



(1)

10 DOWNING STREET

Prime Minister

The phrase  
is considered.

We should

Channel Link

have to

define a  
"political"  
guarantee.

I attach the E Minutes as you requested.

we were  
to go any  
further:

Content that Mr Howell

We are

should take his stand on the

not-  
say up

Nov 1980 letter position - that he we

would not

will consider a political guarantee;

a guarantee;

or do you think that the

not

conclusions of E require him

OVER

publicly to reverse this  
position, and say we will give  
no kind of guarantee?

Ms 17/2

Transport

HL  
Transpar



file

bcc Walters  
Duguid

10 DOWNING STREET

From the Private Secretary

18 February 1982

Fixed Channel Link

The Prime Minister has seen a copy of your Secretary of State's letter of 16 February to the Secretary of State for Foreign and Commonwealth Affairs on the handling of the fixed channel link question.

The Prime Minister is content that your Secretary of State should take his stand on the position in the letter of 11 November 1980 - that the Government is prepared to consider a political guarantee. The Prime Minister has commented that if we were to go beyond a commitment to consider, it would be necessary to define what a political guarantee is. The conclusion of E Committee on 9 February was, of course, that the definition of a "political decision to withdraw" should be explored further. The Prime Minister emphasises that the Government's present position is not that it is ready to give such a guarantee.

I am sending a copy of this letter to the Private Secretaries to the members of E Committee and to David Wright (Cabinet Office).

M. C. SCHOLAR

Anthony Mayer, Esq.,  
Department of Transport.

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Ad  
①



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

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11 November 1980]

[Continued

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**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

