

The Channel tunnel has proved to be an expensive and disappointing investment

When the idea of reviving plans for a tunnel under the Channel came to Margaret Thatcher in the early 1980s I provided some of the briefing on the project. I researched the 1964-74 project which had got to the point where tunnelling started on the English side, only to see the Labour government cancel the project in January 1975 on the grounds that it was too expensive and not likely to be a good investment. The nineteenth century had vetoed several plans on security grounds, the later twentieth century became more worried about the money.

My conclusion was simple. A rail tunnel under the Channel was most unlikely to make money for its investors. There were many other more pressing needs for road and rail capacity in the UK that could justify public investment and would produce a better return. Given the strength of feeling for a Channel project in other parts of the government I proposed that the Prime Minister gave her consent, as long as no public money was put at risk in the project. She agreed with the advice, and the government proceeded accordingly. I thought the forecasts for build costs, for operating costs and for revenues were all too optimistic. I was also surprised that the private sector was so keen to press ahead, given the large risk of loss.

The UK and French governments offered a 55 year concession to the Channel Tunnel company to operate a rail tunnel and collect fees and charges to reward their shareholders and pay off their debts, with the tunnel then reverting to the two states. The company thought this a fair offer, raised shareholder money and set out to the governments how it would build and operate the tunnel, agreeing to meet government safety standards.

The Tunnel turned out to be a poor investment for many who put up their savings for the project in the early rounds. It was first beset by a major cost overrun. An overrun of around 80% depending on whose calculation you accept led to a total cost well in excess of the starting estimate, with considerable general inflation also affecting the outturn. This made getting an early and decent return much more difficult.

This was compounded by discovering that the forecasts of potential usage were far too optimistic. As I had expected, use of a rail tunnel on that route was much less than the enthusiasts thought. The 1985 traffic forecast said there would be 37 million passengers using the trains by 2003. Instead there were just 15.2 million. They said there would be 11.4m tonnes of train freight by 2003. There was instead just 1.7m tonnes. Their forecast of lorry use of the shuttle was more accurate but still ahead of outturn. Revenues as a result fell well short of forecast in the early years.

The Channel tunnel company had to go through various financial restructurings to raise the extra money it needed to keep going. Governments helped by extending the concession period, first by ten years, later allowing it to

stretch out to 2086, almost one hundred years. The tunnel has never hit the original passenger forecasts or train freight forecasts. It means there is plenty of spare capacity on the existing rail tunnel. The tunnel company reviewed the case for a road tunnel to go alongside it in the late 1990s and concluded there was not nearly enough potential use to justify such an additional investment.

I will talk in Monday about whether we need another such link