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10 DOWNING STREET

From the Private Secretary

24 September, 1981.

This letter is to confirm the Prime Minister's meeting on Tuesday, 17 November at 9.30 to discuss the channel tunnel. I have also invited Ian MacGregor of British Steel and Sir John Howard who is an engineer. Mr. MacGregor and Sir John asked for the meeting, and the Prime Minister agreed to see them. I enclose a copy of Ian MacGregor's paper to the Prime Minister entitled "Euroroute".

I would be grateful if you could send us a brief in conjunction with the Department of Industry to reach us by close of play on Friday, 13 November.

TO <i>Mr Murray</i>	COPIES TO
FOR A DVICE (AND	<i>P/M</i>
DRAFT REPLY IF	<i>P/Bee</i>
APPROPRIATE)	<i>Mr Mawg</i>
PLEASE BY:	<i>Miss Mueller</i>
<i>9/11/81</i>	<i>Mr Bennett</i>
	<i>L. Hightower</i>
	<i>Mr Conway</i>

CAROLINE STEPHENS

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Department of Transport.





IMPLICATIONS FOR THE UK STEEL INDUSTRY OF EUROROUTE AND THE MAIN ALTERNATIVE SCHEMES.

A. Tonnages of steel required

1. EuroRoute and the main alternative schemes would take about 5 years to construct. Steel usage would be spread fairly evenly over the period. French producers would be likely to supply up to half the steel required. On this basis, the schemes compare as follows:

TONNES OF FINISHED STEEL

SCHEME:	Euroroute	Bridge A— "Eurobridge"	Bridge B— "Link into Europe"	Twin 7 metre rail tunnel	Single 6 metre rail tunnel
PROJECT LEADERS:	BSC/Redpath Dorman Long	Pell Frieschman/ Sir Frederick Snow	Freeman Fox and Partners	"Channel Tunnel Developments 1981" Consortium— Wimpey/Tarmac	British Rail/ SNCF
TONNAGES.					
Total tonnage	900,000	900,000	550,000	70,000	35,000
Total UK share	500,000	450,000	275,000	35,000	17,500
Annual UK share	100,000	90,000	55,000	7,000	3,500

B. EuroRoute: type and source of steel required

2. There are three possible ways of building EuroRoute. The bridge viaducts for carrying road traffic to and from the off-shore islands would be a constant factor, requiring 35,000 tonnes of steel plate a year from BSC (the UK private sector steel producers make virtually no plate).





3. But the submerged sections - the 36 kilometre rail tunnel, and the twin road tunnels running for 19 kilometres between the offshore islands - could be built either of:

- (a) concrete reinforced with steel; or
- (b) tubes made from steel plate; or
- (c) a mixture of the two.

4. While the choice would not markedly affect the total tonnage of steel required for the scheme, it would dictate the relative use made of reinforcing steel and steel plate. And, because the UK private sector steel makers (principally Sheerness Steel, Manchester Steel, and Allied Steel and Wire) are involved in producing the former but not the latter, it would in turn affect their potential share in the project. The estimated effect is as follows (all figures approximate):

Scheme (a) (Reinforced concrete)		Scheme (b) (Steel tubes)		Scheme (c) (Mixture)	
BSC share	Private Sector	BSC share	Private Sector	BSC share	Private Sector

TONNES OF FINISHED STEEL PER YEAR

Type of steel

Structural steel -  
bridges:

Structural steel -  
tubes:

Reinforcing steel:

Other share (allocated):

Total:

35,000	-	35,000	-	35,000	-
-	-	38,000	-	8,000	-
32,500	17,500	7,800	4,200	27,300	14,700
15,000		15,000		15,000	
<u>100,000</u>		<u>100,000</u>		<u>100,000</u>	





Scheme (a) (Reinforced concrete)		Scheme (b) (Steel tubes)		Scheme (c) (Mixture)	
BSC share	Private Sector	BSC share	Private Sector	BSC share	Private Sector

PERCENTAGE OF SUPPLIES\*

79%	21%	95%	5%	83%	17%
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\* Excluding quantity under "Other (share unallocated)".

5. Comparable estimates for the other main schemes are not available. But the basic amount of BSC-supplied steel plate required for viaduct bridges in all three variants of EuroRoute (35,000 tonnes per annum) would be more or less matched by the tonnage needed for towers and bridge decks in either of the Bridge schemes (at about 30,000 tonnes per annum). In addition, the two Bridge schemes would require, respectively, 60,000 and 25,000 tonnes per annum of UK-produced steel wire. Private sector UK steel firms—in particular, GKN, Bridons, and Allied Steel and Wire — would stand to gain the bulk of the orders, with BSC benefitting as well through supplying the second and third of those firms with the necessary basic steel.

C. Effect of EuroRoute and alternative schemes on employment in the steel industry

6. The three variants of EuroRoute would provide firm employment in BSC for 300-400 men over the 5-year period. Of the alternative schemes, Bridge A would have much the same effect; Bridge B about half that; and the rail tunnels very little indeed. The effect of any of the schemes on employment in the private steel sector is difficult to estimate at present but would be less than for BSC.

7. The jobs involved in BSC (and in the private sector) would probably not be additional — the extra tonnage required would not warrant bringing on additional plant or shifts. Depending on the plant loading position, the tonnage might simply replace less profitable export orders.





#### D. Effect on BSC's plants

8. For EuroRoute scheme (a), based on reinforced concrete tunnels, the extra throughput of steel plate would benefit Scunthorpe, Hartlepool and the Scottish plate mills. It would represent about 5% of BSC's annual capacity to produce plate. In reinforcing steel, the throughput would represent about 3% of Scunthorpe's annual production of the billets from which reinforcement steel is made.

#### E. Effect on BSC's profitability

9. The effect would depend on whether the steel required for EuroRoute (or for one of the other steel-intensive schemes) represented additional production by BSC or was used as a substitute for less profitable export orders. The former would maximise the benefits, though either would help to improve profitability by guaranteeing a firm level of orders over 5 years. But the effect should not be exaggerated. Even if BSC were assumed to supply all the steel required for the two most steel intensive projects (EuroRoute and Bridge A) - and, as noted above, the UK private sector would in fact take a share - then increased profits in the range £10-£50 per tonne of steel supplied would increase BSC's profitability by only about £1-£5 million per year. While a useful sum, such a range would not have a dramatic effect on BSC's overall results.

#### F. Effect on Redpath Dorman Long Ltd (RDL)

10. RDL is BSC's constructional engineering subsidiary and the joint leader, with BSC itself, in the EuroRoute consortium. It lost £7 million in 1980/81 on a turnover of £83 million. As one of BSC's peripheral businesses, it is a prime candidate for privatisation.

11. Although its recent unprofitability coupled with the effects of the recession on its prospects have made a sale difficult, negotiations are now in progress for a merger with Trafalgar House (the details of which have yet to be completed). Construction of EuroRoute would involve RDL as a fabricator of steel for the viaduct bridges, as well as for the tunnel units to the extent that these were made from steel plate rather than reinforced concrete. In addition, RDL would stand to participate in the overall project management and to act as sub-contractor for civil engineering projects on and off the construction site. The capacity of the company would probably have to be increased to cope with the extra work. Intensive use of RDL's facilities, coupled with a regular and increased throughput of standardised construction work, would do much to restore RDL to profitability.



Prime Minister

CHANNEL LINK

The purpose of this minute is to inform you of developments since your meeting with President Mitterand on 10-11 September and to indicate how I see matters developing.

Contact with French officials, including a senior member of M Fiterman's "cabinet", was established very quickly. They have been friendly and constructive - even enthusiastic. But they are not inclined to rush matters. They emphasise - and here they are reflecting the general philosophy of the new administration - the need for a thorough study of regional, employment and other social effects in full "concertation" with local interests. They have made it clear that this is not possible given their late start to reach a decision in principle by the end of the year as my predecessor had hoped. They suggest that, by February of next year, it should be possible to narrow down the options for detailed study but no more.

This would make it difficult to have legislation - probably a rather complex hybrid bill - ready for the 1982/83 session. We shall have a clearer view at official level, of the French position on 28 October. I shall be meeting M Fiterman at dinner the same evening and will pursue this with him further.

Meanwhile on our side we are pressing ahead with our studies on a timescale which would enable us to hold to that objective. I expect to receive a report from Sir Alec Cairncross, my special adviser, in the next few weeks. Complementary studies by my own officials will be completed around the same time. I intend, very shortly

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thereafter, to concentrate my own thinking on a very short list of schemes - at least for a first phase in the development of cross-channel links: the French are putting emphasis on the need to build potential for development into any modest beginning.

French ideas on finance for their half of the project are limited at the moment to the public sector, although not to central government. There could be problems here in arranging a proper balance of powers and rights with an exclusively private consortium on this side of the Channel. The prospects of financing the UK half of the project without any risk whatsoever to Government funds remain, both for this and other reasons, less clear than I would like and it will be important to avoid commitment until the issues on this are clarified. Concentrating the thought - and competition - of promoters on a narrower range of schemes should help with this problem.

I will keep you informed of developments and as the next step will let you know the outcome of my conversation with M Fiterman on 28 October.

I am copying this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and to the Secretaries of State for Trade and the Environment.

DG.

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27 October 1981