



PRIME MINISTER

CHANNEL FIXED LINK: ASSESSMENT OF PROPOSALS

I thought that I should let you and my other colleagues know how I propose to tackle the assessment of the proposals for a Fixed Channel Link. I and the French Minister (M Auroux) received 4 serious proposals on 31 October (Annex A). An inter-departmental team of officials, assisted by merchant bankers and consultants has set to work in close collaboration with a similar French team. The object is to report by mid-December. Annex B sets out how this assessment is being carried out. It also considers the political and other factors which will be very important to HMG but lie outside the scope of the Anglo/French assessment.

The task ahead is difficult. The submissions are substantial and we should avoid coming to conclusions before they have been thoroughly analysed. It seems quite possible that 2 or more of the projects will pass, perhaps with little between them, the key tests of financial robustness and physical safety, and we shall need to base our view on broader and more subjective considerations.

There are great differences between the proposals and these make the comparison difficult. The Channel Tunnel Group's (CTG) project is likely to be comparatively safe both technically and financially. Although current indications are that the public would prefer a drive-through scheme such as EuroRoute rather than the rail shuttle which CTG would provide, this could change when the reality of a demanding drive of over 20 miles and the possibility of closure in bad weather are understood. The choice is complicated by the last minute introduction by James Sherwood of his scheme for a "Channel Expressway" which would provide a "drive through" facility without the complications and cost of artificial islands. It is a scheme which merits thorough evaluation.

The CTG scheme is widely perceived in Kent as being less of a long term threat to jobs. It and the Channel Expressway

are also probably considerably less vulnerable to sabotage and physical attack, though this will be studied further during the assessment.

EuroRoute is a more exciting project, probably with a good deal more general public appeal than the rail shuttle. It will generate more construction jobs including many in the north. It is likely to attract more traffic than a rail shuttle and therefore to take a larger proportion of our trade with France and to the continent. The Expressway might have a similar appeal but with the job generation characteristics of the CTG scheme.

Both EuroRoute and Expressway could pose a greater threat than the rail shuttle to the continued existence of a substantial ferry fleet and the jobs it provides. This has implications for the competitive regime across the Channel. When E(A) considered this earlier this year our view was that we should look to European Community and UK competition legislation for safeguards against predatory pricing and other anti-competitive practices. But we recognised that if there was a prospect of the disappearance of the ferries (whether or not the competition from a fixed link was "fair") the defence security implications of this would need further consideration. This will form part of the assessment. We shall need a clear public position by the time of our decision: defence Ministers and I expect to be questioned closely when we give evidence before the Select Committee on Defence in the New Year about the defence implications of the decline of the merchant fleet about which there is, of course, wider public concern.

We have agreed that to concede a public inquiry would be very damaging to the prospects of any scheme. It is very important therefore that the scheme we choose should be acceptable to our supporters, particularly in Kent but elsewhere also. I shall be meeting the Kent County Council shortly, and am arranging to meet the Kent Members of Parliament concerned.

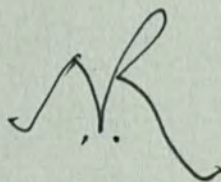
The work which our officials are now doing with the french should provide agreed conclusions on the technical areas of the assessment. We shall need to reach our own judgements on the matters which affect our national interest and the

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proposals which can capture the enthusiasm of the British people. We have no reason to suppose that the French will come naturally to the same conclusions as ourselves. Between mid-December therefore, when I and my French counterpart receive the joint report of officials, and mid-January when I hope we can announce with the French a joint decision as to which, if any, project has been selected, we shall need to reach our own conclusions and, on that basis, undertake the necessary negotiations with the French.

I shall, of course, keep you and my other colleagues informed about the progress of the assessment. I should be glad to receive any comments that colleagues may have at this stage.

I am copying this minute to members of E(A), the Foreign Secretary, the Home Secretary, the Secretary of State for Defence, the Chief Whip and to Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of stylized initials 'NR' with a long, sweeping tail extending to the right.

NICHOLAS RIDLEY

5 November 1985

Channel Expressway

Members of the Group: Sea Containers Ltd and their subsidiary Sealink British Ferries.

French counterparts: None yet

Proposal: twin 11 metre diameter bored "drive-through" tunnels with ability to permit passage of trains at hourly intervals within gaps created in the road traffic flow.

Capital Cost: £2.1 billion

Channel Tunnel Group

Members of the Group: Balfour Beatty, Costain, Midland Bank, National Westminster Bank, Tarmac, Taylor Woodrow, Wimpey with Granada and Mobil Oil as associates.

French counterparts: Banque Nationale de Paris, Credit Lyonnais, Banque Indosuez, Bouygues, Dumez, Spie Batignolles, Societe Auxiliaire d'Entreprises and Societe Generale d'Entreprises.

Proposal: A twin 7 metre bored rail tunnel, with a central service tunnel, for vehicle shuttle and through rail services.

Capital Cost: £2.4 billion.

Eurobridge Studies Group

Claimed backers of Group: Numerous firms are quoted as having given advice for the study, eg Arbuthnot Latham Bank, Bank of Credit and Commerce International, Hogg Robinson, IBM, ICI Fibres and the John Laing Group; but there is no evidence that these have backed or are willing to back, the Group financially.

French counterparts: Europont Group with co-ordinating committee including several lesser known constructing groups and banks.

Proposal: Multispan suspension bridge carrying a 12 lane motorway on two levels.

Capital Cost: £5.9 billion.

EuroRoute

Members of the Group: Barclays Bank, Associated British Ports, British Shipbuilders, British Steel, British Telecom, GEC, John Howard and Co Ltd, Kleinwort Benson and Trafalgar House.

French counterparts: Alstom, Banque Paribas, Compagnie Generale d'Electricite, GTM-Entrepose and Societe Generale.

Proposal: Combined road bridge and immersed tube with two artificial islands and separate immersed tube rail tunnel (with bored rail tunnel as alternative option).

Capital Cost: £5.2 billion; £3.7 billion if rail element omitted altogether.

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ANNEX B.

CHANNEL FIXED LINK - ASSESSMENT OF PROPOSALS

Note by Officials

1. The joint Anglo-French assessment of Channel Fixed Link proposals is taking place according to a detailed plan which has been the subject of exhaustive prior discussion with the French.
2. On the UK side, we have identified 21 assessment areas, listed at Appendix A. Responsibility for these assessments has been allocated widely through Whitehall, and 5 firms of consultants are also involved. The assessments are very diverse, and some are clearly more important than others: in general, we have a common appreciation with the French of which these are. On the UK side we have done a good deal of analysis to identify the very many interactions whereby each assessment depends on the others. For example, costs, traffic and revenues need to be verified before any assessment of financeability can be finalised; as does the acceptability to the Government of any deal provisionally struck by a promoter with BR on terms for the use of the Link by through-trains.
3. In practice certain assessment areas, such as general structural safety and financeability, are liable to be absolutes in that we could not recommend acceptance of any proposal that failed to meet the requirements of the "Invitation to Promoters" in these areas. Other areas - environmental impact and employment, for example - are liable to be significant factors in the overall judgement but not individually decisive.
4. For the purpose of planning the final joint Anglo-French report, we asked each assessor (either Government official or consultant) to identify a small number of "key questions" which encapsulated the aim of his assessment, and to agree these with his French counterpart. Each section of the final report will correspond to one assessment area (or 2 or 3 closely related areas) and, drawing heavily on the

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Key Questions will examine in absolute and/or relative terms the acceptability of the various proposals from that point of view. There will be no attempt to force each section of the report into a pass/fail format, although if a project does fail in a vital area this may dictate the failure of the project as a whole.

5. Officials hope that, with such a common framework agreed with the French side, we shall at least be able to understand clearly any differences that emerge between ourselves and the French assessors; and, beyond that, that there will be maximum chance of arriving at similar conclusions.

6. In practice, there are certain assessment areas which, although included in the Anglo-French assessment scheme, are in fact national assessments conducted in each country - in particular, environmental impact, employment and Cost Benefit Analysis. There are other areas whose importance we may not even wish to admit to the French, and are not included in the Anglo-French assessment scheme at all, but are undoubtedly politically significant and will need to be covered in a separate British paper to Ministers.

1. Assessment Areas susceptible to Objective Anglo-French Analysis

7. Civil Engineering and Costs

The essential questions here are whether the proposals are technically feasible and safe both as to the structure and in respect of road/rail safety; and whether the costs and construction times have been correctly assessed. In principle, a scheme will have to be rejected if it is unsafe. But what is more likely is that the proposals will not reject themselves outright on these grounds but will give rise to a series of minor doubts which are not critical but imply possible cost and time overruns which in turn are liable to affect the relative financeability of the proposals.

8. Maritime Acceptability

The basic question here is whether structures in the Channel will pose a threat to the safety of shipping or impose a modification of the Traffic Separation Scheme with the consequent implication that they need to be submitted for approval to the International Maritime

Organisation (IM), with all the delay that such procedures involve. It will be difficult to exclude any project on the grounds of such delay since we did not do so in the "Invitation to Promoters". But the delay itself (eg in relation to Eurobridge) could well be fatal to the project.

9. Traffic Forecasts and Revenue

Each promoter will supply his own traffic forecasts, and the assessment by DTP and Treasury economists will examine these very thoroughly and put them all on a common basis of economic assumptions. But traffic forecasts are an area of great intrinsic uncertainty. The consequences of a price war with the ferries, the passenger appeal of the various forms of Fixed Link relative to the ferries, and the level of new "generated traffic" are all, even after careful analysis, fraught with uncertainty. In practice, to be confident of a project's financeability by private capital we shall need to follow the practice of potential investors and adopt cautious assumptions; but this builds in a bias against high-price, high-capacity projects that rely heavily on generated traffic. Although we may be able to conduct the objective analysis of traffic forecasts in agreement with the French, we may not be able to agree upon the more difficult judgements that are involved in deciding how much weight to attach to the various "scenarios".

10. Finance

This is the heart of the analysis and a two-pronged approach is needed. First, our Merchant Bank advisers will advise us how much credence should be placed on written undertakings by potential investors which will inevitably fall short of under-written commitments at this stage. Second, they will assess the projects from the point of view of potential investors probing as necessary into all the uncertainties in costs, schedule, traffic levels etc: in effect, they will be forecasting the response of potential investors to the project when full underwritten commitments come to be sought.

11. Security

There is no means of guaranteeing the absolute security of the users

of the Link. It may even be impossible to guarantee the absolute security of the Link itself: without inspecting every lorry and every container using the Link, there will always be a chance of a massive explosive charge being taken into any form of Link. E(A) concluded that we could not predict the level of the terrorist threat in the 1990s, and that the percentage level of physical checks could not therefore be prescribed. But the vulnerability of the various proposals to various explosive charges will be assessed, and there will certainly be big differences between the projects. The more vulnerable project could suffer in that a future Government might have to require more rigorous security checks which could deter the public from using it. The Anglo/French report will be able to present the physical facts, but beyond that the assessment becomes subjective and there is no reason to believe that the French will necessarily take a similar view to ourselves.

II. Areas of National Assessment included in the Anglo/French Assessment Plan

12. Employment

The promoters have been asked to present, and the assess^{ors} on each side will assess, the consequences of each proposal for employment during both construction and operation. During construction, the effect of all projects will be beneficial, but when construction is complete the total effect on employment is liable to be negative at least in the immediate region of the Link. But the predicted effects are likely to be different in France compared to the UK; planning practice and regional policies differ. The two sides are unlikely to attribute the same importance to this factor.

13. Environment

The promoters have carried out Environmental Impact Assessments and have been asked to consult interested parties in Kent and elsewhere. The countryside in Kent is much more highly prized than that in the Pas de Calais: but so far, environmental arguments have attracted much less attention in Kent than employment.

14. Cost Benefit Analysis

The UK cost-benefit analysis will be limited to transport factors, comparing resource costs with and without the Link and taking into

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account time savings and net benefits to generated traffic. We do not know whether the French will do a CBA. British Ministers will have to decide how much weight to place upon the CBA if the perception of investment markets appears to favour a different solution. There is an intrinsic conflict between a CBA and the idea that the market should decide.

III. Factors not addressed by the Anglo-French Assessment

15. Market Share of the Fixed Link : Survival of the Ferries

The Anglo-French report will include an objective assessment of the traffic share of the various forms of Fixed Link, and will therefore provide the information needed to assess the level of continuing cross-Channel ferry operations. But there is no basis for a common Anglo-French view on what continuing level of ferry operation is acceptable, if any. The market share of the Fixed Link is a measure of how economically dependent the UK is upon the Link for uninterrupted trade and indeed the nation's livelihood. A high market share implies correspondingly more serious consequences if the Link is closed by technical problems, accidents, strike action or sabotage; and a greater risk of anti-competitive practices. The French perception of these factors is bound to be very different from our own, considering the much smaller proportion of their external trade that will use the Link. And the continuing level of ferry operation is significant not only because of its role in guaranteeing competition, but because of the emotive question of the decline of the merchant fleet and, possibly, its relevance to our NATO responsibilities.

16. Public Opinion

Public opinion is bound to play an important part in this political decision. At present, the country, and Parliament, appears to be quite strongly in favour of a Link in some form. But there is intense local opposition, which may now be starting to make an impression nationally. Whatever view will crystallise in the national press as to the special claims of the Dover area and unemployment in East Kent remains to be seen. As to the choice between the various types of Link, a great many further factors come into play. Current opinion polls suggest that the British motorist

would prefer to drive himself through a Link, though this could change over the coming weeks if public understanding increases of the psychological factors of driving the length of a Fixed Link and of the potentially efficient operation of a shuttle service. But the public is becoming increasingly aware that the various proposals have different employment and environmental consequences. Kent opinion on balance is strongly against a Link of any kind, and is particularly opposed to EuroRoute which is perceived as driving the ferries out of business. The environmental lobby is unlikely to favour any link other than one catering solely for through rail services; no such proposal now exists.

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JN ro sue
pa. *COP*
12/11

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of Transport
2 Marsham Street
LONDON SW1

12 November 1985

Dear Nick,

CHANNEL FIXED LINK: ASSESSMENT OF PROPOSALS

I have seen a copy of your minute to the Prime Minister of 5 November.

I am quite content with the way you propose to tackle the assessment of the various schemes. I understand that the Treasury are taking the lead on the economic and employment implications and no doubt they will ensure that my officials are properly consulted at all stages. I am particularly concerned that we should look at the possible employment effects nationwide and not just from the narrow point of view of the impact on Kent and existing ferry services.

I trust that consideration will also be given to the industrial relations implications of the choice between a road and a rail link. The possibility of the link being closed as a result of industrial action is clearly much higher in the latter case and I know of no effective safeguards against this which could be devised.

I am copying this letter to the Prime Minister and other members of E(A), the Foreign Secretary, the Lord Chancellor, the Chief Whip and Sir Robert Armstrong.

J. Clarke
L.

KENNETH CLARKE

Transport #3
Channel Tunnel





10 DOWNING STREET

- 1 - ✓ CDP to see. *no j/w's points to DN. try 12/11*
- 2 - ✓ - is the system going to comment & if so when? *

DWS
15/11

* CST to PM 14.11.85

copied to JW, I think
(& hope) this is what DN
is referring to: TPM
Slip attached

CONFIDENTIAL



Prime Minister cc/BG
CDP 15/ki
cc/JR

FROM: CHIEF SECRETARY
DATE: 14 November 1985

mt

PRIME MINISTER

CHANNEL FIXED LINK

I share Nicholas Ridley's view in his minute of 5 November of the way this decision is now shaping up, and I am glad to see that the assessment of proposals has been planned so thoroughly for the very limited time that is now available.

2 All I would add at this stage is the importance of holding to our basic stance that this must be a fully commercial private sector project. Our insistence on this policy has created a notable change in the attitudes of promoters and lobbies. As the pressures now come sharply onto the consideration of particular schemes, we may still have to deal with bids (whether from particular promoters or from the French) for exemptions or other forms of privileged treatment in relation to taxation, competition, access to markets or controls bearing on such things as safety, drug trafficking and immigration. We must also make sure that the definition of the "political guarantee", and the terms of British Rail involvement, are not so loose as to leave the taxpayer underwriting the commercial judgements involved.

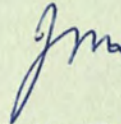
3 In particular, as Nicholas points out, we may face some hard bargaining with the French. They have not the same interest as we have in the possible effects on trade of a disruption, and I attach importance to seeing a full economic analysis of the merits of different schemes (not just a transport analysis as paragraph 14 of the note by officials might imply). We also need to be clear in settling with the French on a negotiating position for the concession before any choice of favoured promoter is announced.

CONFIDENTIAL

CONFIDENTIAL

Negotiations on a concession will in any event be difficult, and we should ensure that we have the French with us on such points as its duration, and the terms of compensation in case it is breached by Governments.

4 I am sending copies of this minute to members of E(A), the Foreign & Commonwealth Secretary, the Home Secretary, the Secretary of State for Defence and the Chief Whip and to Sir Robert Armstrong.



JOHN MacGREGOR

CONFIDENTIAL

TRANSPORT. Channel Tunnel PL 3

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