

PRIME MINISTER

MEETING OF E(A): 15 JUNE

I fear this may be a more difficult meeting than seemed possible when you saw the early papers over the weekend.

There is an hour scheduled for the meeting starting at 1800. But there is now likely to be substantial argument on both items:

1. Acid Rain - draft EC Directive;
2. a second Severn Crossing.

1. Acid Rain

The papers are in the first divider. They are:

Flag A - Mr Ridley's paper that you saw last weekend. He recommends further steps to improve our record on emissions which would enable a compromise to be reached on a new EC Large Combustion Plants Directive. This involves a programme of additional retrofits to meet the goal of a 70 per cent reduction in emissions by 2005. The additional costs would involve a combination of lower privatisation proceeds and higher electricity prices. *He says the programme will help privatisation.*

Flag B - A minute by Mr Morrison (which you have not seen before) arguing against what he terms "major and costly concessions to the Germans". He argues that a substantial improvement in the level of emissions is already underway, and that the costs of extra retrofits are unnecessary. He also argues that we need not be concerned about reaching agreement on the Directive, and that, as long as we make clear what our policy is, privatisation prospects will not be damaged.

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Flag C - A Cabinet Office brief which you may like to use to steer the discussion.

Flag D - A Policy Unit note (which was in the weekend box) supporting Mr Ridley's approach.

Mr Ridley is likely to be supported by the ^{Scottish Office,} Foreign and Commonwealth Office and the Department of Trade and Industry. Mr Morrison will be supported by the Chancellor.* Perhaps the key issue will be to try to settle how important it is to move towards early agreement on an EC Directive.

2. Severn Crossing

The papers are:

Flag E - Mr Walker's paper (which you saw at the weekend). His concern is simply to get agreement to early construction of a second bridge. He will stress the political/Welsh dimension.

Flag F - Mr Channon's paper (which you also saw at the weekend). He argues that:

- a second crossing is a low priority for public funding;
- therefore invite the private sector to make bids, which will mean getting it built quicker and ensure that it is additional;
- invite the bids within the same parameters as for Dartford, ie public sector to construct the approach roads and the private sector operator effectively to take over the operation of the existing bridge.

Flag G - The Chief Secretary's letter of 13 June (which you have not seen before). He argues that three issues need to be distinguished:

- how most cost-effectively to build a second crossing;
- when it should open;
- whether or not it should be additional;

He implicitly accepts that the parameters of the project should be as for Dartford, but, unlike Mr Channon, argues that there must be a public/-private sector competition, with bidders invited to look at varying open dates and tolls.

Flag H - A Cabinet Office brief, which again you could use to steer the discussion.

Flag I - A note by the Policy Unit. They argue that:

- the Treasury approach is a trap, and must be resisted;
- a distinction should be drawn between "economic need" and "market demand";
- the private sector only should be invited to bid;
- the parameters of the scheme should be more radical than Dartford; the private sector should also build the access road, and the financing arrangements for the existing bridge should be left as they are.

There will therefore be many strands to the discussion. My own view is that none of the Department of Transport/Treasury/Policy Unit options is entirely right, but each contains elements that should be included in the approach adopted:

- The Policy Unit are right to press for consideration of a more radical specification than for Dartford. It is sensible to consider the possibility of the private sector building the approach roads and keeping the finance arrangements for the two crossings separate. This would place both higher risk and initiative with private sector bidders.
- But the Policy Unit are unduly dismissive of some of the Treasury's concerns. In particular, it is right to distinguish the issues of timing and financing; and to avoid the conclusion that we should turn to the private sector simply as a means of getting the second crossing built quicker. There is also force in the argument that competitive pressures will be increased by comparing private and public sector solutions.
- There is also the danger that, given the higher risks involved, the private sector might not be prepared to come forward with acceptable bids for the project as specified by the Policy Unit.

A possible compromise approach might therefore be:

- (i) Widen the options for the crossing as suggested by the Policy Unit, but treat these as alternatives to, not substitutes for, a Dartford-type project.
- (ii) Invite those tendering for the project to bid on alternative assumptions about date of completion/tolls.
- (iii) Compare the private sector bids with public sector alternatives.

- (iv) Decide later who should build the crossing, what specification it should have, when it should be built, and (if it is the private sector) whether it should be additional.

There is also the separate question of whether and when to announce increased tolls for the existing bridge. This is a moderately self-contained issue, with the arguments summarised in paragraphs 13-15 of the Cabinet Office note at Flag H.

Rec.

PAUL GRAY
14 June 1988

DASAMW

ENV AFFAIRS
Acid Rain pt 5



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