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C(86) 3

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34

14 January 1986

CABINET

CHANNEL FIXED LINK

Note by the Secretary of State for Transport

The Sub-Committee on Economic Affairs of the Ministerial Steering Committee on Economic Strategy (E(A)), in considering the Channel Fixed Link on 8 January (E(A)(86) 2nd Meeting), invited me to explore the possibility of collaboration between the Channel Tunnel Group (CTG) and Channel Expressway (CE) and also between EuroRoute and CE. The objective was to establish whether a drive-through capability could be maintained with the CE scheme put on a more reliable basis by inclusion of one or both of the more established groups in the project. This note reports on the results of this initiative, and on further developments including a further meeting with the French Minister of Transport.

2. Over the period 8-10 January I held two meetings with Sir Nicholas Henderson of CTG, and one each with Mr Sherwood of CE and Sir Nigel Broackes of EuroRoute. Telephone discussions continued over the weekend. In brief:

- a. CTG have robustly defended their project in terms of its appeal to the traveller, its low risks and its financeability, and have refused outright to collaborate with CE or EuroRoute. They have themselves examined a drive-through tunnel scheme and have concluded that at £4.2 billion (including a single rail tunnel) it would be unfinanceable, but they have offered to consider building one later if it appears to them feasible and justifiable.
- b. The only collaboration that EuroRoute were prepared to envisage with CE was that CE could act as the operator of the EuroRoute project after it was opened.
- c. CE would be prepared to co-operate in one way or another with either CTG or EuroRoute.

On this information, I have concluded that there is no scope to bring the groups together.

3. I have also given consideration to ways of reducing the risks of the CE project. Mr Sherwood is willing to commence this project with a trial bored tunnel through the difficult ground on the French side, keeping open the possibility of reverting to a CTG-type shuttle project if the technical difficulties of constructing large tunnels proved too great. But this would not represent a clear decision to proceed with a single project, and there would also be difficulties of law and propriety in allowing CE to fall back to another promoter's project.

4. I have also asked CTG whether they could improve their offer by adding drive-through tunnels to their scheme at a later date if traffic increases and if technical uncertainties are resolved to the point that such an extension becomes financeable. CTG have not yet offered any commitment on this, but I am trying to extract some undertaking by suggesting to them that it would help them to be selected.

5. I held a further meeting with the French Transport Minister on Monday, who is now working on the basis of instructions from the French President. President Mitterrand is very anxious for a final decision on 20 January; his first choice would be EuroRoute, and his second CTG. The French say that they are not prepared to contemplate the delay involved in a proper test of the financial market between CTG and CE, a concept which they still seem unable to comprehend. CE remains entirely unacceptable to the French for reasons which are not quite clear. They have doubts about the practicality of the scheme, as well as disliking Mr Sherwood personally. They could accept him as the operator of CTG's shuttle trains.

6. I do not believe we have now any option other than one of the following:

- a. To accept CTG, after obtaining from them the best possible undertakings we can about the later provision of drive-through capacity. (My officials are discussing with the French possible conditions which we might put to CTG.)
- b. To insist on CE, or on putting the choice between CE and CTG to the financial markets to decide.

7. Option a is regarded by both us and the French as the lowest common denominator. We would be criticised for not choosing a drive-through option - public opinion in the United Kingdom appears to be in favour of a drive-through Link. We would also be accused of rushing the decision and caving in to the French in order to help the French Socialist Party's electoral ambitions.

8. Option b involves being prepared to see the postponement of the announcement of the decision on 20 January in Lille. The Prime Minister, summing up on 8 January agreed that a decision of this magnitude should not be constrained by a very limited timescale. The French have set great store on the announcement being made on 20 January. It is possible that they would give way to us if we pushed them to the limit. If they did not give way to us, postponement would be damaging to them but we would be

applauded for refusing to be rushed into what the public generally regard as the wrong decision. But this option obviously opens up the possibility of no agreement being reached in the foreseeable future, and of no Link being built within our timescale.

9. Although it is a risky course, my preference is for insisting on CE. I judge that the French would ultimately find a way either of accepting CE, or at least agreeing a market test.

10. There are a number of points, including those raised by the Chief Secretary, Treasury, that we are trying to get the French and the promoters to accept while we still have negotiating leverage. The most important of these is the arrangement for the procurement, operation and revenue-sharing of high-speed through trains by a joint venture of BR and SNCF.

11. In these circumstances it is impossible to produce the White Paper by January 20, although I am continuing to work on it so far as possible. I believe it better to produce a really good document once the decision has been taken.

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Department of Transport

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