



P.0603

PRIME MINISTER

Fixed Cross-Channel Link
(E(81)121, 122 and 124)

BACKGROUND

The then Minister of Transport announced in the House in March 1980 that the Government was prepared to consider proposals for a fixed cross-Channel link, financed privately.

2. Three types of scheme have been put forward:

- a. bored tunnels, operated as a railway, perhaps with a "motorail" facility;
- b. bridges;
- c. immersed tubes.

Euroroute (backed by Mr Ian MacGregor) propose a scheme which combines bridges and immersed tubes.

3. Since the last Anglo-French summit, British and French officials have been jointly studying the prospects for a fixed cross-Channel link.

4. In his memorandum E(81)121 the Secretary of State for Transport seeks the Committee's views on the approach his officials should take in discussion with the French up until the end of February, when they are due to report. He proposes that officials should aim to clarify the three main options:

- a. a quick start on a bored tunnel;
- b. a thorough study of bridges or tubes;
- c. reliance on existing services.

5. In his memorandum E(81)122 the Chief Secretary argues that if a fixed link goes ahead it will in effect be a public sector project; and that the probable rate of return is not high enough to justify it. He concludes that the French should be told of the Government's doubts about whether a fixed link is worthwhile. He also proposes that the Secretary of State for Transport should bring this question back to E early in the New Year.

6. The CPRS memorandum, E(81)124, sets out some of the main questions raised by the fixed link proposals. In particular the CPRS underlines the importance of the overall economic assessment, as opposed to the technological and organisational aspects.

MAIN ISSUES

7. The purpose of the meeting is not to take final decisions on the merits of a fixed cross-Channel link but to give guidance on the next phase of discussions with the French. This does however require very careful consideration. The French, with good reason, feel that they have already been let down once by the British Government over the Channel link. We must therefore be careful to avoid misleading them about our attitude to the project. It should also be borne in mind that the link may well be more advantageous economically to the French than to ourselves - for example in terms of stimulating growth in the underdeveloped areas of North West France. At some stage in the discussions this could be useful to us - possibly in securing terms which suited us better or getting the French to take a larger share of the project. It does however mean that the French input into any joint studies needs to be examined very critically from the point of the UK's national economic interest. We must be particularly careful to avoid being drawn into premature commitment to the project.

Public sector v private sector

8. It may be useful for the Committee to take a preliminary view on how far it is realistic to assume private sector financing of the project. The Chief Secretary argues that a completely private project is not possible. The tunnel operators want some sort of Government guarantee of traffic levels, and the French would want a completion guarantee and perhaps control of tariffs. The best that can be hoped for is a 'hybrid' scheme - a public sector project financed by capital raised directly from the market. The Secretary of State for Transport appears to accept this. If the Committee agree that this is a realistic

assessment, it would be desirable to confirm that the project should not be ruled out on these grounds, provided that the economic case is made out in due course.

Economic return

9. The second main issue on which the Committee may wish to have a preliminary discussion is the economic return. If Ministers share the Chief Secretary's view that the rates of return forecast for a bored tunnel appear inadequate in relation to the risk, the right course would be, as he suggests, to have an economic appraisal independently of the joint studies with the French and an early report back to the Committee. Work on evaluating the other schemes is less advanced but it seems unlikely (see para 10 below) that they will offer a higher rate of return.

Alternative schemes

10. Thirdly some Ministers may wish to make preliminary comments on the merits of the various alternative schemes. The Secretary of State for Transport's assessment is broadly as follows:

- a. bored tunnels are likely to yield as high a rate of return as bridges or tubes;
- b. immersed tunnels or bridges across the Channel raise much greater technical difficulties and uncertainties than tubes;
- c. a bored tunnel is the only feasible option if legislation is to be passed in 1982-83 (and construction started in 1984).

11. The Secretaries of State for Industry and for the Environment may wish to comment on the relative benefits of the various schemes for the steel and construction industries. The Secretary of State for Trade may draw attention to the problems for navigation in the Dover Straits, one of the world's busiest shipping lanes, which would be caused by any scheme other than a bored tunnel. Ministers may also wish to express a view on how much importance they attach to an early start on the project, since this consideration argues strongly in favour of the bored tunnel option.

Tactics with the French

12. The Committee's preliminary views on these main issues will need to be taken into account in formulating the line for the next round of talks with the French. In particular if most members of the Committee share the Chief Secretary's scepticism about the economic return, it may, as he suggests, be necessary to give some indication of this to the French, while avoiding any premature termination of the joint studies. It would also be useful to make clear the United Kingdom's wish to maximise private sector involvement within the inevitable constraints, and to convey any preliminary views about the relative merits of the bored tunnel as opposed to the other proposed schemes.

HANDLING

13. As well as the Secretary of State for Transport, the Chief Secretary, Treasury and Mr Ibbs, the Secretaries of State for Trade and Industry and the Foreign and Commonwealth Secretary or the Lord Privy Seal are likely to have comments.

CONCLUSIONS

14. You will wish to record conclusions on the following:

- i. whether the Committee is ready to reach any preliminary views on:
 - a. the extent of public sector involvement in the project which would be tolerable;
 - b. the likelihood that the project will have an adequate rate of return;
 - c. the relative merits of the bored tunnel as against other proposed schemes;
- ii. depending on i., the line to be taken in the next round of discussions with the French;
- iii. whether, as proposed by the Chief Secretary, Treasury, the Secretary of State for Transport should be invited to report back to the Committee with an economic appraisal, independent of the joint studies with the French, and a detailed note on the prospects for private sector financing.

PLG
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2 December 1981