAR

Miss Dinah Nichols,
Department of Transport.

TIM

Mr. James Siddons of the
British Steel Corporation
telephoned (735 7654 X 345)
to see if the Prime Minister
might be available for a meeting
with Mr. Ian McGregor and others
on either 4 or 5 August or alternatively
at some other time around that date.

Evromke

+ Sir J Howard

E Jv Cann

Sue

18 July 1983

10, Downing Street.

Whitehall.

Long money

got concerned

business worthy

restriction of competition

matter before us

cannot comment

MCS to see

BRITISH STEEL CORPORATION

Prime Minister

IAN MACGREGOR

The fixed Channel

13 June 1983

link again,

from Ian Macgregor.

The Rt Hon Tom King MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1P 3EB

RIS / MS 15/6
6 MS

Dear Mr. King,

May I congratulate you on your new appointment and also put to you an issue for urgent consideration. This is the fixed Channel link. The latest proposals have been under consideration by Britain and France for three years. I would hope that early in the new Parliament the Government reaches a conclusion on this subject which could bring substantial economic and political benefits.

Twenty million people crossed the Channel last year and sixteen million tonnes of unitised freight passed between Britain and neighbouring continental ports. Most of this traffic is road transport and the trend is upwards. The traffic exists to justify a fixed crossing.

The main options are a twin rail tunnel with road vehicles loaded onto trains for the journey or a drive across scheme for road vehicles combined with a twin track railway. The latter project is the EuroRoute scheme which I initiated. It involves no new technology and is economically and legally feasible. It would loosen the transport restrictions which beset many exporters in the high costs from Britain and provide a low cost route to Europe. It would not give a monopoly to one form of transport or put the crossing under the control of the railways as would any rail tunnel. Fifty thousand jobs could be created in Britain during building. Not only would it be profitable in its own right but its construction would bring a saving of some £700 million to the Exchequer through increased tax receipts and savings on unemployment benefits.

No one doubts that the Government will have to agree the framework for the international treaty and legal arrangements. It will also need assurances that the crossing Authority will not discriminate against potential competition. Thus it is unlikely to give the

/contd

The Rt Hon Tom King

13 June 1983

/contd

operators carte blanche to set their own commercial tariffs. The French and British governments are therefore likely to be involved in setting the conditions under which a crossing will be built and operated and thus they will determine the background against which the private funding can be arranged. I anticipate that the much delayed banking study will make this point.

Initiative by the British Government to end uncertainty about their future attitude to the link would be welcomed. I have suggested some action points in the attached annexe which might be handled quickly and lead to the Government being able to take a decision in principle about this important issue. I am taking the liberty of copying this letter to the Prime Minister given the personal interest she has already shown in the subject. I would also appreciate an early meeting with you to discuss the advantages of the EuroRoute solution with particular reference to the financial returns which the project generates.

Sincerely,

San Marbuzor

FIXED CHANNEL LINK

IMMEDIATE ACTION POINTS

If the promoters are to proceed, the Government needs to decide on the form of link with which it could co-operate. This requires it to undertake the following:-

- 1) Confirm the traffic forecasts for cross Channel traffic.
 - 2) Consider how these forecasts should determine the form of link chosen i.e. rail tunnel or road and rail crossing.
 - 3) Take advice from international consulting engineers to confirm the feasibility of the engineering design of a link to carry the required traffic.
 - 4) Confirm the plausibility of the costs of a suitable design to the point where there is a sufficient basis to support the choice of one form of link rather than another.
 - 5) Insofar as it relates to the choice of scheme confirm the financial and economic returns expected. This is one aspect of the current studies being undertaken by the British and French Banks on behalf of the Government.
 - 6) Define the preferred project of the British Government and agree with the French Government a mutually acceptable link including the involvement of French companies. Then:-
 - (i) both the governments and promoters of the preferred link to agree what, if any, detailed studies are necessary to confirm the final design
 - (ii) agree what statutory planning and other procedures are required and in the light of these considerations agree a feasibility timetable for preparation and construction
 - (iii) the Governments to agree with the European Community their respective roles.
-

Covering **CONFIDENTIAL**



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

ck IV
Pras

2pp

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

NBPM

14 June 1982

ms 14/6

Dear Michael,

FIXED CHANNEL LINK

Thank you for your letter of 11 June.

I now attach a revised copy of the answer the Secretary of State will be making on Wednesday about the Fixed Channel Link. It has been agreed with the CPRS, in the light of Mr Sparrow's letter of 9 June. I hope it is acceptable.

I am copying this to the Private Secretaries of the Chancellor of the Exchequer, the Foreign Secretary, Sir Robert Armstrong and Mr Sparrow.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

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MR PHILIP WHITEHEAD (LAB) (DERBY NORTH): To ask the Secretary of State for Transport, if he will make a statement on the progress of negotiations for a Channel Tunnel

MR TEDDY TAYLOR (CON) (SOUTHEND EAST): To ask the Secretary of State for Transport, if he will make a further statement on the Channel Tunnel.

DRAFT ANSWER

With permission, I will answer this question and question no. together.

The report of the Franco-British Study Group is published today. It concludes that existing services could be developed to cope with foreseeable traffic growth, but that a fixed link might offer advantages in extending the range of choice among services provided and in facilitating trade and other communications with continental Europe. The economic results offer the prospect of a reasonable return and the Group confirms the technical feasibility of rail tunnels, which could provide both through rail services and a vehicle shuttle. Forms of link permitting vehicles to be driven across the Channel require further technical study.

The question of organisational, legal and financial arrangements for the construction of any fixed link lay outside the Group's terms of reference, and the two Governments have agreed that, before a decision is reached, these aspects should be examined. This further work should be completed by the autumn. As I have made clear on a number of occasions, any proposals which emerge will have to stand up without any financial support from the Government.

14 JUN 1982

12 1 2 3
4 5 6 7 8 9



✓
Prime Minister (2)

Ms 15/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

11 June 1982

R. Davis

FIXED CHANNEL LINK

Thank you for sending me a copy of your minute of 7 June to the Prime Minister setting out how you propose to go forward between now and the autumn.

In the light of the discussions in E Committee last month I am concerned that your proposal for joint studies by French and UK banks may cause a lobby to build up in favour of a tunnel and that the group might reach conclusions which are incompatible with the general line of the decision we made in E Committee last month. On the other hand, I understand that we need a further round of studies if we are to bring consideration of this issue to a satisfactory conclusion with the French Government. I therefore accept that we should adopt the course you propose but we must be sure that the participating banks fully understand the framework of UK Government requirements within which they must work, including the position on political guarantees which we discussed earlier.

At our meeting on 4 May we also agreed that the only type of project which might merit further study was one allowing the possibility of road transport, such as the Euroroute proposal, although there were some major difficulties about that option also. I wonder therefore whether we could not use the time between now and the completion of the banks' studies in the autumn to ask the promoters of drive-through schemes to see how far they can go in resolving some, at least, of the technical issues outstanding.

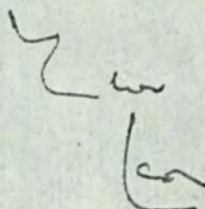
On publication of the study group report: I would be content to see it published as you suggest, although I would like to suggest a small drafting change to your draft answer, namely the substitution of the words "a fixed link could be economically

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advantageous". This would be consistent with the terms of the study group's report.

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

A handwritten signature in dark ink, appearing to read 'Leon Brittan', written in a cursive style.

LEON BRITTAN

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Prime Minister (2)

PM/82/43

PRIME MINISTER

Channel Fixed Link

TPM 1. I agree with David Howell that the continuation of the studies which you agreed with M Mauroy on 16 May could usefully be pursued on the lines which he proposed in his minute of 7 June. I see merit in commercial banks undertaking the study, because:

- a) provided the studies are realistically based, they could provide a valuable non-governmental support for Ministerial decisions, and
- b) preliminary soundings by our officials with the French suggest that the latter like this idea.

2. But I think it is essential that the banks are made aware of the severe limits on involvement by HM Government in a link, in accordance with our decisions and with our requirement that any link be financed solely by the private sector. I also think that the banks' studies must address all the financial and legal problems. Thus, though I agree with David Howell that we do not need to match precisely the official machinery on the French side, I am sure it would be useful for an inter-departmental group of our officials to monitor the banks' work and that this group should meet frequently and be in close touch with the banks. Also, in view of the past history of this project, I regard it as vital that the French are given no grounds for undue optimism about our position regarding the various channel fixed link projects. We must hope that a common Anglo/French appreciation of the outcome of the studies emerges, but, if this does not prove possible, the French must not be given any excuse for claiming that we have at any time misled them.

/3.

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CONFIDENTIAL

3. I am content that the existing Franco/British study group report be published on 16 June. I also agree with the terms of the proposed announcement to Parliament.
4. I am copying this minute to members of E Committee and to Sir R Armstrong.

A handwritten signature in dark ink, appearing to be 'FP', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office

11 June, 1982

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CONFIDENTIAL

file

BK



cc: John Verelst
Bernard Ingham

10 DOWNING STREET

From the Private Secretary

11 June 1982

Fixed Channel Link

The Prime Minister has seen your Secretary of State's minute of 7 June about a further study on the fixed cross-Channel link, and publication of the Franco/British study group's report.

As I told you on the telephone a few days ago, the Prime Minister agrees to your going ahead with the further study as proposed in your Secretary of State's minute. She also agrees to the publication of the Franco/British study group's report by means of an Oral Answer on 16 June. The Prime Minister has since seen Mr. Sparrow's letter of 9 June and has commented that she prefers the draft Answer attached thereto to that attached to the minute of 7 June.

I am sending copies of this letter to the Private Secretaries to the other Members of E Committee and to Sir Robert Armstrong.

M C SCHOLAR

Anthony Mayer, Esq.,
Department of Transport

CONFIDENTIAL

BK



SV

①

Prime Minister

Agree this is

an improvement

9 June 1982 on the

earlier draft?

(attached)

MCS 10/6

Yes

- with MCS

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 05949

From: John Sparrow

CONFIDENTIAL

The Rt Hon David Howell MP
Secretary of State for Transport
2 Marsham Street
LONDON S W 1

Dear Secretary of State,

Fixed Channel Link

I have seen a copy of your minute of 7 June to the Prime Minister.

I agree that there is a good case for publishing the report of the Franco/British Study Group but I am concerned that the tone of your draft Parliamentary Answer is rather more encouraging about prospects than I believe is justified by the discussion and conclusions at E Committee on 4 May. I think it is important to avoid couching the answer in terms which might create false expectations among the French; the Banks undertaking further work; the House of Commons; and the public.

I have had a shot at revising your draft Answer, drawing on paragraph 10 of the summary of the Study Group Report which you submitted to E Committee. This in turn may not quite catch the right flavour, but I do feel that the original wording has its dangers. You might like to consider whether it would be sensible to incorporate some reference to the need for any proposals to stand up without any financial support from the British Government.

I am sending copies of this letter to the Prime Minister, the other members of E Committee, and to Sir Robert Armstrong.

Yours sincerely,
John Sparrow

John Sparrow

Enc

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MR PHILIP WHITEHEAD (LAB) (DERBY NORTH): To ask the Secretary of State for Transport, if he will make a statement on the progress of negotiations for a Channel Tunnel.

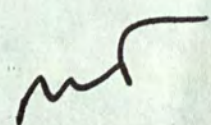
MR TEDDY TAYLOR (CON) (SOUTHEND EAST): To ask the Secretary of State for Transport, if he will make a further statement on the Channel Tunnel.

DRAFT ANSWER

The Report of the Franco-British Study Group is published today.

The Report concludes that, while not essential, a fixed link could offer advantages in terms of the diversity of services offered, and the facilitation of trade and other exchanges with the rest of Europe. The economic results offer the prospect of a reasonable return and the Group confirms the technical feasibility of rail tunnel schemes, which could provide both through rail services and a vehicle shuttle. Forms of link enabling vehicles to be driven across the Channel require further technical study.

However, the questions of organisational, legal and financing arrangements for the construction of any fixed link lay outside the Group's terms of reference. The two Governments have agreed that before a decision is reached these aspects should be examined. This further work should be completed by the Autumn.



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✓ JV, MAP

(1)

Prime Minister

CONFIDENTIAL

Agree subject to colleagues' views, to ma's further study?

Prime Minister

FIXED CHANNEL LINK

Yes *ms* Agree to publication of the study group's Report?

MS 7/6

Following your agreement with M. Mauroy that there should be further studies before a final decision is taken on the fixed cross-Channel link, French officials (who are aware of the attitude of Ministers here) have been in touch with us about how this is to be implemented.

Banks on both sides of the Channel have shown interest in the possibility of financing a link in the private sector. Two British clearing banks, although they put the chances of success low, are willing to devote a certain amount of effort together with the French interests in further testing the possibilities of financing alternative forms of link, including drive-through versions. One of the French banks that wish to be involved is closely involved in Ian MacGregor's Euroroute scheme. We are therefore in a position to ensure that the further studies that have been agreed cover both road as well as rail schemes, and are considered with both the necessary expertise and realism. I am proceeding accordingly. The objective will be to produce conclusions in the autumn.

The French may set up an inter-Departmental group, chaired by a member of M. Mauroy's own Cabinet, to oversee the studies. I see no need for a similarly elaborate arrangement on our side but we will continue to consult representatives of those Departments most closely involved on the general framework of the studies and as specific questions arise.

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Meanwhile, we have to dispose of the report of the Franco/British study group, the conclusions of which were considered by E Committee on 4 May. Copies of the text of the report were circulated at official level last month. The House knows of its existence and we shall certainly be pressed to publish it. To avoid the danger of misleading leaks and to separate publication from the likely final decision in the autumn it would be better to do so at once.

Following discussions between officials, we have arranged with the French that we will publish the report simultaneously on both sides of the Channel on 16 June when I have two questions for oral answer seeking a statement about the link. I propose, if you agree, to answer in the terms of the attached draft.

I am copying this minute to members of E Committee and to Sir Robert Armstrong.

DA

DAVID HOWELL

7 June 1982

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MR PHILLIP WHITEHEAD (LAB) (DERBY NORTH): To ask the Secretary of State for Transport, if he will make a statement on the progress of negotiations for a Channel tunnel.

MR TEDDY TAYLOR (CON) (SOUTHEND EAST): To ask the Secretary of State for Transport, if he will make a further statement on the Channel tunnel.

DRAFT ANSWER

The report of the Franco-British Study Group is published today.

The report concludes that while existing services could be developed to cope with foreseeable traffic growth, a fixed link is likely to be economically advantageous. The Group confirms the technical feasibility of rail tunnel schemes, which could provide both through rail services and a vehicle shuttle. Forms of link enabling vehicles to be driven across the Channel require further technical study.

The questions of organisational, legal and financing arrangements for the construction of any fixed link lay outside the Group's terms of reference. The two Governments have however agreed that before a decision is reached these aspects should be examined. This further work should be completed by the autumn.



10 DOWNING STREET

From the Private Secretary

18 May 1982

CHANNEL FIXED LINK

The Prime Minister saw the minute of 12 May from your Secretary of State and also the minute of 14 May by the Foreign and Commonwealth Secretary.

The question of the Channel fixed link did not arise during the Prime Minister's talks yesterday with President Mitterrand. There was, however, a brief exchange about the matter during her talks with M. Mauroy in Edinburgh last Saturday. I enclose the relevant extract from the record of conversation.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

A. J. COLES

Anthony Mayer, Esq.,
Department of Transport.

Taking up the subject of the Channel-Link, M. Mauroy said that he had a particular interest in the matter. As Mayor of Lille he had always had a dream which he wished to turn into reality. The issue was certainly not ready for final decision now. But the press were full of the fact that there would be no link. He hoped that we could take the line publicly that, while the matter was not right for decision yet, studies would continue. We should say that our experts were continuing their consideration of the matter and that in due time a decision would be taken. The Prime Minister said that she too harboured a dream of a fixed link. But she did not think finances would be available for a rail link alone. She did not know whether it would be possible to have a road link as well but that would have more appeal. The requisite private financing would not be forthcoming for a rail link, because of the likely inadequate return on investment. But she was happy to continue with studies.



PM/82/36

PRIME MINISTERChannel Fixed Link

1. I should like to comment on the line proposed by David Howell in his minute of 12 May about the handling of this subject in your forthcoming discussions with M. Mauroy and President Mitterrand.
2. As forecast in Peter Carrington's minute of 17 March on the same subject, British/French relations are moving into a particularly sensitive period: not only are there the problems of the mandate and of agricultural pricing in the Community, but there is also our need to maintain French support for our Falklands policy. In these circumstances it would be wise to avoid adding any further strain to the relationship. Our main concern, as Douglas Hurd argued at E Committee, is that we should not in any way mislead the French. But the Ambassador in Paris has commented that if we are moving into a Community crisis, there will be a tendency in France to assume that a negative decision on the Fixed Link reflects a more general drifting apart of the UK from its EC partners. Sir J Fretwell also points out that M. Mauroy himself has taken a close personal interest in the Fixed Link since last September's Summit and has campaigned for its acceptance in the northern region (which is his political base): termination would be a bitter blow to him.
3. I hope that you can agree to David Howell's suggestion that it may be wisest to consider playing matters slowly. We do not want another showdown now. I would see this tactic essentially as a way of keeping the French in play and out of mischief, pending agreement on a common response to the conclusions of the Joint Study Group. If the French need the benefit of further studies involving other Ministries than Transport in order to achieve this, I would think a few months delay would be a small price to pay for the political benefit of reaching a joint position consistent with that of the Government.

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4. I am also copying this minute to the Chancellor of the Exchequer, the Secretary of State for Transport and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'FP', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office

14 May 1982

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~~Prime Minister~~ (2)

A weak response to the predictable French reaction.

I have no doubt that if this is raised at the weekend, you will deploy our interest in the bridge/road link, so that we cannot be accused of going

Prime Minister

FIXED CHANNEL LINK

As agreed at E Committee on 4 May we have in cold on the consultation with the Foreign and Commonwealth Office tested ^{whole idea} the likely French reactions on the decision reached on the ^{of a link.} Fixed Channel Link.

MUS 12/5

Their officials left ours in no doubt that the French Government would react most strongly against any authoritative statement that, having taken the initiative in this round of studies, the British Government have now decided against a rail tunnel.

They are likely to take their stand on the findings of the Anglo-French joint study group of officials that a rail link would be "in the broad interests of both countries". (This group was set up as a result of your last summit meeting with President Mitterand.)

I understand that M. Mauroy (who has publicly supported the tunnel) and possibly President Mitterand may press you at the weekend to continue discussions on the unresolved financial and legal problems until the Autumn in the light of your hope expressed last September that the study of a Fixed Channel Link would achieve a positive result.

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They remain, it appears, not interested in a roadlink of the Euroroute type, which colleagues preferred at E Committee. They feel it technically over-ambitious, would cause severe navigation problems, and would lead to employment problems in ports on both sides of the Channel. In the light of this, and of the need to avoid French expressions of bad faith, it may be wisest to consider playing matters rather more slowly, listen to the French, let them digest ^{our} a road link preference further and not give a firm response to their hopes until both sides have had time to reflect.

Our eventual objective must be to secure an agreed common statement with them on the conclusions of the joint study group. There are wider diplomatic and economic considerations raised by a Channel link and in view of the lengthy history, I think we would be wisest to keep the matter under discussion, at least for the time being.

I am copying this minute to Francis Pym, Geoffrey Howe, and Sir Robert Armstrong.

DH.

DAVID HOWELL
12 May 1982

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Original copy filed on:-

PM: Invergordon: PC2.



Prime Minister cc ✓

New paper - came in today.

MUS 4/5

Prime Minister

INVERGORDON SMELTER AND THE FIXED CROSS CHANNEL LINK

Since E Committee's consideration of these topics has been put back until today, and I unfortunately have commitments in Belfast in the afternoon, I am forwarding my comments in this note.

2. As regards the future of the Invergordon Smelter, I can fully appreciate the problems George Younger faces. While there are no similar smelter operations in Northern Ireland, lessons I have learned in the Province have made me all too well aware of the very real difficulties which closure of a major employer causes in an area which has high unemployment and whose economic base is fragile. The loss of a major employer in such circumstances has serious social and economic consequences. George's paper makes this abundantly clear.

3. As the study George commissioned reveals, alternative employment prospects are hard to find for areas with difficulties similar to those of Invergordon. Accordingly I support the general thrust of George's proposals that we must make every effort to reopen the existing smelter. Whilst I appreciate the Treasury view that there are precedent dangers, and that there could be EC difficulties to be overcome, I am sure that it is right to make progress along the lines proposed. If we are seen not to have made an effort to respond it will be detrimental to our credibility and cause difficulty for our own supporters.

4. On the proposals for a Fixed Cross Channel Link, I strongly agree with the Secretary of State for Transport that we cannot rely solely on the development of shipping and air services to take the increasing cross-channel traffic. I do have serious doubts, however, about the advisability of relying on rail transport as the sole alternative to the present cross-channel links. I appreciate that, over the years, more work has inevitably been undertaken on the feasibility of bored

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tunnel(s) for rail traffic. But the most effective way to secure choice and competition would be through a composite scheme as proposed in the Euro Route Bridge/Tunnel Scheme. I am not convinced that there need be a serious delay in commencing construction, despite the additional work which could be done once a decision in principle to proceed with a composite scheme had been taken. Nor am I convinced that the rail-only tunnel scheme would be free of environmentally damaging effects, eg presumably sizeable marshalling yards would need to be constructed to facilitate the transfer of containers from road to rail; and if these were situated away from the Dover area, might the potential freight users of the tunnel be deterred by the prospect of the lengthy rail journey on this side of the Channel? For these reasons, of the options put forward by David Howell, I favour Option B although I do not believe that it would be right for a decision to be deferred for as long as he suggests. I am of course influenced by Ian MacGregor, but he is a man of vision and imagination and I think he would argue strongly that the technology is not new.

5. I am copying this note to other members of E, George Younger, Nicholas Edwards, Douglas Hurd and Sir Robert Armstrong.

Joseph

PP

J P

(Signed on behalf of the
Secretary of State in his
absence)

4 May 1982

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PRIME MINISTER

FIXED CROSS CHANNEL LINK

Prime Minister

May I suggest that - because this is so cogent - Alan be invited to speak at the meeting on these lines?

- (I think I shall need an oral briefing on this.)
- CONFIDENTIAL
1. In essence the DoT (memorandum 27 April E(82)40) argues that a fixed channel link would be justified, and since the French would only stand for a rail-only link, then Britain should agree to go ahead with the rail-tunnel option. DoT also believe that we should accede to the French requirement for a guarantee against political cancellation. MCLs 30/4
 2. The DoT case has a number of flaws, many serious, some fatal.

The Economic Case

3. Using their chosen rate-of-return criterion, the preferred option is not the rail-tunnel but the road bridge (Annex D). Even under the different risk scenarios (Annex D) the road bridge has an expected rate of return greater than alternatives. The report rejects the road bridge, in spite of its economic superiority, ostensibly on two grounds; first there are more "risks" and secondly the French wouldn't tolerate it. The former argument seems to me beside the point, since the risks are already incorporated in contingencies in the cost estimates, and in any case private capital is taking on these risks and will pay for these contingent liabilities. The second point, that the French will not have it, may be construed as a first claim in order to get what the French railways prefer.
4. But in any case the report uses a fallacious criterion for choosing the preferred option. The rate of return is both irrelevant and misleading in judging between mutually exclusive investment programmes. The only criterion is the size of the net present value*. If we re-calculate using the net present value criterion, we find that the road bridge is far superior to the twin tunnel and furthermore the road-bridge-with-rail-tunnel is also superior to the rail-only tunnel. (I believe even the Euroroute would be superior, but I would have to carry out detailed calculations to establish that point.) This implies that by forgoing the road bridge and building rail-only tunnels, we are sacrificing a substantial, even handsome, financial return which could be earned on the additional capital involved.

* Any book on project analysis establishes this point. See, for example, Layard and Walters "Microeconomic Theory" page 335 et seq.

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5. Another major flaw in the economic case is that there is no evaluation of the case of "no fixed link", that is to say the developed ferry system. I was impressed by the case put by the Dover Harbour Board, and it is at least remarkable that the DoT has not seen fit to evaluate that case. Yet that is one of the main options and should clearly be evaluated before any decision is made. This is all the more important since the DoT memorandum refers in paragraph 8 to employment in the politically very sensitive area of Pas de Calais being a very important consideration on the part of the French. Ferries and ports are labour intensive.
6. DoT suggests that the tunnel is better than the road bridge because inter alia it will not be so superior and so cheap a link that it will eliminate ferry competition, as would the road bridge. This is, of course, standing the normal efficiency criterion on its head! It argues that we should not build the road bridge because it is too efficient an option and will eliminate competition! The subsidiary argument is that the ferries will restrain monopoly pricing on railways, whereas no such restraint will be imposed on the road bridge operator. This is without foundation: if there is potential competition from incipient entrants into the ferry business this will always be a constraint on road bridge monopoly.

The Guarantee Problem

7. At a previous meeting of E it was pointed out that we would not give a guarantee against political cancellation. There were insurmountable difficulties in defining what would be meant by "political cancellation". Clearly withdrawal for good commercial reasons may well be influenced by political events, and a guarantee might well be subject to acrimonious and lengthy disputation.
8. From the memorandum, one gets the impression that DoT have moved forward and found an appropriate definition of political guarantee. But I cannot see any further progress in Annex E, (which is devoted to the organisation and legal structure.) In para 6 of Annex E the company would have the statutory duty to construct and operate a link - "this duty could only be rescinded by agreement between the two Governments". This provision clearly does not deal with the political guarantee issue.

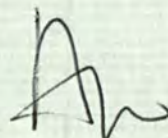
Pre-emption of Rail Policies

9. The report does not consider the implications of possible changes in the status of the railways, especially in Britain, and the consequences of a rail monopoly of the fixed link. Clearly the rail tunnel will be a considerable advantage to French railways and British Rail. The rail tunnel would pre-empt at least some of the decisions that are due to be made on the future of British Rail. The rail-only option is also clearly more advantageous to French Railways than to BR or the UK. French Railways are markedly more efficient than BR and likely to remain ahead. French railways would also benefit at the expense of our relatively efficient road haulage industry. One can understand French enthusiasm, indeed intransigence, for the rail-only option. I would have thought it would have been worthwhile to examine the split in net benefits between the UK and France.

Conclusion

10. (a) The initial objection to a government guarantee still stands. DoT have not indicated how we can satisfy the French requirement of a political guarantee without involving an open government commitment. It would be unwise to allow the fixed link to gather any more steam until there is at least a feasible solution to the political guarantee problem. I can see none.
- (b) DoT's recommendation of proceeding with a rail-only tunnel is not warranted by the evidence. The alternative road bridge projects are best for the Fixed-Link Authority and probably for Britain. DoT has used an inappropriate and misleading criterion of choice. I would recommend that, granted a settlement of the guarantee problem, that we indicate to France our interest in the road bridge, and our rejection of the rail-only tunnel.

30 April 1982



ALAN WALTERS



CONFIDENTIAL

P.0732

PRIME MINISTER

Fixed Cross-Channel Link

(E(82)40 and 41)

INTRODUCTION

At the Anglo-French Summit held on 10 and 11 September 1981 the two Transport Ministers agreed that there should be a "joint study by experts of the type and scope of possible fixed links, taking account of the interests of maritime transport, with a view to advising both Governments on whether a scheme for a fixed cross-channel link can be developed which would be acceptable to and in the interests of both countries". This work has now been completed and is summarised in Annex A to the Secretary of State for Transport's paper, E(82)40. The Secretary of State now seeks three decisions, namely:

- a. a decision in principle in favour of a twin tunnel, subject to the satisfactory negotiation of financial and organisation arrangements with the French and the institutions on the lines described in his paper;
 - b. that the Government should offer the prospect to the institutions concerned of a guarantee against political cancellation, subject to satisfactory detailed definition of this, but not any form of "performance" guarantee; and
 - c. that drafts should be prepared of a public announcement and of a White Paper, and circulated for agreement in correspondence.
2. The CPRS in their paper, E(82)41, raise the question of whether the Government will need to retain the right to regulate tariffs and point out that, if so, the project may be less attractive to the private sector. They also argue that if the bi-national company fails there will be pressure to complete the tunnel as a public sector project.

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MAIN ISSUES

3. The main issues are as follows:

i. Should the proposal for a fixed link go ahead?

This depends mainly on:

- a. the economic case
- b. environmental considerations
- c. whether the current proposal satisfies the Government's requirements for private sector involvement.

ii. If Ministers decide that the proposal should not go ahead, how are relations with the French best handled?

iii. If Ministers decide in favour of the proposal, should the link be a twin rail tunnel or some other option?

The economic case

4. In a submission to the Joint Study Group the Dover Harbour Board and the cross-channel ferry operators argued that shipping services have the potential to carry all foreseeable traffic and to do so at substantially lower cost than at present. The Joint Study Group accepts that even on the basis of more pessimistic assumptions than those put forward by the Dover Harbour Board and the ferry operators, shipping services could undoubtedly handle future traffic. There is, therefore, no objective need for a fixed link in terms of an excess of demand over capacity. But the Joint Study Report argues that a fixed link could offer advantages in terms of the diversity of service offered and the facilitation of trade and other exchanges with the rest of Europe.

5. The economic case is assessed in Annex D to E(82)40. The Treasury take the view that the economic case for proceeding with a fixed cross-channel link has not been proven, and this seems to be the case. The internal rates of return range from 0 per cent to nearly 14 per cent depending on the type of fixed link and on the combination of assumptions chosen. Even taking the most realistic assumption (Scenario B), the rates of return are all so close to the 7 per cent Test Discount Rate and, as the more detailed material circulated to Departments at official level

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demonstrates, are so sensitive to changes in key assumptions such as traffic forecasts and construction times and costs, that further, more detailed economic analysis would be inevitable if this were a project to be financed from public expenditure.

Environmental considerations

6. The environmental impact in the UK of a fixed cross-channel link can only be evaluated in detail once a specific design has been drawn up. But whichever design is chosen it is bound to have an impact, particularly on the Kent coast, large stretches of which are designated as being of outstanding natural beauty and parts of which are also designated as sites of significant scientific interest. There is, therefore, bound to be pressure from environmentalists, as there was in the case of the previous channel tunnel, against the link; and the fact that the need for a link is far from conclusive will significantly strengthen their case. The row over heavy goods vehicles demonstrated that the environmental lobby has some sympathy in Parliament. Ministers will therefore need to consider carefully the likely strength of this in the case of a channel link and whether it could be successfully overcome.

Private sector involvement

7. It is therefore clear that if the fixed channel link was to be a public sector project the case for going ahead with it would be marginal. If however it was to be a private sector project, the economic case could be left to be tested by the market. The Government has therefore consistently taken the view that the UK's share of the cost must be met by the private sector on the basis of a genuine risk and without any form of commercial guarantee by the Government, although the Government has agreed to consider a guarantee against "political cancellation". The Secretary of State says in paragraph 15 of E(82)40 that both he and his French counterpart have had strong, if qualified, expressions of interest in a fixed channel link from major British and French financial institutions. The feasibility of the proposal as a private sector project must depend crucially on the basis for setting it up. Ministers will need to probe carefully whether the current proposal for a bi-national company meets the Government's requirements for genuine private sector involvement.




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8. The proposal for a bi-national company is set out in Annex E to E(82)40. The company would be owned by a variety of shareholders dispersed in France and the UK so that it would be impossible in practice to identify a "UK half" which could be blamed for any failure of the project. There would be two classes of shareholder: "financial shareholders" who would provide the equity and would have 75 per cent of the votes of the company; and "Community shareholders" who would include, for example, the French and UK railways, local authorities on both sides of the Channel and possibly the Dover Harbour Board, who would have no direct financial interest in the company but might have 25 per cent of the votes and possibly some representation on its Board.

9. The company would be created by legislation in each country and would have a statutory duty, enforceable in each country to construct and operate the channel link. This duty could only be rescinded by agreement between the two Governments. A Treaty between the two Governments would set out the arrangements required for the dissolution of the company either at the end of the concession over the fixed link, or if the company failed to meet its obligations. Annex E to the Secretary of State's paper acknowledges that special arrangements will be required for accounts, for audit and for taxation and also to provide for arbitration in the event of disputes between the two countries and the Company or the Company and its shareholders over the application or interpretation of the Treaty etc, but gives no indication of what these might be. The French Government have apparently accepted that a company along these lines might meet their requirements and the financial institutions have indicated that the proposal seems technically feasible.

10. The Treasury takes the view that the project as presently conceived is determined by the market more in theory than in practice. The objectives of the bi-national company which the Secretary of State proposes should be established to construct the fixed link would effectively be determined by the two Governments. The proposal is that the company will be under a statutory duty to construct the link to a predetermined design and to operate it. The present intention is that the shareholders in the company will be chosen by the two Governments. Finally, the Treasury takes the view that it would probably be possible for the company to borrow the 60 per cent or so of the construction costs of the link only if the British and French railways were to offer guarantees about the level of future revenue; such guarantees would inevitably be regarded as backed by the two Governments.

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11. Ministers will also need to bear in mind the two points raised by the CPRS in E(82)41 - the extent to which tariffs for the tunnel may need to be regulated, thus making the project less attractive to the private sector, and the probability that if private sector interests pulled out the two Governments would find it difficult to resist pressures to complete and run the tunnel as a public sector operation.

12. Finally as the Secretary of State for Transport recognises in paragraph 19 of his paper there would remain the need for a guarantee against political cancellation and the definition of such a guarantee would require the most careful consideration.

13. A great deal more work would in any case be needed on the bi-national company proposal. Ministers may however be doubtful, even at this stage, whether the concept as outlined would meet their requirements for private sector involvement. It is important that if Ministers decide to test the views of the market, the institutional arrangements should be fully spelt out so that private sector reactions are genuinely tested. Moreover Ministers would need to be clear from the outset that any institutional arrangements which were put forward experimentally did provide adequately for genuine private sector risk-taking. It would be more difficult to reject proposals on these grounds at a later stage.

Relations with the French

14. Internationally the case for proceeding with the link rests primarily on the importance which the French Government appears to attach to it. The UK accordingly has an interest in not antagonising them on this subject particularly at a time when we need their support on the Falklands and their agreement to a deal on the 30 May Mandate. A decision on our part against would reinforce the doubts they have about our value as a partner and could affect in particular their attitude in the Mandate negotiation. The Foreign Secretary will wish to assess this risk and the implications in particular for a budget settlement. If Ministers decide that the project is not worth proceeding with, both the presentation of that decision to the French Government and its timing will be important.

15. There are three main options. We might tell the French straight away that we do not wish to proceed; but this would needlessly antagonise them at what may be

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a critical juncture in the budget negotiation and while we still need their support over the Falklands. Or we might allow the project to proceed to the next step, which is testing the reactions of the market, and then if those are unfavourable blame cancellation on that, meanwhile saying nothing of our doubts to the French. Or we might make clear to them now our reservations about proceeding with a project for which the economic case is so inconclusive while expressing willingness if the French wish for the reactions of the market to be tested before any final decision is taken. The Foreign Secretary is likely to favour the last option. If this option were to be adopted the points made in paragraph 13 above about testing the market on a clear and satisfactory basis would need to be taken into account.

Twin tunnel or other option

16. The Joint Study Group investigated a wide range of possible links - a suspension bridge, an immersed tube, a combined bridge/tube scheme and a variety of tunnels. You will be aware of Mr Ian MacGregor's advocacy of the "Euroroute" proposals for a road/rail option about which the Secretary of State for Wales expressed interest in his letter to the Secretary of State for Transport of 19 April. The Secretary of State for Transport recommends twin seven metre railway tunnels which could carry both conventional rail traffic and also roll on roll off (RO-RO) vehicle traffic.

17. Only the tunnel relies on largely-proven technology; the others all raise major technical and design difficulties which in some cases would take perhaps three years to overcome before the final decision to proceed could be taken. Moreover, the cost of the Secretary of State's preferred option is roughly half that of the others (£2 billion against £4-5 billion). Twin railway tunnels are estimated to be likely to attract roughly half of the traffic from the ferry services, whereas the smaller tunnel options would attract no more than perhaps 20 per cent and the other types of link would attract 60-80 per cent, which would probably effectively eliminate the ferry services. The French Government is also opposed to a "drive through" link because of the impact this would have on employment in the politically-sensitive area of the Pas de Calais.

18. The balance of argument therefore seems to point firmly towards a rail tunnel. The Secretary of State's preference for a seven metre tunnel is based on the fact



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that this would allow RO-RO traffic to be carried and therefore in his view undermine the monopoly power of BR and of the railway trade unions over this service. The availability of RO-RO services would certainly be likely greatly to increase the attractiveness of the tunnel and is probably vital to its success. But the argument about monopoly power seems unconvincing, since the vehicles will be carried on trains driven, presumably, by ASLEF members and their French counterparts. The provision of twin tunnels would greatly increase the flexibility of the cross-channel services and therefore their attractiveness, at the expense of increasing the cost by between £0.5 and 1 billion over the cost of alternative seven metre single tunnel links. It would be possible to construct a twin tunnel in two stages with only very modest increases in resource costs. Doing so would also give both Governments the opportunity to cancel the construction of a second tunnel if, in the event, the expected growth in traffic did not materialise. The Secretary of State for Transport does not explain in his paper why the option of proceeding in this way appears to have been ruled out by him.

HANDLING

19. You will want to invite the Secretary of State for Transport and Mr Sparrow to introduce their respective papers. You might focus the discussion initially on the main policy issues of whether a fixed link is desirable on economic and other grounds and whether the current proposal meets the essential requirements for private sector involvement. The Chief Secretary, Treasury and the Secretary of State for Trade in particular will wish to contribute to this part of the discussion.

20. If the decision is against going ahead you will want to move on to relations with the French and to seek comments particularly from the Foreign and Commonwealth Secretary.

21. If the decision is in favour of going ahead, there might then be some detailed discussion of the twin tunnel as against other options. You will want the Secretary of State for Transport to amplify the proposals in his paper and to comment on the option of building the twin tunnel in two stages.



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CONCLUSIONS

22. You will wish to reach conclusions on the following points:

- i. whether a fixed channel link is desirable;
- ii. whether the current proposal for a bi-national company meets the requirements for genuine private sector involvement;
- iii. depending on the decisions on i. and ii. and bearing in mind the importance of relations with the French, whether the next step should be:
 - a. to abandon the project now, or
 - b. to test private sector support for the project and, if so, on what basis.
- iv. whether in particular the Secretary of State for Transport should be authorised to offer the prospect of a guarantee against political cancellation or whether more work is needed to clarify the definition of such a guarantee before it is offered;
- v. whether the form of link should be a twin railway tunnel and if so, whether it should be constructed in one or more phases.
- vi. depending on earlier decisions, whether the Secretary of State for Transport should be invited to circulate drafts of a public announcement and a White Paper or whether more work is needed before that stage and, if so, on what specific matters.

PLG

P L GREGSON.

30 April 1982

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

cc/su
Prime Minister (2)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
LONDON
SW1

rus 28/4

27 April 1982

Dear Nick,

EUROROUTE

Thank you for your letter of ^{in box} 19 April about Ian MacGregor's ideas for a combined "Euroroute" bridge and tunnel link across the Channel. I understand that he has approached a number of other colleagues. One must respect the conviction and energy with which he is pursuing this proposal. But I ought to warn colleagues that it has major snags.

I am about to put a paper to E covering the whole question of fixed links across the Channel and I do not want to forestall all I shall have to say in that. It may clarify later discussion, however, if I say at this stage that, as I see it, there are two extremely formidable objections to Euroroute. One is that it would, if successful, lead to an effective monopoly hold by the company on carriage of road traffic across the Dover Straits, by knocking out the ferries as serious competitors. The second is that even if we reconciled ourselves to such a monopoly it is quite clear that the French, for a variety of reasons, would not go along with us. So I hold out no hope that such a link could become a realistic prospect within the foreseeable future.

I am copying this to members of E Committee, George Younger and Sir Robert Armstrong.

DAVID HOWELL

27 APR 1982



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Prime Minister (4) ✓ JV

plus 20/4

WELSH OFFICE
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WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
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From The Secretary of State for Wales

PA

David

ms

19th April 1982

CROSS CHANNEL LINK

I ought to let you know that Ian MacGregor wrote to me recently about the 'EuroRoute' proposals for a road and rail crossing over the Channel. I attach a copy of his letter in which he suggests that such a project has a possibility of generating an attractive real rate of return. Ian MacGregor has since called on me to explain the proposals more fully. I was not present at the meeting of E Committee which considered E(82)7 when I understand it was decided not to accept proposals for reciprocal compensation guarantees.

I hope we will not close off at this stage options as between the various fixed link proposals, but let prospective backers make their judgement on the alternatives and give them a hearing. This would have the advantage of avoiding commitment at so early a stage to a public sector monopoly which when all is said and done does have a vested interest in the choice of transport made for the fixed link.

I am sending copies of this letter to members of E Committee, George Younger and Sir Robert Armstrong.

es
Ned

Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON SW1P 3EB

O. ce
cf PS/BS

PS/Permanent Secretary
Mr Lloyd Jones
Mr Quinlan
Mr Lees.

E

Waking
Wuhan

59/31

BRITISH STEEL CORPORATION

Send to Mr Hall
Mr Elliott

IAN MACGREGOR

31st March, 1982.

The Rt. Hon. Nicholas Edwards, MP
Secretary of State for Wales,
Gwydyr House,
Whitehall,
London, SW1A 2ER

Dear Mr. Edwards,

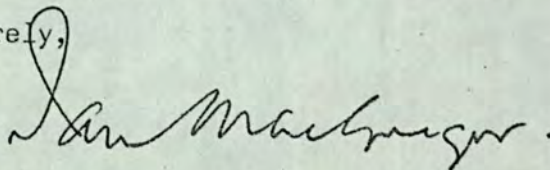
You will probably know that British Steel, British Shipbuilders and a group of private companies have put together a scheme for a road and rail crossing over the Channel called EuroRoute.

Unlike the other schemes being suggested, EuroRoute provides a road and rail link and consequently would generate sufficient revenues to enable it to be financed privately. Our financial advisers, Lazard Brothers and Coopers & Lybrand, expect EuroRoute to generate an attractive real rate of return of 7%. It is critical to any privately financed scheme that the crossing should provide for road transport. In the UK approximately 89% of freight is carried by road and a low cost road link with Europe would provide obvious benefits to the UK's industrial and transport infrastructure.

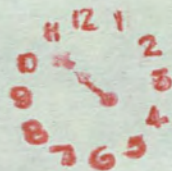
You may know that during the 5 year construction period of EuroRoute, we expect to generate approximately 250,000 man years of employment. Almost all of these jobs would be dispersed to areas of the country where there are facilities to manufacture the prefabricated modular sections for the tubular tunnel and deck. We would expect a significant amount of work on this scheme to be performed in Wales. This would largely involve offshore construction yards, quarries and cement plants.

I would very much appreciate the opportunity of having a few words with you about this project before any final decision is made by the Government.

Sincerely,



20 APR 1982



CONFIDENTIAL



Transport SW

FILE

bcc. J. Vereker

10 DOWNING STREET

From the Private Secretary

22 March, 1982

Channel Fixed Link

The Prime Minister was grateful for your Secretary of State's minute of 16 March about the recent contacts with the French about this project. She has also seen the Foreign and Commonwealth Secretary's minute of 17 March on the same subject.

The Prime Minister has noted these developments without comment.

I am sending a copy of this letter to the other Private Secretaries to members of E Committee and to David Wright (Cabinet Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,
Department of Transport

CONFIDENTIAL



PM/82/21

PRIME MINISTERChannel Fixed Link

1. The Secretary of State for Transport's minute of 16 March to you reports some interesting ideas for getting round the problem of guarantees to which the French attach such importance and which we find difficult. I agree with him that it is worth exploring these ideas further in the context of the joint studies. A few weeks' delay in consideration of the final report on those studies is an acceptable price to pay whilst this matter is clarified and, I hope, a basis found for its resolution.
2. As the French negotiations over the Mandate make clear, we are moving into a particularly sensitive period in our relationship with the French. What their position will be on the Mandate remains somewhat obscure, but President Mitterrand does seem to feel that the reality of the close relationship between France and Germany requires to be balanced by better relations between France and the UK. This was the signal we received from the French at the Summit, and the objective is worth pursuing, particularly when Community issues remain difficult.
3. In trying to broaden the basis of the bilateral relationship, the French seem to attach some importance to the CFL. President Mitterrand was pleased by your reference to it at the Summit; and in the course of his farewell lunch for Sir Reginald Hibbert it was clear that the President had the link uppermost in his mind. I think it is very important, therefore, to ensure that nothing is said to the French at present about the link which would risk bringing the enterprise to a grinding halt at this rather sensitive time. Even if we cannot in due course find a solution to the question of guarantees, I do strongly feel that we need to proceed very carefully if we are to avoid wrong-footing ourselves tactically and running the risk of undermining our other interests with the French.

gsv
AW
Prime Minister (2) *[initials]*

MUS 17/3

[Handwritten signature]



4. I look forward to expanding these points at the comprehensive discussions of the project and its implications which will no doubt take place when the final report on the joint studies becomes available.

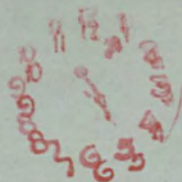
5. I am copying this minute to all other members of E Committee and to Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of a large, stylized letter 'C' with a short horizontal stroke at the bottom.

(CARRINGTON)

Foreign and Commonwealth Office
17 March 1982

17 MAR 1982



CONFIDENTIAL



✓ AW
JV

(2)

Prime Minister

mf.

This seems
unexceptionable.

PRIME MINISTER

FIXED CHANNEL LINK - GUARANTEES

MS 17/3

We discussed this in E Committee on 9 February. We agreed that we should not accede to the French request for reciprocal guarantees which could involve us in compensating losses incurred on the French side in the event of a failure on the part of our chosen (private sector) instrument for building the link. We agreed that subject to clearer definition of what they involve, we should be prepared to consider, without commitment, guarantees which would involve compensation in the event of a decision of Government which caused the project to be aborted, compromised or delayed.

When this decision was conveyed to the French it was met with considerable disappointment. But they are ready to work with us to try to find solutions which would meet the underlying concern of both Governments and yet avoid any compromise of principle on either side. They have stressed throughout their understandable concern not to be exposed to any repetition of the events of 1975. They believe that neither country should embark on a fixed Channel link unless both can be confident of seeing it completed.

Against this background we have been pursuing with them solutions which might meet the requirements of both sides. One possibility may be to establish a unitary Anglo/French company to construct and operate the link. The French now seem to be as determined as we are that the project should be financed on a normal commercial basis, using market sources of finance, without commercial guarantees from Government and with only normal commercial agreements with the railways. I am therefore hopeful of finding a way through.

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This is all of course without prejudice to the basic question of whether we should have a fixed link at all and if so what form it should take. The French fully understand that.

The Report of the Anglo/French Study Group will inevitably be delayed while these possibilities are developed. It will be several weeks before I can return to my colleagues with comprehensive recommendations.

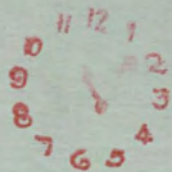
I am sending copies of this minute to members of E and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'D.H.' with a flourish underneath.

DAVID HOWELL
16 March 1982

CONFIDENTIAL

16 MAR 1982



Transport

HL
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file

bcc Walters
Duguid

10 DOWNING STREET

From the Private Secretary

18 February 1982

Fixed Channel Link

The Prime Minister has seen a copy of your Secretary of State's letter of 16 February to the Secretary of State for Foreign and Commonwealth Affairs on the handling of the fixed channel link question.

The Prime Minister is content that your Secretary of State should take his stand on the position in the letter of 11 November 1980 - that the Government is prepared to consider a political guarantee. The Prime Minister has commented that if we were to go beyond a commitment to consider, it would be necessary to define what a political guarantee is. The conclusion of E Committee on 9 February was, of course, that the definition of a "political decision to withdraw" should be explored further. The Prime Minister emphasises that the Government's present position is not that it is ready to give such a guarantee.

I am sending a copy of this letter to the Private Secretaries to the members of E Committee and to David Wright (Cabinet Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,
Department of Transport.

CONFIDENTIAL

B12

cc. AD

AW.



Prime Minister

Consistent with
the line you took
yesterday.

(2)

Mus 12/2

FCS/82/27

SECRETARY OF STATE FOR TRANSPORT

Channel Fixed Link

1. Thank you for your letter of 16 February informing me of the line on the link which you propose to take with the Select Committee on Transport and with the chief French negotiator.
2. We would be open to justified accusation of bad faith from the French (and potential British promoters) if we appeared to be withdrawing our support from this project before completion of the studies called for by the Prime Minister and President Mitterrand last September. Our objective over the next few weeks must therefore be to complete these studies as soon as possible. Ministers will then have an opportunity for consideration of all the factors involved in a decision on the link, political as much as economic.
3. We cannot, of course, go further to meet the French on finance for the project than the position which the Prime Minister and President Mitterrand agreed last September. But I do not think we need to at this stage. The French remain very keen on the project: President Mitterrand said so to Sir R Hibbert, and the French Prime Minister spoke enthusiastically about it in the Pas de Calais recently. Provided we give the French no reason to believe that we have changed our position since last September, I think they will be happy to take work on the studies to completion. If we qualify the Prime Minister's remarks in any way, we shall arouse their suspicions and they will be tempted to adopt tactics aimed at placing the blame for failure squarely on us. That would be in the interests neither of Anglo/French relations generally, nor of industrial co-operation between the two countries in particular.

/4.

CONFIDENTIAL



4. As for the Select Committee, I agree that you should stick to the line taken by your predecessor in his evidence to the Committee on 11 November 1980, of which his letter of 27 November was an elaboration.

C.

(CARRINGTON)

Foreign and Commonwealth Office

17th February 1982

18 FEB 1982





(1)

10 DOWNING STREET

Prime Minister

The phrase
is considered.

We should

Channel Link

have to

define a
"political"
guarantee.

I attach the E Minutes as you requested.

we are

to go any
further.

Content that Mr Howell

We are

should take his stand on the

not-
say up

Nov 1980 letter position - that he we

would not

will consider a political guarantee;

a guarantee;

or do you think that the

not

conclusions of E require him

OVER

publicly to reverse this
position, and say we will give
no kind of guarantee?

Ms 17/2

CONFIDENTIAL

✓ AN
Ad
①



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

Content with this

approval?

see 16/2

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

16 February 1982

See Peter

Ray | see the
Minister 7/2

FIXED CHANNEL LINK

We discussed briefly this afternoon how in the light of our decisions in E Committee on 9 February to handle the question of the Fixed Channel Link.

I have to appear before the Select Committee on Transport of the House of Commons tomorrow and I am to see the chief French negotiator on Thursday. I shall want to re-emphasise to him the Prime Minister's remark during her meeting with President Mitterand on 11 September last year that we should want to rely on private finance and to refer to the President's reply that each of the two countries would have to carry out its own financing. As to guarantees, Norman Fowler wrote to the Select Committee last November explaining very fully the Government's attitude. I attach a copy. Nothing we have since decided calls for any change in that statement and I propose with the French as well as with the Select Committee to continue to take my stand upon it.

CONFIDENTIAL

CONFIDENTIAL

Since E Committee met, Sir Reginald Hibbert has had a conversation with President Mitterand in which the latter emphasised the importance which the Channel Link project has for him. You made the point at our meeting that it would be a mistake to turn the French down flatly on the Link as we approach decisions on other important collaborative projects, such as Airbus. Should the French seek other prior assurances or guarantees, I shall have to make it plain that I cannot satisfy them. But I shall say that we remain anxious to complete the joint studies and to assess the results and the finance available to each side according to its preferred methods.

Copies of this letter go to members of E and to Sir Robert Armstrong. Unless I hear to the contrary by mid-day Thursday, 18 February I will assume that colleagues are content if I deal with the French on this basis.

Yam

David

DAVID HOWELL

CONFIDENTIAL

11 November 1980]

[Continued

Letter to the Chairman of the Committee from the Minister of Transport

CHANNEL LINK: THE EFFECT OF GOVERNMENT GUARANTEES

During your Committee's examination of 11 November, there was an inquiry about the relationship between guarantees given by Government and the Public Sector Borrowing Requirement. This note describes the effects of various forms of guarantee on the PSBR.

To take the simplest case first, if a Government controlled body borrows on the market the borrowing adds to the Public Sector Borrowing Requirement. This would apply, for example, to any borrowings by the British Railways Board itself, whether explicitly guaranteed or not, to finance its share of the cost of any Channel link.

Where a private sector body borrowed on the market for the purposes of constructing a link with a Government guarantee of the servicing of that loan (in other words guaranteed the private sector borrower against commercial risks) there would be no immediate increase in the PSBR. However, any borrowing with a government guarantee of this character could have consequences incompatible with the Government's monetary objectives either in terms of higher interest rates or a further tightening of bank liquidity. This is because the borrowing would effectively be on Government, not commercial, credit and would represent a bid for funds in competition with Government Borrowings. There would also be a liability on the Government, and hence to the PSBR, contingent on the guarantee being called. Moreover such a contingency could be brought about by commercial decisions or events beyond the Government's control and this is in principle objectionable.

Guarantees of the kind I said I would be willing to consider, namely a guarantee of compensation to the promoters of a Channel link should a decision by the Government interfere with the completion of the use of the link, would affect the public sector borrowing requirement only in contingencies in which the Government would itself have a power of decision. In this case a guarantee does not absolve lenders or borrowers from the commercial risk involved in the creation of the link but offers only compensation if and when a Government decision aborts, compromises or delays the project.

In summary, therefore, borrowings by a public sector body inevitably form part of the public sector borrowing requirement. Guarantees of loans against commercial risk would have consequences incompatible with the Government's monetary objectives. Where the Government simply guarantees lenders and borrowers against the effects of the Government's own decisions however, a form of contingent guarantee, the PSBR is only affected if the guarantee is called.

27 November 1980

16 FEB 1982

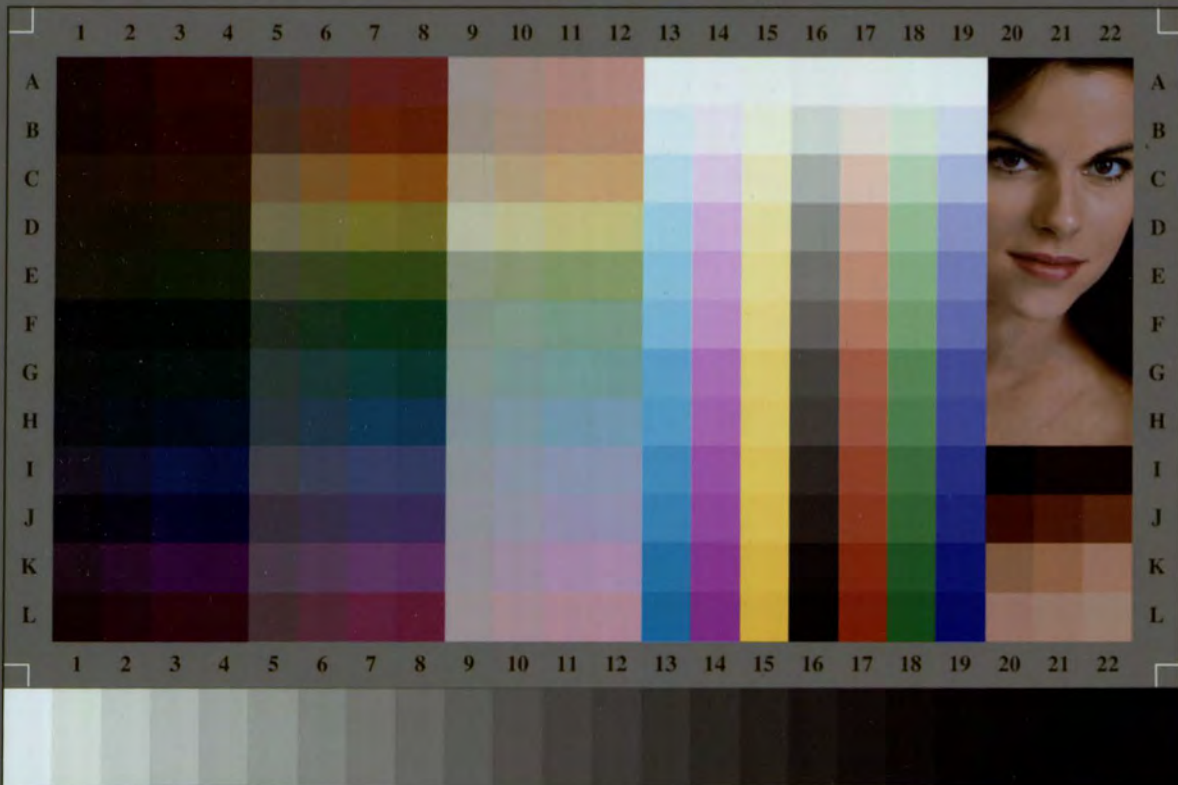


PART 1 ends:-

8.2.82

PART 2 begins:-

9.2.82



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