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Prime Minister
5 February 1982
ALAN WALTERS *We are edging*

*towards commitment on the
Channel Tunnel*

PRIME MINISTER

FIXED CROSS CHANNEL LINK

"Political Cancellation" Guarantee

MUS 5/2

1. Transport's memorandum of 4 February asks colleagues to agree that the French requirement of a reciprocal guarantee be accepted. This specifies that all French costs would be reimbursed by the UK Government if work on the link "was abandoned either as a result of a decision by the British Government or a failure of its chosen instrument".
2. The difficulty with such an agreement is that there may very well be good reasons for Britain, as distinct from France, to withdraw from the project. Costs may overrun even the overruns, but more important, traffic, and particularly rail traffic, may be much less than initially forecast. (Such an outcome is quite common in projects, as in the case of the third London Airport.)
In order to withdraw more or less unscathed we would have to get the agreement of the French. Their judgement, or their political interests, might be quite different from ours. They are much more committed to rail transport and may well see a rail tunnel as a method of ensuring much British traffic for French railways.
3. In any case British unilateral action would be represented as a political cancellation, in spite of the fact that it may, as far as Britain is concerned, make good commercial and economic sense to withdraw.
4. I am also very doubtful whether the provision of this reciprocal guarantee can be used as a bargaining counter to persuade the French to drop effectively their regulation of fares. The French Government will speak with one voice in the promoters boards. And it is easy to rationalise a regulated tariff as simply being against abuse of monopoly power.

Completion Guarantee

5. Transport's memorandum suggests that a completion guarantee is necessary to reinforce the position of the UK promoters. They

/seem to regard

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seem to regard it as a desirable concomitant of the political cancellation guarantee. However my contacts with the Eurobridge and Euroroute groups confirmed that they were not asking for any such completion guarantee.

6. Their paragraph 18 suggests that this completion guarantee is thought to be required only for the rail tunnel. It is alleged that it would enable the promoters to raise finance more easily. Indeed it would.
7. You will recall that we were asked to give a completion guarantee on the gas gathering pipeline. We refused to entertain any such commitment because of the contingent liability involved. I believe the same argument applies here.

Options for Decision

8. It is very likely that, from the British side at least, we shall be pressed to go ahead with a rail-only tunnel. It is argued that the technology is known and tested, and that it involves least commitment of investment resources. But what emerges clearly from all the papers, and from a little reflection, is that rail traffic is declining, certainly relatively and probably absolutely. The most rapid growth has been, and undoubtedly will continue to be in road vehicles both freight and passenger. The rail tunnel would be very much an act of faith in the resuscitation of rail. It would be regarded, like electrification, as a commitment to British Rail - whatever the financial cost. (It would also reinforce the unionised rail industry in competition with the largely non-unionised road haulage and passenger industries.) I suspect that we must face the restructuring and slimming of BR in the near future. A rail only tunnel would prejudice at least part of that process.

Conclusion

9. There is an argument for the Government entering into a political cancellation guarantee. But I am very uncertain that one can find a form of words which serves the purpose of providing a political cancellation guarantee and at the same time gives us adequate freedom to withdraw or dispose of our interests, if commercial circumstances suggest that that is a wise course.

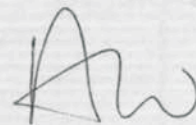
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10. I can see serious arguments against the completion guarantee. I do not think it the promoters require it in the case of the Euroroute or, I believe, the Eurobridge. It seems to be the brain-child of the rail tunnel promoters. I think it would be wise, even at this stage, to indicate that you are aware of the great disadvantages of a rail-only tunnel and all the monopoly implications that follow from it.

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