EUROPEAN INVESTMENT BANK

CA/215/87
15 June 1987

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BOARD OF DIRECTORS

Minutes of meeting held in Luxembourg on 12 May 1987

6.23. DYCC DYFED INFRASTRUCTURE Project (UK) (Doc. 87/204)
Implementation of infrastructure schemes in Dyfed, South Wales

Borrower : Dyfed County Council (DYCC) ; project cost £ 15.4m (21.5m ECUs) ; loan amount : £ 6m (8.4m ECUs) ; term : up to 20 years ; interest rate : applicable at time of signature ; security : charge on the revenues of Dyfed County Council ; opinions of the Government of the United Kingdom and of the Commission : awaited.

6.24. EUROTUNNEL Project (UK/F) (Doc. 87/167)
Construction of a rail tunnel system between Great Britain and France

Terms and Conditions of the EIB Credit

1. The Promoter : Eurotunnel Group of companies

2. The Borrowers : Eurotunnel Finance SA and Eurotunnel Finance Ltd.

3. Terms and Conditions :

3.1. Amount : £ 1 000 million or Ffrs 10 000 million (1 396m ECUs) whichever is the higher.

3.2. Contractual Arrangements :
The EIB will sign a Credit Agreement (the "ECA") in 1987 to provide for a series of Finance Contracts to be signed over 7 years (1988-1994) for the total amount above in the form of loans or guarantees. The agreement will provide for the signature of the subsequent Finance Contracts subject to the Management Committee confirming in periodic reviews to the Board of Directors that

(a) there has been no fundamental adverse change in the technical, economic and financial prospects of the project as originally approved and

(b) that all the following conditions precedent have been fulfilled :

(i) that the quality of guarantors proposed for the EIB loans continues to be satisfactory to the EIB ;

(ii) the EIB continues to have access to the capital markets on acceptable terms ;

(iii) that the Treaty has been ratified and all necessary Government consents are in place ;

(iv) that a minimum of £800 million equity shall have been raised of which £700 million shall have been spent ;

(v) that the Syndicate Banks sign a Co-financing Agreement with the EIB which provides that

- a Joint Review Group is established by the Syndicate and the EIB to ensure that, in view of the economic objectives of the EIB, the Bank would be fully and effectively consulted on all major questions concerning the project before they are decided ;

- the Syndicate Banks confirm their legal responsibility to fund the project even in circumstances where, for reasons of market availability, the EIB could not.

The Agreement will provide that :

- Borrowing from EIB will be subject to the Annual Borrowing Plan to be agreed between Eurotunnel and the Bank. This will provide that Eurotunnel may not borrow more than £300m or Ffrs 3 000m, whichever is the higher, in any one year and will borrow a minimum at least £100m or Ffrs 1 000m, whichever is the lower, failing which the unutilised balance of the minimum may be cancelled.

The Agreement will also provide that Finance Contracts for not more than £150m / Ffrs 1 500m may be signed before end 1988. Loans signed in 1988 shall not be disbursed until conditions (b) (i) - (v) above have been fulfilled.

3.3. Term : An average final maturity of between 15-25 years, from date of signature of each Finance Contract with a capital grace period up to end 1998.

3.4. Currencies : primarily in £ and Ffr though other currencies may also be used in the event that these are not available.

3.5. Interest rates : Fixed interest rates prevailing at time of signature of Finance Contracts other than for contracts based on alternative financial mechanisms (cf. 5 below).

4. Security : The EIB loans will be secured by
   (a) Letters of Credit from up to 20 first class commercial banks and
   (b) a pro-rata share with the syndicated banks in the charges on the project revenues and assets.

   The EIB will release the Letter of Credit Security after the successful completion of the project if and when the following conditions are fulfilled :

   (a) that the EIB deems that the implementation of the project and all associated infrastructure, as well as the economic and financial prospects of the project, remain acceptable and have not materially deteriorated since the signature of the ECA ;
   (b) that the EIB deems the economic and legal value of the security to be adequate to secure all of the EIB loans outstanding and not to have materially deteriorated since the signature of the ECA ;
   (c) that minimum financing criteria for debt coverage of 1.75 and annual debt service of 1.1 for refinancing the Syndicated loans are met and that there are reasonable prospects that the Syndicate loans can be refinanced as planned.

5. Alternative Financial Mechanisms (AFM's) :

   The EIB can provide a part of its finance for this project in the form of AFM's such as :

   - guarantees for fixed or floating rate loans to Eurotunnel by members of the Club of Long Term Credit Institutions (ISCLT), and/or from commercial banks ;
   - variable rate EIB loans ;
   - "Consolidated EIB loans".

   A consolidated EIB loan enables EIB to make a "primary" loan for a specified amount, with a minimum maturity of 6 years - maximum of 18 years, with an amortisation schedule based on 25 years to be followed by a further "secondary" loan at the then prevailing rates for the amount that remains to be amortised, for a further period such that the combined primary and secondary maximum duration does not exceed 25 years.

   Consolidated Loans are to be subject to various restrictions so as to ensure that the EIB's principal role as a source of long term, fixed interest rate funds remains pre-eminent. In particular :

   - Consolidated loans shall not exceed £300m / Ffrs 3 000m equivalent in total and
   - the "primary" financing shall be repayable in full at maturity if, for reasons of market availibility, the EIB is unable to finance the "secondary" loan.

The CHAIRMAN, introducing the EUROTUNNEL Project, for decision by the Board as previously announced during the March meeting in Madrid, noted its exceptional importance to the development of the Community's transport network. The decision of the British and French Governments to approve its construction constituted a major step forward for the Community.

The EIB had been requested to play a major role in the financing of the Channel Tunnel, a role which the Bank was particularly suited to play not only because of the economic priorities of its Statute but also through the innovative co-financing role which the EIB proposed to adopt, given the needs of the project. He emphasised that, to an unparalleled degree, the project met all of the principal criteria for which the EIB was established - community interest, regional development, economic co-operation and complementary co-financing with the private sector. The Board's decision would be a milestone in the development of European infrastructure.

The report stated that certain aspects of the project agreements and the timetable were still subject to change after it was drafted in Mid-March. Since then there had been three major developments :

(i) on the previous day (11 May 1987), Eurotunnel and the railways had successfully concluded their negotiations on the outstanding points of the Rail Usage Contract. This had removed a major uncertainty ; moreover the results of the negotiations should improve, though not substantially, the profitability of the project. Furthermore, the Bank had been unofficially advised that the British and French Transport Ministers intended to announce shortly their agreement in principle to establishing a high-speed train service between Paris and London.

(ii) Eurotunnel's timetable for Equity 3 (a target of £750 million equivalent) had been revised from that presented in the Board Report. It was now to be carried out in two tranches, in July (Equity 3A) and November (Equity 3B) rather than as a single operation in July as previously planned. Equity 3A was to be for an amount up to £100 million equivalent, in the form of a rights issue to existing shareholders or as a convertible issue. The decision to split the equity issue was justified primarily by the fact that the procedures necessary to issue public share capital in July could not be completed within the limited time available due to the delays encountered in finalising the rail negotiations.

(iii) It was now highly probable that the UK Channel Tunnel Bill would not be approved before Parliament was prorogued to contest the June 11th general election announced on 11 May. If the incoming government supported and gave priority to the legislation, it was estimated that ratification should be achieved before the new Parliament's summer recess in late July/early August.

The French parliamentary timetable remained unchanged and approval of the Treaty by the Senate, the final phase, was expected to be completed by mid-June.

The deferral of ratification could mean some delay in project completion, but not more than already allowed for in the report.

The CHAIRMAN stressed how important it was for the Board of Directors to make its decision at the present meeting. This was expected to have a positive impact on many other banks which would be asked, when syndication of the total banking credit started in mid-June, to participate in this credit, because of the size and characteristics of the credit but particularly in view of the Bank's reputation as an objective evaluator of projects. Should the Board decide not to approve the proposal on this occasion, many other banks would also undoubtedly be discouraged from doing so.

Particular attention had been paid in the proposal to the limitation of risks to the EIB, throughout the life of the project. The loan and security structure proposed was adequate to protect the interests of the Bank, according to the requirements of the Statute, in all foreseeable circumstances. The Management Committee would keep the Board informed regularly of all major developments.

Should the Board decide to approve the proposal, said the CHAIRMAN, it was the Management Committee's intention to publish a brief press release on the decision, given its particular importance to many parties.

The BOARD OF DIRECTORS welcomed the presentation of the project and congratulated Bank staff on the thoroughness and expertise of their appraisal. Various Directors echoed the sentiments of Mr. MULLER-ENDERS, who called the project a milestone in the history of the Community, which would unite transport systems and nations. Mr. McCUTCHEON observed that EUROTUNNEL was perhaps the most important project ever to come before the Board, while Mr. ARCUTI described the undertaking as a commendable instance of the European spirit and a key for the future, notable for its multi-faceted financing arrangements and the financial engineering involved.

Several Directors - Messrs. RITCHIE, DE VRIES and SPINOSI in particular - spoke of the effect of the Bank's involvement in the project and the way it would encourage other financing institutions to follow suit, offering them reassurance as well as filling a major gap in the financing for the project. This, they felt, should be underlined in the press release to which the CHAIRMAN had referred.

In general terms, also, Mr. LAVELLE commented on the fact that the Tunnel was to be built as a private venture. Governments were providing neither guarantees nor technical assistance ; risk assessment was the promoters' own affair, and it was quite appropriate that the Bank should be treating the undertaking as "just another project". He appreciated the Bank's appraisal method, of looking at each important policy area, identifying contingency margins and applying sensitivity analysis. Mr. MORAWITZ spoke of the German Government's support for the agreement between the British and French Governments that had opened the way for the project, and remarked that it would fulfill the criteria of Article 130 of the Treaty of Rome in a number of ways. An early effort should also be made to maximise the element of international competitive bidding for Eurotunnel contracts. Mr. ARCUTI inclined to the view that, at about 20% of the total investment cost, even the £1 000 million contribution to be made by the Bank was perhaps minimal. Mr. DE VRIES considered that a higher degree of risk for the Bank might have been countenanced, although he detected a spirit of optimism permeating the report, which left him with slight misgivings, and he cautioned against over-confidence. Mr. SAINT-GEOURS noted that his own, independent institution, which had for some time been keeping the project under review, was close to the Bank in its assessment of the scheme.

Various Directors had more specific points to make and questions to put, which were presently answered by various members of the Bank staff who had been particularly associated with the evaluation of the project.

Messrs. MULLER-ENDERS and MEULEMANS wished to know how critically the project hinged upon the deployment of high-speed trains and the network to convey them to and through the Tunnel. Seat prices were a critical factor. Mr. MEULEMANS also recalled the early impact and later eclipse of the TEE system, while Mr. MOLTRECHT stressed the need for the Tunnel to offer general compatibility, to be able to accept trains from throughout the Community. Messrs. RITCHIE and SAINT-GEOURS raised the question of traffic flows, the latter pointing out that it was not the number of passengers or the volume of freight that was critical for its competitiveness, but the frequency of train movements through the Tunnel and the spacing of sets.

Mr. McCUTCHEON asked for more information on the details of the Usage Contract and the Rail Agreement just concluded between EUROTUNNEL and British Rail and the SNCF, and evinced concern as to the possibility that this might involve a degree of subsidisation for the project. Mr. MEULEMANS observed that the Agreement would produce an improved internal rate of return on the Tunnel, but wished to have more particulars about the tariffs to be charged and projections concerning competition from other modes of transport, in particular ferries. This question was also raised by Mr. MORAWITZ, who commented on the cost/benefit analysis and the assumption that investment by competing carriers would drop as a result of the scheme : he wondered whether the trend might be otherwise, with increased investment in that quarter and tougher competition as the outcome.

A number of Directors sought reassurance concerning the Conditions Precedent for the loan (§ 6.3.1.), and in particular the circumstances under which the Bank would be at liberty to withdraw from the project. Mr. MULLER-ENDERS was unsure how difficult it might prove for the Bank to withdraw if the refinancing arrangements failed, while Mr. LAVELLE wished for clarification of what "fundamental adverse change" in economic and financial conditions might signify ; whether it meant something worse than down-side risks for the Bank for the latter to cease disbursement and whether earlier disbursements would be returned. Mr. LAVELLE was also in some doubt, on the security side, as to the precise function of the Sinking Fund, as a device for matching maturities, and how this would be established if the letters of credit were not released. Mr. ARCUTI was uncertain as to whether Eurotunnel was under an obligation to raise £800m of equity before the Bank intervened, while Mr. MEULEMANS was sceptical as to whether the company could raise such a volume of equity. Mr. MOLTRECHT felt that the terms and conditions of the loan, as set out in Annex 2, should also feature the obligations of the promoter (e.g. tendering and security arrangements, p.17), while Mr. FARUP-MADSEN thought that the Conditions Precedent were of such importance as to merit inclusion in the press release. The CHAIRMAN agreed that the latter should be worded most carefully to ensure that it was made clear what the Bank would be committed to as a result of the Board decision, and when.

Questions were also raised concerning the various financing arrangements proposed : Mr MULLER-ENDERS asked for more particulars of the Alternative Financing Mechanisms, and in particular the Consolidated Loans. Mr. McCUTCHEON and Mr. BRUCK wished for clarification of the function of the standby facility, and whether this was to be earmarked for the guarantees and letters of credit given to the EIB or to be available for covering cost overruns or other contingencies. Mr. ARCUTI was somewhat concerned about the proposed recourse to convertible bonds in the refinancing arrangement : these represented only an option, and were not therefore the most suitable medium for financing equity. Mr. BRUCK was also concerned about the proposals for refinancing the syndicated credit once the project had been completed, wondering whether the capital markets would at that stage offer the conditions necessary for raising the funds required, and whether the debt coverage ratio and inflation rates assumed were entirely realistic.

The problem of working assumptions and projections was also raised by Mr. RITCHIE, who had doubts over traffic flow estimates, the rates of inflation taken by the Bank and the rate of interest to be charged. This point was also taken up by Mr. MORAWITZ, who questioned the decision to opt for a nominal interest rate of 9% throughout, and a real interest rate phased down from 5% to 3%, which he considered might not be realistic.

Mr. MOLTRECHT wished the Bank to ensure that the project involved the widest and earliest possible recourse to international competitive bidding. In addition to the agreement to put a percentage of the value of the project out to international tender, invited from companies not in the promoting group (§ 6.5.5), he felt it was incumbent upon the Bank to ensure that no constraining terms of reference were brought in that would have the effect of excluding outside contractors. This sentiment was endorsed by Mr. GNES, who maintained that the whole of European industry should have access to the bidding for the project.

Mr. McCUTCHEON commented on the legislative background to the project : given the timing of the British Parliamentary Election just announced and the uncertainty over the passage of the relevant legislation through the two Houses of Parliament, he would rather have seen it deferred until a later meeting of the Board of Directors.

The timetable for the project itself gave grounds for concern to some Directors : Messrs DE VRIES, GNES and SAINT-GEOURS in particular, wondered whether more allowance might not have been made for overruns.

Mr. MORAWITZ asked for elucidation of the legal constitution of the promoter, viz. the partnership itself and its two wholly-owned operational subsidiaries : the question of ultimate responsibility arose, and of responsibility for such areas as security, staff administration and customs facilities.

Asked by the CHAIRMAN to deal with the technical aspects of the various questions put and clarifications sought by the Directors, Mr. BOND, Group Leader, Technical Advisory Service, addressed himself firstly to the matter of the use of the Tunnel. The aim was to maximise its use, to allow high-speed trains to run between the two networks but at a maximum operating speed, for the time being, of 160 kmh, similar to the maximum shuttle train speed. Observation of a standard maximum speed was important, otherwise the capacity of the Tunnel would be reduced. A future maximum speed of 200 kmh was being sought by the railways and this possibility would be discussed in the future. BR and SNCF trains would be the prime users of the Tunnel, apart from Eurotunnel, but other users would not be excluded, provided their rolling stock was compatible with the French system and they adhered to the relevant safety standards.

On the question of the management role of the Eurotunnel company, Mr. BOND explained that its slim structure was intentional : it existed not to carry out the construction and design work on the project, but to manage and supervise construction as a first stage and later to operate the Tunnel system. The 200-strong staff during the first phase would sub-contract many technical and similar tasks to other undertakings and maintain principally a supervisory role. It was not a question of building up a large organisation during project implementation which would then have to be wound down and changed into an operating entity for actual operation of the Tunnel.

Various points had been raised about the contractual arrangements. The target-cost contract, explained Mr. BOND, was a cornerstone of the policy of containing costs for the project. Target-cost type contracts had often been used in major infrastructural projects where the nature or the size of the scheme posed considerable risks. It was a flexible system which served both as an incentive to contractors to deliver under cost and to provide for escalating penalties in the event of cost overruns. Imposing a fixed limit, in a case like Eurotunnel, said Mr. BOND, would be rather arbitrary, would present difficulties of assessment and lose the flexible incentive already mentioned. The target cost included a fixed-fee component additional to the identified cost elements, and was mainly to cover profit. The 12% in question was to cover all off-site head office costs of administration and coordination;the final profit margin would be of the order of 8% for the main contractor under the base case conditions.

As regards the issue of costs and timing generally, the former had in fact been established by the contractors themselves, in the knowledge that they would have to perform to those costs and within the agreed time frame. According to the Bank's own assessment and those of other consultants, the base costings in question contained a margin of something between 5% and 15%. The target cost and lump sum arrangement being used for the project represented, however, quite a severe constraint on the contractor to complete the terms of his contract. Numerous assessments had been carried out by consultants and it was generally accepted by independent experts that the given base costs for the project were not only attainable but unlikely to be exceeded. The Bank had undertaken an independent study of costs and estimated that a prudent view (not a catastrophic scenario) was that base cost might be overrun by up to 10%, which, with the 5-15% built-in margin previously referred to, gave a margin of up to 25% overall.

The timing of the project as such was subject to outside events - notably at the present time the forthcoming general election in the United Kingdom, just announced, and various approvals that had to be obtained. Delays to date had put the project back by an estimated 2-3 months, and the election would probably add a further month. The chief imponderable was the rate of advance that the tunnelling machines would actually achieve in practice, which would not be known until mid-1988 at the earliest. It was thought by the Bank that the maximum overrun in time would be one year, which exceeded the independent consultants' estimates (about 6 months). Such factors as approvals, however, should be settled within about a year, before the Bank actually committed funds to the project.

Close attention would be paid by the Bank to the question of tendering and the way items were specified and orders placed, especially for locomotives and rolling stock. The Bank was satisfied with the way notices had been published to date. It should be underlined that the main contractor would be looking for the best possible bids, in his own interests.

Mr. BARRETT, project Loan Officer, PM2 Directorate for Operations in the Community, invited by the CHAIRMAN to answer the points which had been raised on the financial and security aspects of the project, started with the question on the Consolidated loans, explaining that they were a flexible loan instrument which would help the promoter to manage its debt more effectively and would also facilitate the task of the Bank in meeting its funding commitments; these loans were not a form of last-resort lending.

The Sinking Fund was, he confirmed as supposed by Mr. LAVELLE, intended to provide security for the Bank, in the event that the conditions for release of the Letters of Credit were never met, to compensate for the effect of the longer maturities of the EIB credit in comparison with that of other lenders. In response to the question as to what would constitute "fundamentally adverse developments" which might result in a refusal by the Bank to continue funding the project, Mr. BARRETT indicated that the Eurotunnel Base Case, a relatively positive scenario as set out in the Report, was the base reference point against which all future developments would be measured : if the implementation of the project fundamentally deviated from that scenario, then the EIB would not be committed to continue funding.

The Rail Agreement referred to in the Report, explained Mr. BARRETT in response to Mr McCUTCHEON's question, had been reached in September 1986; the principles of that Agreement (viz : a toll structure for both high-speed and conventional trains, sharing of the Tunnel's capacity and BR and SNCF's commitments to invest in associated infrastructure as well as a number of other important technical questions) remained unchanged. The more recent rail negotiations were due to the Promoter's view that certain elements of the original agreement could be improved upon, particularly the reservation fee and "clause de bonne fortune".

The former concerned the percentage of the anticipated toll revenue to be prepaid to Eurotunnel monthly by the railway companies. This provision would have no real effect on profitability but was important to lenders as a statement of confidence by the railways in their traffic projections. Though an initial demand was made for about 80%, it had now been agreed to fix the reservation fee at approx. 65%, a figure which was quite close to Eurotunnel's real objective from the outset.

The "clause de bonne fortune" provided for a discount on tolls for the railways related to the success of the project. This discount would give the Railways a financial incentive to develop their rail services through the Tunnel to their maximum potential. The railways and Eurotunnel had now agreed a fixed minimum level of return on Eurotunnel's shareholders' equity that would have to be reached before the discount would apply.

The question of high-speed trains through the Tunnel had also arisen. Though the picture was not yet clear for the North European TGV (Paris-Brussels-Amsterdam-Cologne), the endorsement of the principle of a high speed train service between Paris and London, through the Tunnel, by the British and French Governments now appeared imminent according to unofficial information received : it would however take time to assess the detailed investment proposals, formalise decisions, make the necessary budget provisions and settle the issues which would arise of concern to other interested states.

As regards the capital structure of Eurotunnel, the target figure for equity had been set at £ 1 000 million equivalent of which £ 250m had been raised to date. It was planned to raise the balance of £ 750m in two tranches, in July and November 1987. The question had been raised as to whether this total was adequate. The banks negotiating with Eurotunnel were satisfied with that level, and were prepared to reduce that requirement from £ 1 000m to £ 800m provided certain criteria on the economic and financial prospects of the project were met. The key criterion was a debt coverage ratio of 1.35. As that coverage ratio had not quite been achieved on current projections, Eurotunnel would continue in its efforts to raise the full £ 1 000m.

In reply to the question on Eurotunnel's corporate structure, Mr. BARRETT explained that the structure was in response to the different legislative and company law requirements in the United Kingdom and France. It was also in response to the security interests of the banks, including the EIB, which needed to have charges on the shares of the concession companies in order to have an effective security structure. These charges would enable lenders to be secured, under either legal system, in the event that the project did not succeed. All the companies within the Eurotunnel group, whatever their different functions, and whether British or French, publicly held or otherwise, would undertake joint and several commitments for all contracts concluded. Thus, despite the apparent complexity of the group, the Bank would effectively be dealing with one borrower.

The EIB security arrangements which provided for a transition from bank Letters of Credit in favour of the EIB to charges on revenues and assets had also been commented upon : the transition, said Mr. BARRETT, would not occur if the various criteria specified in the Report failed to be met. In that event, the banks' Letters of Credit would continue for their entire term of 18 years and would not be released until the EIB was fully repaid or otherwise secured ; in those circumstances the EIB would not at any stage assume project risk. These transition arrangements were adaptable and provided for the repayment of all lenders within the agreed maturity, even if the project did not perform particularly well.

Finally, in reply to Mr. BRUCK, Mr BARRETT said that refinancing was in the interests of the Promoter and of all lenders, including the EIB, as it was desirable to spread the repayment of the debt over a longer period of the concession. The banks were satisfied that refinancing was feasible though it was not yet clear under what conditions it would be carried out. It was hoped that by 1997/98, if not sooner, revenue from operation of the Tunnel would make it possible to undertake refinancing, even if the refinancing market were not to be as approachable then as at present.

Mr. DELEAU, Deputy Manager, Research Directorate, invited by the CHAIRMAN to review the market outlook for the project as touched upon by Directors, pointed out that studies made of the prospective competition for the Tunnel, by Bank experts and others, had reached much the same conclusions. The assumption was for ferry fares, which would be influenced by the advent of "jumbo ferries", to fall in real terms by between 5 and 15% in the time up to the opening of the Tunnel. With further relaxation of the present tariff agreements, morevover, air fares too would be likely to drop. The Tunnel, however, would be less exposed to the impact of variable costs than the other two modes of transport, which would help it in any price competition that arose.

Sensitivity analyses carried out by the Bank indicated that the project would be able to command a large enough market to enable it to show sufficent financial returns to remain viable. As far as the economic return on the project was concerned, the existence of the Tunnel would spare other forms of investment on the competing modes of transport, the operators of which would hesitate to invest in significant additional capacity once the decision to build the Tunnel had been taken.

Mr. TREUMANN, rounding off the replies of Bank staff to the questions raised by Directors, noted firstly that the rail technology for the Tunnel would be that of high-speed trains, comparable to that used for the French "TGV" and German high-speed trains. For reasons of cost and planning, the Intergovernmental Working Group concerned with the introduction of the "TGV Nord" had decided not to go ahead with trains powered by magnetic induction technology for the time being.

Returning to the question of worst-case scenarios and the fulfilment of the "Conditions Precedent" referred to in the report, Mr. TREUMANN reiterated that the Bank did not envisage any possibilities more serious than those outlined in the report, but would in any event, keep the Board of Directors fully informed of developments.

On the financial side, responding to Mr. McCUTCHEON, he made it clear that the credit to be made available by the Bank would not form part of the standby funds : the financing to be secured by the Letters of Credit would be part of the £3.6 billion main loan facility estimated to be necessary for covering the outturn cost of the Tunnel.

On a more general plane, Mr. TREUMANN commented on the improved climate surrounding the Eurotunnel Project in recent months : this was reflected in the overt support of the British and French Governments for the railways' aim to have a TGV available for the Tunnel at opening. Furthermore, in the past six months, there had been considerable improvements on the management side of the project : previously, there had been frequent changes in management and doubts about competence in that sphere ; now the decision-making and planning functions were working well.

The general configuration of the finance structure of Eurotunnel was accepted by all parties, viz. the £1 000 million equity general target, with the possibility of a smaller ultimate amount ; the banking syndicate, and the order in which the various steps in the operation were to be taken.

The security arrangements, suggested Mr. TREUMANN, especially the international banking syndicate, gave the EIB adequate protection against individual members of the banking group suffering a drop in rating or some worse eventuality as there were also non-European banks involved (US, Japanese), through substitution of letters of credit by security based on project assets. Once the project had been completed and the Tunnel was meeting its operating criteria, with expenditure completed, geological and other risks eliminated, the Bank would be in a position to judge whether or not to release the letters of credit. It was however at the present time committing itself to the eventual release of the letters of credit save only where unexpected negative events occurred, although objective criteria would have first to be met - cashflow and debt cover ratios.

Mr. BOND further clarified a final technical point raised by Mr. MULLER-ENDERS : the rail system through the Tunnel could accept trains from elsewhere, but these would have, in terms of voltage etc., to be compatible with the French system : compatibility with the British system was not required for the Tunnel itself : there would be a terminal point at Dolland's Moor on the English side.

Mr. MOLTRECHT asked for proper weight to be given in the press release to the European Community's contribution to the project and to the benefits it would bring to the Community as a whole. He also offered a word of caution against the danger of future technological developments actually making for less technical compatibility than had been achieved to date.

On a final question put by Mr. McCUTCHEON, the CHAIRMAN offered assurances that the scale of financing provided by the Bank for the EUROTUNNEL Project was not such as to inhibit its activities in support of other investments, and was moreover well in line with the prospective volume of financing set at the time of the previous capital increase and the considerations that would inform the next capital increase.