

CONFIDENTIAL

MR. ALEXANDER

Channel Tunnel

In his minute of 10th March the Minister of Transport sought the Prime Minister's agreement to a draft Parliamentary statement, to be made on 19th March, about the Government's attitude to the construction of a Channel Tunnel. Mr. Pattison's letter of 13th March conveyed the Prime Minister's approval of the statement, which is indeed unexceptionable; but since the minute itself refers to the possibility of Community support the Prime Minister may find it helpful to have this note on the Tunnel's possible relationship to our net contribution problem.

2. The Commission of the European Community are interested in this question: the Channel Tunnel was identified as potentially eligible for Community finance in the Green Paper on transport infrastructure they issued last November, and Commissioner Burke gave support to the idea at a news conference in London earlier this week to publicise a study of the project prepared by consultants at the request of the Commission. The Commission's recent paper on supplementary receipts for the United Kingdom mentioned expenditure on transport infrastructure and measures designed to link the United Kingdom more closely to the rest of the Community as possible candidates for extra Community spending in the context of an overall solution to our Budget problem.

3. In fact, while it is likely that aid for a Channel Tunnel would appeal to our partners on communautaire grounds, it can have no direct relevance to our budget problem for two reasons. First, the timescale of the project, once approved, is such that no significant benefit could accrue to the United Kingdom from Community funds for several years. Second, since it is not the intention to provide any Government finance, any contribution from the Community to the cost of the Tunnel could not be in substitution for planned Government expenditure. Thus while Community support for a private venture might produce a resource gain, it could not of itself have the desired effect of reducing our net Budget contribution or the PSBR.

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4. It might accordingly be worth your sending the Minister of Transport's Office a second letter, cautioning Mr. Fowler against giving any impression, in answer to supplementaries, that Community finance for a Channel Tunnel can make any substantive contribution to a solution of our Budget problem at the March European Council. He could do this by making it clear, if he was asked about this in supplementaries, that any Community financial support for a Channel Tunnel was unlikely to be forthcoming in time to help with the solution of our immediate Budget problem.

ROBERT ARMSTRONG

(Robert Armstrong)

18th March 1980