



DEPARTMENT OF TRANSPORT
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1. C. D. Pea
2. N. Lawson

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

17 December 1985

Dear Nigel

CHANNEL FIXED LINK: COMMERCIALLY SENSITIVE ASPECTS OF
THE ASSESSMENT

As you will know, there has been pressure in Parliament and outside for an undertaking that we should in due course make public our assessment of the proposals for a Channel Fixed Link. I have refused to give any such undertakings, drawing attention to the commercially confidential nature of the proposals themselves but also believing it would be unwise to make available the advice of consultants and officials upon which our decision will be based, before we have had the opportunity to consider the issues ourselves. However, I made clear in last week's debate on the adjournment that once the Government's decision was announced, I would issue a White Paper giving the full reasons behind the Government's choice.

Nevertheless, we need to be careful about what we put in the White Paper. One particular problem concerns those assumptions we make affecting the financeability of the projects, viz project costs, and forecasts of traffic and revenues. Our officials and consultants assessing the projects have concluded that, to varying degrees, the promoters have been more optimistic about these factors than is justified. The assessors judge that, compared with the promoters' estimates, project costs should be increased, and forecast revenues decreased, in some cases substantially. We shall have to take these views carefully into account when we decide, next month, which project if any should proceed. However I have instructed officials to discuss these differences with each promoter so that if possible the gaps can be narrowed, and at any rate Schrodgers, our banking advisers, who will be party to these discussions, can hear the two

sides argued out. It is important also that promoters cannot afterwards claim to have had no chance to defend their own assumptions to the Government.

However, I do not expect full agreement to be reached, and the question then arises whether our advisers' more pessimistic figures should be included in the White Paper alongside the promoters' figures. I believe this would be most unwise. It should be for the investors themselves to judge, drawing on their own sources of advice, whether projects put to them by promoters are financeable.

If colleagues accept this point of view, I would propose to arrange an inspired Parliamentary Question along the lines of the draft attached.

In making this proposal, however, I should make two further points:

- (a) the fact that our advisers' estimates of costs and revenues are not made public does not in any way diminish their relevance to our decision. It is important that any project we select should not run into financial difficulties during construction and, before that, that it should receive the support of investors who can be expected to assess the project from their own point of view and could well reach similar conclusions to our assessors. Without such support we could be confronted with the failure of the project even during the passage of the hybrid Bill;
- (b) some careful drafting will be needed in the White Paper, so that the Government's decision is seen to be justified, without drawing upon the commercially sensitive information that may have had a significant impact upon our decision. Having discussed with officials, I believe it can be done without eliminating from the White Paper matters in which Parliament and the public have a proper interest. We shall have to emphasise qualitative arguments, and where it is necessary to argue on the basis of figures, we shall have to base our arguments on the qualified use of the promoter's own traffic estimates.

We shall also have to try to ensure that the sensitive information does not leak on the French side.

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

I should like to make the proposed Parliamentary reply before the House rises and therefore must ask for any comments by close of play tomorrow.

Yours sincerely
Nicholas Ridley

NICHOLAS RIDLEY

CFL: COMMERCIALY SENSITVE INFORMATION: INSPIRED PQ

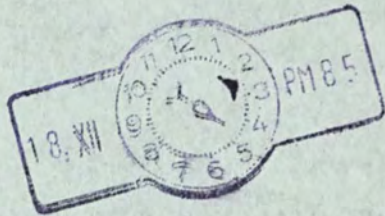
Question

If he intends making available, in the White Paper that the Government intends to publish about the Channel Fixed Link, or elsewhere, the Government's forecasts of the traffic that will use the Link and the revenue to be derived therefrom.

Answer

No. It would not be right for the Government to seek to influence the banks and other institutions to which a successful promoter will be looking for finance for a chosen link project, by issuing its own views on the commercial assumptions such as traffic levels, revenues and project costs. If the Government decides in favour of one of the proposals in January, it will be for the successful promoter to put the details of the project, as approved by the Government, subject to the final decision of Parliament, to potential investors to allow them to decide whether to invest in it.

A decision by the Government in favour of one project or another will not constitute endorsement by the Government of the promoter's forecast costs, traffic or revenues.



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Treasury Chambers, Parliament Street, SW1P 3AG

19/12

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

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18 December 1985

Dear Nic,

**CHANNEL FIXED LINK:
COMMERCIAL SENSITIVE ASPECTS OF THE ASSESSMENT**

You wrote to the Chancellor on 17 December about how we deal publicly with differences between your assessors' view of costs, traffic and revenues, and the promoters' assumptions.

I agree we must discuss these differences with the promoters. But it seems to me premature to arrange and answer the Parliamentary Question you propose. There are complex issues linked to the need to avoid any economic or commercial guarantee, expressed or implied. Since we have made it clear that we need to be satisfied about the viability of a project if it is to proceed, we shall in any case have to take particular care to make it clear, if and when we allow a project to proceed to Parliamentary consideration and to test the market, that the Government is not thereby underwriting the viability of the scheme. The legal advice I have been able to take in the very limited time available is that, if the Government allowed a scheme to proceed while suppressing the point of doubt known to it, we could not at this stage rule out the possibility that it might subsequently be held to have incurred some legal liability to disappointed investors.

In these circumstances, I am sure it would be premature to go on the record in the way you propose, and with only 24 hours to consider all the repercussions. It seems to me wiser, at this very hypothetical stage, to stand on the position that we are not prepared to commit ourselves either way on the points you have raised.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Home Secretary, the Secretary of State for Defence, members of E(A), the Solicitor General and Sir Robert Armstrong.

We discussed let tonight.

John Macgregor
JOHN MACGREGOR

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CHANNEL TUNNEL



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Treasury Chambers, Parliament Street, SW1P 3AG

Ms Sarah Straight
Private Secretary to the Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

19 December 1985

Dear Sarah

**CHANNEL FIXED LINK: COMMERCIAL SENSITIVE ASPECTS
OF THE ASSESSMENT**

We spoke about the announcement proposed in your Secretary of State's letter of 17 December to which the Chief Secretary responded on 18 December.

The Chief Secretary and your Secretary of State discussed the proposed announcement last night. They agreed on the importance of the legal questions to which the Chief Secretary referred in his letter and on the importance of giving no hostages to fortune on them. They agreed however that so long as that was safeguarded, there was advantage in getting people used to the necessary disclaimers. Officials subsequently discussed the text of the proposed announcement, and I can confirm that the Chief Secretary is content with ... the enclosed text.

I am copying this letter to the Private Secretaries of the Prime Minister, the Foreign Secretary, the Home Secretary, the Secretary of State for Defence, Members of E(A), the Solicitor General and Sir Robert Armstrong.

Yours sincerely
Richard Broadbent

R J BROADBENT
Private Secretary

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CFL: COMMERCIALLY SENSITIVE INFORMATION: INSPIRED PQ

Question

If he intends making available, in the White Paper that the Government intends to publish about the Channel Fixed Link, or elsewhere, the Government's forecasts of the traffic that will use the Link and the revenue to be derived therefrom.

Answer

No. It would not be right for the Government to seek to influence the banks and other institutions to which a successful promoter will be looking for finance for a chosen link project. If the Government decides to facilitate one of the proposals in January it will be for the successful promoter to put the details of the project, in the form in which it is to go ahead, subject to the final decision of Parliament, to potential investors to allow them to decide whether to invest in it without government guarantee in any form, express or implied.

A decision by the Government to facilitate one project or another will not constitute endorsement by the Government of the promoter's forecast costs, traffic or revenues.

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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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MO 21/8/5E

18th December 1985

CDP
17/12/85

Thank you for the copy of your letter of 17th December to Nigel Lawson.

The assessors' traffic forecasts, and the consequential estimates of traffic diversion rates, are the basis for the assessment of the impact of a Channel Fixed Link upon the ferries, and I wrote to you about the defence implications of this on 10th December. These forecasts are considerably lower than those of the promoters, and although the proposals do not make any reference to likely consequences for the number of ferries operating, certain of the promoters, and others, have already commented on this. It seems clear that the implications for defence (among others) of the continuation, or otherwise, of the ferries will be a major ground for opposition to the Link.

The Rt Hon Nicholas Ridley MP



It will be difficult to counter such criticism without, at least by implication, indicating that the Government does not accept the promoter's forecasts. It may be, particularly if significant progress is made in the discussions you allude to, that wording to cover the point, in the White Paper and elsewhere, can be found, but this is not yet clear. We are at present uncommitted on what we shall make public, and it would seem better for us to remain so. I therefore do not see a need for your proposed Parliamentary Question, at least at this time.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Home Secretary, members of E(A) and to Sir Robert Armstrong.

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Michael Heseltine

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CHANNEL TUNNEL





MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 21/8/5E

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3 10th December 1985CPL
EDP
16/11

When we discussed the principle of a Channel Fixed Link at E(A) in February we considered the possible impact of a CFL upon the ferries, and the consequences that the disappearance of the ferries would have. Now that definite proposals for a CFL have been received and assessed my officials have been considering this question in more detail. It may assist you to know now our conclusions.

On the figures currently available to us cross-Channel traffic is expected to grow, with or without a CFL. Despite this the number of ferries is expected to fall, because of the trend towards larger vessels and better utilisation of available capacity. With a CFL the UK ferry fleet is expected to decrease by up to 8 vessels; the trend towards larger vessels is expected to continue, leading to a loss of flexibility and greater vulnerability than at present.

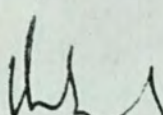
Reinforcement using the smaller number of ferries forecast to be available would take one or two days longer than our

The Rt Hon Nicholas Ridley Esq MP



present plans require. Because of the uncertainties about the timing of France's commitment to the side of the NATO allies, use of the CFL itself can only be regarded as a bonus. A number of measures can, however, be taken to offset the reduction in numbers of ferries; bilateral arrangements with our allies to use their ferries could be made, greater use could be made of containers or (most expensively) vehicles and equipment could be stockpiled on the Continent. In short, alternative arrangements could be made. A CFL is not expected to have an unacceptable impact on our reinforcement plans.

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

Yes ew

Michael Heseltine

