

cc. AD

AW.



Prime Minister

Consistent with
the line you took
yesterday.

(2)

Mus 14/2

FCS/82/27

SECRETARY OF STATE FOR TRANSPORT

Channel Fixed Link

1. Thank you for your letter of 16 February informing me of the line on the link which you propose to take with the Select Committee on Transport and with the chief French negotiator.
2. We would be open to justified accusation of bad faith from the French (and potential British promoters) if we appeared to be withdrawing our support from this project before completion of the studies called for by the Prime Minister and President Mitterrand last September. Our objective over the next few weeks must therefore be to complete these studies as soon as possible. Ministers will then have an opportunity for consideration of all the factors involved in a decision on the link, political as much as economic.
3. We cannot, of course, go further to meet the French on finance for the project than the position which the Prime Minister and President Mitterrand agreed last September. But I do not think we need to at this stage. The French remain very keen on the project: President Mitterrand said so to Sir R Hibbert, and the French Prime Minister spoke enthusiastically about it in the Pas de Calais recently. Provided we give the French no reason to believe that we have changed our position since last September, I think they will be happy to take work on the studies to completion. If we qualify the Prime Minister's remarks in any way, we shall arouse their suspicions and they will be tempted to adopt tactics aimed at placing the blame for failure squarely on us. That would be in the interests neither of Anglo/French relations generally, nor of industrial co-operation between the two countries in particular.

/4.

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4. As for the Select Committee, I agree that you should stick to the line taken by your predecessor in his evidence to the Committee on 11 November 1980, of which his letter of 27 November was an elaboration.

C.

(CARRINGTON)

Foreign and Commonwealth Office

17th February 1982

18 FEB 1982



CONFIDENTIAL

✓ AN
Ad
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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

Content with this

approval?

see 16/2

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

16 February 1982

See Peter

Ray | see the
Minister 7/2

FIXED CHANNEL LINK

We discussed briefly this afternoon how in the light of our decisions in E Committee on 9 February to handle the question of the Fixed Channel Link.

I have to appear before the Select Committee on Transport of the House of Commons tomorrow and I am to see the chief French negotiator on Thursday. I shall want to re-emphasise to him the Prime Minister's remark during her meeting with President Mitterand on 11 September last year that we should want to rely on private finance and to refer to the President's reply that each of the two countries would have to carry out its own financing. As to guarantees, Norman Fowler wrote to the Select Committee last November explaining very fully the Government's attitude. I attach a copy. Nothing we have since decided calls for any change in that statement and I propose with the French as well as with the Select Committee to continue to take my stand upon it.

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Since E Committee met, Sir Reginald Hibbert has had a conversation with President Mitterand in which the latter emphasised the importance which the Channel Link project has for him. You made the point at our meeting that it would be a mistake to turn the French down flatly on the Link as we approach decisions on other important collaborative projects, such as Airbus. Should the French seek other prior assurances or guarantees, I shall have to make it plain that I cannot satisfy them. But I shall say that we remain anxious to complete the joint studies and to assess the results and the finance available to each side according to its preferred methods.

Copies of this letter go to members of E and to Sir Robert Armstrong. Unless I hear to the contrary by mid-day Thursday, 18 February I will assume that colleagues are content if I deal with the French on this basis.

Yours

David

DAVID HOWELL

CONFIDENTIAL

11 November 1980]

[Continued

Letter to the Chairman of the Committee from the Minister of Transport

CHANNEL LINK: THE EFFECT OF GOVERNMENT GUARANTEES

During your Committee's examination of 11 November, there was an inquiry about the relationship between guarantees given by Government and the Public Sector Borrowing Requirement. This note describes the effects of various forms of guarantee on the PSBR.

To take the simplest case first, if a Government controlled body borrows on the market the borrowing adds to the Public Sector Borrowing Requirement. This would apply, for example, to any borrowings by the British Railways Board itself, whether explicitly guaranteed or not, to finance its share of the cost of any Channel link.

Where a private sector body borrowed on the market for the purposes of constructing a link with a Government guarantee of the servicing of that loan (in other words guaranteed the private sector borrower against commercial risks) there would be no immediate increase in the PSBR. However, any borrowing with a government guarantee of this character could have consequences incompatible with the Government's monetary objectives either in terms of higher interest rates or a further tightening of bank liquidity. This is because the borrowing would effectively be on Government, not commercial, credit and would represent a bid for funds in competition with Government Borrowings. There would also be a liability on the Government, and hence to the PSBR, contingent on the guarantee being called. Moreover such a contingency could be brought about by commercial decisions or events beyond the Government's control and this is in principle objectionable.

Guarantees of the kind I said I would be willing to consider, namely a guarantee of compensation to the promoters of a Channel link should a decision by the Government interfere with the completion of the use of the link, would affect the public sector borrowing requirement only in contingencies in which the Government would itself have a power of decision. In this case a guarantee does not absolve lenders or borrowers from the commercial risk involved in the creation of the link but offers only compensation if and when a Government decision aborts, compromises or delays the project.

In summary, therefore, borrowings by a public sector body inevitably form part of the public sector borrowing requirement. Guarantees of loans against commercial risk would have consequences incompatible with the Government's monetary objectives. Where the Government simply guarantees lenders and borrowers against the effects of the Government's own decisions however, a form of contingent guarantee, the PSBR is only affected if the guarantee is called.

27 November 1980

16 FEB 1982

