



Prime Minister (2)
 To note while awaiting
 replies from colleagues.

AT
 24/10

B/f with CST's comments

AT
 25/10

Prime Minister

FIXED LINK ACROSS THE CHANNEL

When the report of the Anglo/French Banking Group was published in May of this year, I made it clear that it remained the Government's firm position that any fixed link would have to be financed entirely without the assistance of public funds and without commercial guarantees from Government. Guarantees against "political risk" would be considered but, as you stressed at the time, these would need to be very carefully defined. The government would need to be convinced that sufficient funds would be available to ensure completion, that the project was acceptable from the point of view of maritime and structural safety and consistent with planned capacity of inland road/rail infrastructure. Provided these criteria were met the Government would be willing to consider facilitating a fixed link in collaboration with the French government.

The market has been slow to respond. There have been assertions by promoters, echoed in the press, that financial institutions will not take a serious interest until the two Governments have indicated a will to proceed. I have made it clear to potential promoters and financiers that it is the market which must demonstrate a will to proceed and that the role of Government is to measure specific proposals against the stated criteria and consider whether it should facilitate by treaty and legislation.

Market interest has nevertheless been developing. National Westminster Bank, with Midland not far behind, has indicated its interest in piecing together an international group capable of carrying forward the project for rail tunnels catering primarily for roll-on/roll-off vehicular traffic. In the strictest confidence they have told us that P&O is ready to consider becoming involved. There are indications that substantial American banking interests are strongly interested in participating in this project on a "no guarantee" basis.

EuroRoute - the bridge/tunnel group - has secured the active involvement of two major French industrial undertakings in the engineering development of the scheme and the interest of a major French bank in its financing. They aim to put firm proposals to the two Governments by the end of the year. Ian MacGregor has given up the chairmanship. Sir Nigel Broackes has expressed a strong interest in taking it on. Active involvement by Trafalgar House, already in the "people moving" business, would certainly give the scheme added credibility.

CONFIDENTIAL

The new French Government has taken time to digest the "dossier" and has only recently signalled its readiness to renew discussions. I expect to meet the new French Transport Minister on 14 November. Preliminary indications are that the French share our desire for "no guarantee" market financing and are prepared to accept as a corollary, that the owner/operator must be accorded the necessary degree of commercial freedom in deciding operational policies. Like us, they would want to be sure that there would be no abuse of a dominant position and would wish to consider with us how relevant national legislation could be applied to ensure fair competition between the fixed link, shipping and air services.

They still hanker after some sort of understanding between the two governments that they should be ready to intervene jointly if, for some circumstance unprovided for, the market was unable or unwilling to complete in circumstances where it still made commercial sense to do so. I will, of course, make it clear to M Auroux when I meet him that the Government is unwilling to accept any prior commitment in that respect.

If we insist on that, the French may lose interest, but I think we must now reckon with the possibility that the French will be prepared to go along with us in defining "rules of the game", applicable to all forms of link, sufficiently attractive to induce the market to come up with one or more proposals which satisfy our conditions.

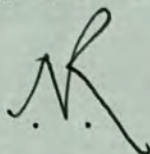
I need to know before I meet M Auroux whether you and other colleagues are ready to see a Fixed Link actually being authorized, if all our conditions are met. If we see overriding objections to any or all forms of fixed link, then I should seek to steer the discussion with M Auroux towards a mutual recognition that there is no way forward.

If that is to be our decision, we must consider carefully how it should be presented to Parliament, to the French, to the promoters, the banks, the press and the public at large.

If for any reason we do not want this project to proceed we should make that clear now in whatever way is appropriate. We should not seek to block it by erecting bigger and bigger hurdles which still induce people to spend more and more money in the belief that they can be leapt. Conversely, if we now specify in detail conditions to be met, we must be honour bound to facilitate the project if they are met.

It would be helpful if we could have the reactions of colleagues by 1 November 1984 so that, if necessary, we can meet to discuss the issues before I meet M Auroux.

I am copying this letter to other members of E(A), Michael Heseltine, Geoffrey Howe, David Young and to Sir Robert Armstrong.



NICHOLAS RIDLEY

24 October 1984

With the Compliments of

Sir Nicholas Henderson, G.C.M.G.



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WBM AT 1/11
cc J.R.

do

The Rt. Hon. Nicholas Ridley, M.P.,
Secretary of State for Transport,
2 Marsham Street,
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23rd October 1984

Dear Nicky,

Re: Channel Tunnel

Could I bother you to let me know how we stand? At the meeting with you on the 10th July you indicated that the Channel Tunnel Group had complied with the criteria regarding private finance as required by H.M.G., but you said that you would have to allow time for other possible promoters to come forward. Some sort of decision would be reached by the end of September and you said that you would get in touch with us, and, in the meantime, you required nothing more in writing from us.

Since then, I should tell you that the Channel Tunnel Group have revised their construction programme in order to reduce the construction period to 4½ years as opposed to the original 6 years. This new programme is supported by both the consulting engineers and banks. You will, no doubt, see the letter from Stannard of the National Westminster Bank to Peter Lazarus of the 22nd October which confirms the National Westminster's view that a project on the lines we are now thinking of would conform with H.M.G.'s insistence that the Channel Tunnel project should be funded exclusively by the private sector on the UK side.

I must say that I was surprised to read in the Sunday press about the attention being given to the Euroroute scheme - surprised simply because my impression has been that the bridges/tunnel is just not financable from the market. But, if I am wrong about this, I would be very grateful for your view.

Would the best way of dealing with all this be to have another meeting with you or is there something you can let me have in writing? I am very conscious of the fact that there is an important Anglo-French bilateral meeting in Avignon at the end of November, to be attended by the Prime Minister. I would like to think we had some sort of lead by then.

Yours ever,

Nicko.

Sir Nicholas Henderson

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