



FCS/85/334

CHIEF SECRETARY TO THE TREASURY

Channel Fixed Link (CFL): A Possible EIB Loan

1. Thank you for sending me a copy of your letter of 13 December to Nicholas Ridley about a possible EIB loan for the CFL.
2. As you say, the link is clearly the sort of major project the EIB was designed to support. I therefore endorse your conclusions that we should not rule out EIB finance for the CFL, but that we should scrutinise carefully the guarantee arrangements which are proposed. I also agree that our officials should be authorised to take the line you propose in discussion with the French.
3. I am copying this letter to the Prime Minister, Leon Brittan, Nicholas Ridley and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
18 December 1985

TRANSPORT P13
CHANNEL TUNNGL





010
 ● ~~CDP~~
 In the later stages,
 perhaps, but for now it
 seems right to me to be
 very cautious.

dy
 16/12

~~DN~~
 This seems to
 me a bit too
 reserved an attitude.
 CDP

Treasury Chambers, Parliament Street, SW1P 3AG 11/12

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 London
 SW1P 3EB

Dear Secretary of State

13 December 1985

CHANNEL FIXED LINK: A POSSIBLE EIB LOAN

I understand that there have been informal discussions between the European Investment Bank (EIB) and both Euroroute and the Channel Tunnel Group/France Manche about the possibility of an EIB loan for the link. Lending of around £180 million a year during construction has been mentioned (say, £750 million in all, or up to 20 per cent of the total cost, including financing charges, of the less expensive scheme put forward by CTG/France Manche). It would be backed up as follows:

- (i) during the construction phase, by guarantees from first class banks and other financial institutions;
- (ii) post-completion, by a charge on the future revenue of the link.

The French have said they would consider favourably a proposal for a loan on these terms, and have asked about our own initial reactions.

We have to consider, first, whether EIB financing would be compatible with our criterion of no public sector support. Provided that no government guarantees were involved - whether directly or indirectly through the arrangements with British Rail - we should not perhaps regard this criterion in itself as ruling out EIB financing.

/The question

The question whether EIB financing will in fact prove to be desirable is more difficult. I suggest that we are bound to suspend judgement on this for the time being. There are two main points here:

- (i) it is by no means clear whether the post-completion guarantees - the charge on future revenue - would provide adequate security for the loan, given the inevitable uncertainties about future revenue. If a loan went ahead on this basis, the EIB, and thus the member states who stand behind it, would arguably be providing a hidden guarantee;
- (ii) the difficulty of finding guarantee arrangements not involving direct or indirect government guarantees which would be satisfactory from the EIB's point of view, bearing in mind (a) the importance of not putting the EIB's credit rating at risk and (b) the difficulty of arranging preferential terms for the EIB ahead of other creditors.

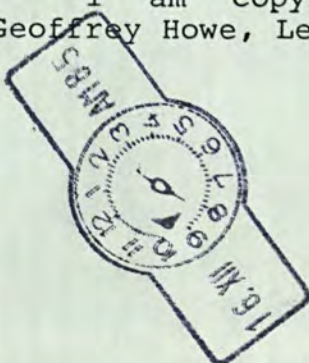
We also need to bear in mind that an EIB loan would impose an obligation on the promoter to put out contracts to international tender.

On the other hand, the link is clearly the sort of major European project that the EIB was designed to support, and, if all the above anxieties could be overcome, then there seems no obvious reason why the UK should stand in the way of a possible loan. As shareholders of the EIB, the UK and French governments could not of course avoid altogether bearing a small part of the risk of the project.

The conclusion I would draw is that we should not rule out in principle EIB financing backed up by the sort of guarantees being discussed at present, but we should note at the same time the important anxieties discussed above about whether it would in practice be possible to find an arrangement which is satisfactory.

If you and other Ministers concerned agree, I suggest our officials should let their French counterparts know that this is our position. I would be grateful for early comments so that they could be in a position to do this by Thursday of next week.

I am copying this letter to the Prime Minister, Geoffrey Howe, Leon Brittan and Sir Robert Armstrong.



Yours sincerely
R Broadbent
for JOHN MacGREGOR

[Approved by the Chief Secretary]



H M Treasury

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15 November 1985

*Don Powell.***SUMMIT WITH PRESIDENT MITTERRAND: CHANNEL FIXED LINK**

The Department of Transport have provided a brief on the link, with which we are well content. It has seemed to several of us in the Treasury, however, that it might be worth including a sentence or two about the European Investment Bank. Both Channel Tunnel Group and EuroRoute have had discussions with the EIB, which has spoken of possibly providing as much as £750m. The EIB raises its funds by borrowing on world markets, but could offer the promoters of the link such benefits as finer interest rates than they could obtain themselves and fixed rate loans.

2. The French have asked us about the likely British reaction, against the background of our common position against Government guarantees for the link. They would seem likely to regard EIB's report as demonstrating the Europeanness of the project. Our concerns are shown in the following sentences, with which Andrew Lyall at DTp is content:

[If raised] Support from the EIB must not involve hidden guarantees by Governments. Necessary to look at nature of security that promoters can offer.

Background

Both CTG and EuroRoute have mentioned possible borrowing from the European Investment Bank. The EIB has considered taking a charge on revenues as security once the link is built. We are concerned in case revenues are insufficient, in which case the Governments could suffer as owners of the Bank; and we want to avoid letting BR commit itself unduly to provide those revenues.

3. I am sending a copy of this letter to Andrew Lyall (DTp).

Yours sincerely,
Kingston Jones
F K JONES

MEMORANDUM



Mr. Tolson
Mr. Boardman
Mr. Nichols
Mr. Belmont
Mr. Ladd
Mr. Clegg
Mr. Glavin
Mr. Harbo
Mr. Rosen
Mr. Tracy
Mr. Egan
Mr. Gurnea
Mr. Hendon
Mr. Pennington
Mr. Quinn
Mr. Nease
Miss Gandy

