Yes - but we ought to define "political" guarantee

Prime Minister ①

Agree Mr Ridley's proposed response?

see part 4 of this note.

MT

AT 4/5

PRIME MINISTER

Policy Unit
11 May 1984

FIXED LINK ACROSS THE CHANNEL

We judge that Mr Ridley has reached impeccable commercial conclusions. We support them.

There is a rough parallel here with A320 - the European dimension, job creation, technological excitement, indeed, a whole toybox of temptingly expensive things. Lots of people will find it attractive if they think they do not have to pay for it.

For these reasons, Mr Ridley's firm line will need careful presentation.

1. Do we need a Fixed Link?

Technically, no. The present pattern of sea and air modes provides ample capacity, and is easy to extend. Within as well as between modes there is vigorous competition.

Of course it would be convenient for the private motorist, the road haulier, the business traveller and the railway system to have yet another mode available. But "would be nice" is not the same thing as "must have". And "would be nice" is a matter for the market, not for Government. Those who want the link should pay for it. On any other basis, millions of taxpayers will foot the bill but will see nothing for their contribution.

2. What are the True Costs?

It is entirely misleading to present the cost of any scheme in constant (1983 or 1984) prices. Planning, construction, and the earning of sufficient revenues to repay all debt will take between two and three decades. Even modest levels of inflation and interest will add enormously to the current cost of the schemes. Thus the bankers' preferred option (which appears to have the quickest cash payback of all - 24 years) has an estimated outturn cost of £5-£6 billion, against a cost in constant prices of under £2½ billion. And Euroroute, with a 38-year payback, will cost between £25 billion and £54 billion, depending on whose assumptions you wish to take - not the £7 billion of 1983 money set out in Mr Ridley's paper and elsewhere.

Our public presentations should dwell heavily on the enormous outturn expense, not on misleading constant prices.

We must also be careful about the infrastructure costs, the size of which was material to the abandoning of the 1974/75 tunnel attempt. The outturn cost will be well above the

£500 million or so which 1984 prices suggest.

We also suggest that the private promoters could and should finance most, if not all, of the road and rail infrastructure. The necessary capital can be remunerated by road tolls and/or a component of rail charges.

3. Should Government adjudicate between Schemes?

Emphatically no - whatever the temptations. The market must strike its own balance between technical risk, customer appeal and financibility. We judge that, in the long term, Government support for any one scheme will come to have the force of a guarantee for that scheme because Government (not the market) will have ruled out the others).

4. Are there any guarantees the Government can give?

We should be prepared to welcome (rather than merely accept) any scheme which is entirely self-financing. But we cannot bind a successor Parliament, so it is technically impossible for us to underwrite it.

The banks' report and, to a lesser extent, Mr Ridley's paper draw a distinction between political guarantees (which are thought to have no cost) and financial guarantees. We doubt that the distinction is valid. A "political" guarantee cannot provide assurance that a specified event will not happen, but it effectively makes the offending party liable to compensate the offended. Ultimately, then, even political guarantees are financial.

5. Are there other options?

Yes. What would we do if the French (or for that matter a consortium of nations) offered to build and own the link entirely on their own account? Should we actually canvass the idea? Is this an honourable solution to the problem which could arise if (as is possible) no UK promoter emerges but the French wish to proceed?

RY.

ROBERT YOUNG

JMEAAS

CONFIDENTIAL

cc: Bob Young.

FILE

cc: CO DoE
FCO LPSO
HMT DTI
NIO CO LO
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SH

10 DOWNING STREET

From the Private Secretary

14 May, 1984

Dear Dinah,

Fixed Link across the Channel

The Prime Minister has seen your Secretary of State's minute. She endorses his conclusions and is content with the draft of the PQ responding to the Report of the Anglo-French Banking Group. She has commented that, if "political" guarantees are to be given, they will need to be very carefully defined.

I am copying this letter to Private Secretaries to members of E(A), to Len Appleyard (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew Turnbull

ANDREW TURNBULL

Miss D. A. Nichols,
Department of Transport

CONFIDENTIAL

SH

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM
AT
31/5

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H OET

29 May 1984

Dear Norman

FIXED LINK ACROSS THE CHANNEL

I was grateful to the agreement of you and others to the draft statement attached to my earlier minute to the Prime Minister. I attach a copy of the statement as issued.

In his letter of 17 May, Norman Lamont asked whether a treaty with the French would help us by showing support for the principle of a link without an implicit financial commitment. I think, however, it is premature to consider drawing up a treaty for the present, as this would require a good deal of detailed work which could not sensibly be undertaken until it was much clearer than it is at present that the project would be likely to go ahead, and if so in what form.

I am copying this to the recipients of our earlier correspondence.

Yours ever

Nicholas

NICHOLAS RIDLEY

Transport

Press Notice 235 22 May 1984

GOVERNMENT RECEIVES ANGLO FRENCH BANKS' REPORT ON FINANCE FOR CROSS CHANNEL LINK

Mr Nicholas Ridley, Secretary of State for Transport today (Tuesday 22 May) announced he has received the Anglo-French Banking Group's report on finance for a cross channel link.

Mr Ridley stated in an answer to a Parliamentary Question from John Wells MP and Michael Howard MP.

"The Anglo-French Banking Group's report on finance for a fixed cross Channel link has now been submitted to the French Minister of Transport and myself. Copies are being made available in English by the two British banks concerned, Midland and National Westminster. I have arranged for copies to be placed in the Library of the House of Commons.

"The Banking Group formed themselves in June 1982. The purpose of their report was to examine the scope for private sector finance for the Channel link.

"The report is a substantial and detailed document, and the Government will need time to study it and assess wider reactions to it before reaching conclusions and having substantive discussions with the French Government. In studying the report I shall of course be in close touch with the French Minister.

"Briefly, Part I of the report concludes that of the various types of scheme proposed (bridges, tunnels and combined schemes) only a twin-bored rail tunnel with a vehicle shuttle service would be likely to attract adequate private financing. Part II analyses two possible financing methods for this option, but does not make a precise proposal on the best way to proceed. This would require consultation between potential investors and other interested parties. However both the financing methods suggested

"It has been and remains the Government's firm position that any project would have to be financed entirely without the assistance of public funds and without commercial guarantees by the Government. So far we have seen no proposal which demonstrates that it can meet this condition. Nevertheless the Government remains willing to consider facilitating a fixed link, in collaboration with the French Government, provided that the necessary financial, technical and other aspects are satisfactorily dealt with. As well as meeting the condition already mentioned, before there could be any question of a firm commitment by the Government to facilitate the project, any fixed link scheme would need to be supported by evidence that sufficient funds would be available to ensure completion: that proper account had been taken of maritime and structural safety requirements: and that attention had been given to the implications of the scheme for inland road and rail infrastructure capacity.

"We shall now allow time for prospective promoters to consider this report and assess whether they can secure the financial backing necessary for a scheme to proceed without financial support from the Government".

NOTES FOR EDITORS

In June 1982 an Anglo/French official group reported on the case for a fixed Channel link (Cmnd. 8561). The report said that, while shipping services could be developed to cope with foreseeable traffic growth, a fixed link would probably offer benefits outweighing the costs. The report also favoured twin 7 metre bored rail tunnels providing both for through-rail services and for a vehicle shuttle service. Drive-through schemes (bridges, immersed tubes and combined bridge/tunnel schemes) were not ruled out, but they would require more study to establish whether they were feasible and financeable.

Throughout the UK Government has made it clear that any form of link would have to be financed entirely by the market and without Government guarantees against technical or financial risks - eg there would be no question of Government guarantees against construction costs overruns or against unexpectedly low revenue from passengers. Ministers have repeatedly made this clear to Parliament.

Following publication of the Anglo/French report, the two Governments accepted an offer by a group of banks - Midland, National Westminster, Credit Lyonnais, Banque Indo Suez and Banque Nationale de Paris - to examine the possibility of a link, of whatever sort, being financed by the private sector.

The contents of the report are entirely the Banks' responsibility. The Banks volunteered to undertake the study, an offer which was welcomed by the Governments. The Banks did however receive a contract from the European Commission to look at ways in which existing or proposed European Community instruments might be used.

Among the Banks' report's conclusions are:

i. The technical risks and financing commitments associated with 'drive-through' schemes are beyond market acceptability:

ii. the only scheme that is both technically acceptable and capable of being financed by the market is a twin 7 metre rail tunnel, with vehicle shuttle;

iii. that even this would require some measure of Government guarantee.

However it is for the Banks themselves to explain their conclusions in detail.

Press Enquiries: 01-212 0431

Public Enquiries: 01-212 3434
ask for Public Enquiry Unit

Transport : Channel Tunnel A2.

NBPM AT 17/5

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From the Minister of State for Industry

NORMAN LAMONT MP

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

17 May 1984

Dear Nick

FIXED LINK ACROSS THE CHANNEL

Thank you for copying to Norman your minute of 8 May to the Prime Minister. As he is in the United States this week, I am replying on his behalf.

We endorse your proposal to reaffirm our position that any project would have to be financed entirely without assistance of public funds and without commercial guarantees by the Government. Clearly the report of the Anglo-French bankers does not hold out much hope of the private sector meeting this condition.

However, at this stage, we are concerned that we should not be seen to be coming down against any of the options put forward. Although the report concludes that the private sector could not finance Ian MacGregor's Euroroute scheme (nor the all-bridge schemes) we do not think that we should rule them out entirely. We are happy, as you suggest, to leave the final judgement on this to the market, subject of course to our overriding conditions.

We agree that the discussions with the French Government will be sensitive. Would a Treaty show our support for the principle without an implicit financial commitment?

I am copying this to the Prime Minister, other members of E(A); to Geoffrey Howe and Sir Robert Armstrong.

Yours

Norman

NORMAN LAMONT

TRANSPORT: Channel Tunnel
Pt 2

cc RY

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

NBPM

AT 15/5

From the Minister

CONFIDENTIAL

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

15 May 1984

Dear Nicholas

Thank you for letting me see your proposals on handling the publication of the report of the Anglo-French banking group on the financing of a fixed cross-Channel link. I am content with the line you propose. I am of course assuming that any proposals which involved substantial losses of high-quality agricultural land would be subject to detailed evaluation at the appropriate stage.

I am copying this letter to the Prime Minister, other members of E(A), Geoffrey Howe and Sir Robert Armstrong.

Yours
Michael

MICHAEL JOPLING

Transport: Channel Tunnel Pt 2.

cc ~~AW~~

Chancellor of the Duchy of Lancaster

SECRETARY OF STATE FOR TRANSPORT

FIXED LINK ACROSS THE CHANNEL

You sent me a attached copy of your minute to the Prime Minister.

The only comment I would make at this stage is that while in paragraph 6 you say

> "On publication of the report, I propose to say only that I am studying it, ... etc."

the draft statement at Annex A is a pretty full exposition of the Government's views and could well be regarded by the French as a douche of cold water.

I am copying this minute to the recipients of yours.

A.C.

A C

11 May 1984

TRANSPORT : Channel Tunnel
PA2