THE IMPACT OF THE CHANNEL TUNNEL ON KENT

SUMMARY REPORT

BY

CENTRE FOR EUROPEAN, REGIONAL AND TRANSPORT ECONOMICS
UNIVERSITY OF KENT

AUTHORS:

ALAN HAY
KATE MEREDITH
ROGER VICKERMAN

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Alan Hay, Kate Meredith and Roger Vickerman
Centre for European, Regional and Transport Economics
University of Kent, Canterbury, UK

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1. Background

1.1 Introduction

Assessing and evaluating the wider impacts which can be attributed to new transport infrastructure or improved transport services poses many problems. Even where such changes are large and provide connections which did not hitherto exist, it cannot be automatically assumed that there will be more than minor impacts. Whilst ex ante analysis of such projects has been problematic, there has been little or no development of ex post studies to assess what the impacts have been. The tenth anniversary of the Tunnel’s opening provides a useful opportunity to reflect on the changes which have happened, assess the determinants of these changes and explore what future changes may occur. This is not just as a check on the accuracy of previous forecasts, but also as means of understanding where supporting policies and actions have been beneficial, or could have been more effective, and where such policies could be improved in the future.

1.2 Methodology

1.2.1 Defining the nature and extent of the project.

Although the project can be defined simply as the Tunnel system itself and its terminals at Cheriton and Fréthun, the Tunnel is part of both the road and rail networks linking the UK, France and Belgium. This requires inclusion of the complementary rail facilities which have been provided as terminals (in the UK at Ashford, Waterloo, and in the future at Ebbsfleet, Stratford and St Pancras) and railway track (CTRL) which would not have been developed without the Tunnel itself, plus those parts of the road systems which have been developed to cater for through UK-continent traffic. We also need to distinguish between the project as the provision of fixed infrastructure and the project as the development of new services using that infrastructure.

1.2.2 The nature of the impacts.

This study combines two approaches: investment impact studies and transport impact studies.

a) Investment impact studies distinguish the direct effects of a project (the project’s own generation of employment and household incomes) from the indirect effects (in enterprises supplying the project with goods and services) and the induced effects (the economic multipliers in employment and incomes arising from the spending of incomes arising from direct and indirect effects).

b) Transport impact studies focus on the two traffic effects of a new facility: diversion of traffic to a new facility and thus away from any pre-existing facilities, and generation of traffic as productive activities and households respond to changes in generalised costs occasioned by the new facility.

In studying the impact of the Channel Tunnel these various effects are seen to be inter-related. Traffic diversion may itself have direct (negative) effects as the loss of traffic to the new facility results in reduced revenues, employment and incomes in the existing facilities. These effects will be even more acute if the competition from the new facilities results in classic competitive behaviour (price cutting and reduction in labour costs) by operators on the pre-existing facilities. Similarly it is evident that traffic generation may also result from the new establishment or inward re-location of productive activities or households responding to the changes in generalised costs.

1.2.3 The temporal and spatial dimensions of impacts.

Some effects become evident at an early stage in the project (for example the employment arising from initial construction and early phases of operation), but others may be delayed for some years or even decades. There is a distinction between impacts which are short lived (construction employment) and those that are quasi-permanent (employment in operations). In the spatial dimension a similar distinction must be made between those effects which are localised (usually close to the new facility or associated developments) and those that are felt at a regional or national scale.

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1 Note: This summary is based on a full study report commissioned by Eurotunnel and Kent County Council in 2003-4 which is available for downloading from the CERTE web page at http://www.kent.ac.uk/economics/research/certe.html. Detailed discussion of the information sources will be found in that report as also will be acknowledgment of the many individuals and organisations who assisted in the study.
1.2.4 Statistical problems
Many of the statistical series which might be expected to show evidence of impacts reflect more than one of the processes identified, and may also reflect changes in macro-economic conditions that would have occurred without the project. For example, any changes in the aggregate flows of road freight vehicles on the tunnel shuttles will include traffic diverted from a variety of alternative routes and modes, traffic generated by short run responses to changes in costs, longer term traffic generation, and changes in volumes due to the increased volumes of international trade between the UK and the Republic of Ireland on one hand and the rest of Europe. Similarly changes in employment in the immediate locality of the tunnel terminals will include changes due to direct effects, indirect effects, traffic diversion and traffic generation as well as changes due to the performance of the regional or national economy. It is also evident that statistics collected for quite different reasons will seldom permit the researcher to separate out the individual elements which go to make up aggregate changes.

1.3 Conceptual model
The overall approach is summarised in Figure 1 which shows the broad structure within which the study has been conducted and identifies a series of sub-models which examine specific aspects of this:

- construction impacts;
- transport operations impacts;
- wider economic impacts on enterprises in the region;
- overall impacts:
  - the additive effects of changes (for example by employment sector); and
  - the induced and multiplier effects on household incomes, GVA, in-migration, housing construction, and the provision of services.
1.4 Economic and demographic context

Economic and demographic change in Kent needs to be understood as a backdrop against which to view the changes which may be more specifically related to the Channel Tunnel and its associated projects, in particular whether there have been any marked changes in the time series for the Channel corridor that might be interpreted in such a way.

1.4.1 Population growth.
Kent has shared in the overall population growth of South East England. Within the Channel corridor growth has been greatest in Maidstone and to a lesser extent Ashford, but this growth is paralleled in other parts of Kent which are within easy commuting distance of Central London and the M25. It is difficult therefore to discern any demographic impact of the Channel Tunnel.

1.4.2 Employment change.
Similarly employment change generally reflects the national and regional cyclical patterns, but within Kent there were some marked differences in the levels of employment (though less difference in the pattern over time) with stronger performances in West Kent and weaker performances in the areas more remote from London (for example Thanet). Within the Channel corridor there was evidence of expanding employment in Maidstone, but reductions in employment in Dover (associated with the loss of jobs in both the shipping industry and coal mining).

1.4.3 Economic change.
Similar results can be obtained from the assessment of changes in per capita GVA. Overall it seems that there is no evidence that the Channel Tunnel and associated projects have generated demographic or economic changes which set the Channel Tunnel corridor apart from the rest of Kent and Southeast England.

1.4.4 Land use change.
The various planning and regeneration initiatives which have occurred in relevant parts of Kent and which may also have been influenced by expectations related to the Tunnel have been analysed. The allocation of land for ‘employment uses’ has been examined in the relevant Districts over the period 1991 – 2001, and the net completed floor space in the same period. It was evident from this analysis that the allocations made by planners were modest, but also that there was no great pressure for planning permissions in the Channel Corridor (the percentage of the allocated space completed ranged from only 1% in Shepway, through 20% in Maidstone and 25% in Ashford to 63% in Dover). Allocations for 2001-2011 are similarly modest.

2. Impacts and outcomes

A number of studies were undertaken in the period from the announcement of the project through to the completion of the construction. Here we summarise them in terms of the expected impacts and compare them with identified outcomes in the three main sub-models: construction, transport operations and other enterprises.

2.1 Construction sector

2.1.1 Expectations
Construction is one of the main direct though short-term impacts of any large project and should be able to be predicted fairly accurately. The peak in construction employment on the UK side (there was a significant construction effort also on the French side which we do not consider here) was predicted to be during 1990 at just fewer than 4,000. It was also recognised that improvements in the supporting infrastructure would generate further construction sector employment throughout the county over a longer time span. Much of the construction workforce was predicted to be concentrated in Dover and Shepway, but construction workers, especially those with specific skills, are traditionally very mobile and would not necessarily be local. Nevertheless, it was recognised that there would be significant laying-off of skilled and unskilled manual workers with the completion of the Tunnel and it was thought there would be a need for training programmes, advice and counselling for redeployment of these workers.

Despite its size the construction of the Channel Tunnel was short-term and localised, while the associated developments are less localised and spread over a longer time period with the high-speed rail link not due for completion until 2007. Major construction projects, even if geographically specific involve many firms which are national or international contractors and sub-contractors, who will have recruited at least some of their labour force (especially the most specialised) from outside the region.

2.1.2 Outcomes
The employment impact of tunnel construction peaked in 1990, though with a much larger labour force than originally anticipated (8,300 plus 1,827 people employed by sub-contractors), only some 35% of whom were from within Kent in 1990.
For Kent as a whole there was a fall in construction employment of 23% from 1991 to 1995 in Kent, followed by subsequent growth of 29% 1995-1998 and 12% 1998 – 2001. The 2001 figure was 12% higher than in 1991.

### 2.2 Transport operations sector

#### 2.2.1 Expectations

The Tunnel was expected to have a considerable effect on the cross Channel market. It was predicted that the Tunnel would increase the size of total market by creating new traffic, and offer an additional alternative mode rather than just replacing the ferries as in other fixed link projects. Following initial losses, ferry traffic was projected to continue to increase as the market increased. Employment was not however expected to follow the same path as the ferries would need to reduce the considerable over-manning in order to be able to compete, such that the initial large losses would be followed by only modest recovery of ferry-related employment.

**Traffic.** Initial projections of future passenger traffic were for passenger numbers for the Tunnel at 29.1 million and 39.5 million for 1993 and 2003 respectively, out of a total passenger market of 64.3 million and 88.1 million for each year. The impact on freight traffic was expected to be much less than on passenger traffic, with the tunnel taking 14.8 million tonnes in 1993 and 21.1 million tonnes in 2003 out of a total market of 84.4 and 122.6 million tonnes respectively.

**Market impacts.** Early forecasts recognised that the size of the short-sea market would depend on the pricing strategies adopted by the competing operators. Only with significant price cutting from the fare levels realised before the Tunnel would the market be able to grow significantly enough to provide sufficient traffic for both sets of operators. This would seriously reduce yields and lead to longer term effects: a reduction in the number of ferry operators and problems for Eurotunnel in servicing its debt. It was expected that reductions in ferry services would lead to a concentration in services through Dover, although some of the smaller ports were thought to be able to continue to compete in niche markets such as longer sea routes to more distant continental ports, unaccompanied freight etc.

**Employment.** The estimated loss in ferry related employment was initially predicted to be in the range of 4,300 to 6,660 by 1993 and (following traffic growth) to 4,100 to 6,600 by 2003. This was later revised upwards to nearly 7500 jobs in the period 1991-1994 alone. The Tunnel was expected to need far lower employment levels to deal with the same volume of traffic, and employment in Kent was forecast to be around 3,250 in 1993 and 3,800 by 2003.

#### 2.2.2 Outcomes: passenger traffics

Cross-Channel traffic had been growing rapidly over a long period before the construction of the Channel Tunnel. In the period immediately prior to the Tunnel’s opening, following a slight fall in numbers from 1986 to 1988 associated with strikes there was an increase in passenger numbers of 55% between 1988 and 1994. This increase continued after the Tunnel’s opening as part of a general increase in travel between the UK and continental Europe. UK residents make up approximately 80% of cross-Channel travellers and the market for passenger travel to continental Europe from the UK increased by over 61% between 1993 and 2002, and that to Near Europe (the major market within which the Tunnel competes) by over 43%. Figure 2 shows data for total passenger traffic through the tunnel and via the ferries for the period since 1995, the first full year of Tunnel operation.

![Figure 2: Cross Channel Passenger Traffic 1995-2002](image)

*Sources: KCC Tables from: Dover Harbour Board, Eurotunnel, Cruise and Ferry Info, Hoverspeed, Port Ramsgate.*

The opening of The Channel Tunnel and the establishment and success of low cost airlines in the UK has led to increased competition for cross-channel travel. It might be expected that this would result in a change in the relative market shares of operators of the various modes of transport including air, sea and tunnel. The share of the cross-Channel market held
by Eurotunnel has been estimated using data from the International Passenger Survey, which provides passenger numbers by UK Port of origin and country of destination. These data can be used to examine how the passenger numbers as a share of the total market have changed over time. The original forecast of between 13 and 16 million passengers per year have been seen to be excessive; Eurostar has carried barely 6 million passengers per year, although there has been a significant upturn in traffic following the opening of the first stage of the UK high-speed line in 2003 which improved reliability.

The predicted market share of the Tunnel was estimated at 25 to 35% of the total market for passenger travel to the Continent. Figure 3 shows the percentage shares of the main Passenger Ports (Ferries, Tunnel and Airports) in London and South East England for travel to and from the EU, 1993 to 2002. This shows that the Channel Tunnel gained a substantial share of the market between 1994 and 1998 when it peaked at 18%, however, from 1998 the market share of the Tunnel decreased. The market share held by the Kent Ports fell continuously from 1994 onwards. There was significant growth in the market share of Stansted Airport from 1995 onwards: a result of the increasing popularity of low-cost airlines flying directly and cheaply to EU destinations. The S.E Ports have a larger share of the market to “near Europe” countries (Belgium, France, Germany and the Netherlands) and the Channel Tunnel has a much larger share of this market, peaking at 33% in 1998.

![Figure 3: Travel to the EU (excluding Ireland) - Market Share of Main SE Ports (1993 – 2002)](source: IPS, UK Residents, Travel Trends)

The decline in traffic and Tunnel market share since 1998 is a product of a number of factors. The loss of duty-free privileges for cross-Channel travellers led to a reduction in the motivation for much day-trip traffic and was also coincident with an increase in fares. The growth of low-cost airlines brought alternative destinations within easy reach, especially for those living to the north and west of London with easy access to airports such as Stansted and Luton. Safety and security concerns may also have led to a reduction in discretionary trip making.

2.2.3 Outcomes: freight flows

The international movement of goods to and from the UK is dominated by road transport. The opening of the Channel Tunnel provided for the easy movement of freight by train for the first time and it was forecast that a market of around 6 million tonnes a year was available. It was thought that the tunnel would find it more difficult to compete with the ferries for road freight traffic and that a market share of around 18% for the tunnel was likely. Total ro-ro traffic grew from 51.8 million tonnes in 1991 to 78.4 million tonnes in 1999. In fact by 1999 the Tunnel had secured some 25% of the traffic through Channel ports, with the share of Dover having reduced from 60% in 1993 to 50% in 1999, but this implied a concentration of traffic on the shortest sea route (Dover-Calais plus Tunnel) of well over 75%. This reflects a major shift in an increasing traffic flow.

Over the period 1993-99 there was a 55% increase in the number of road goods vehicles moving between the UK and continental Europe from 2.83 million to 4.38 million vehicles. The data show that the Tunnel gained a significant share (19%) of this market with the Dover Straits ferries taking a further 40%. Value data would show an even greater concentration on these routes given the time sensitivity and security characteristics of such traffic. Cross-Channel rail freight has not followed the same pattern and has failed to meet prior expectations: tonnages carried by train have decreased from a peak of 3.1 million tonnes in 1998, itself barely half of the original forecast for the tunnel’s opening to under 1.5 million tonnes by 2002. This failure to meet expected levels of traffic results in part from the problems encountered by the train operators with security at the freight terminals in Europe (especially Fréthun) and the penalties they incurred if they inadvertently carried illegal immigrants, but it also reflects the general failure of Europe’s railways to respond to market pressures to improve service and provide genuine inter-operability in order to compete with road haulage.
It was anticipated that the opening of the Channel Tunnel would result in additional traffic on Kent roads. The failure of rail to take its predicted share of traffic has clearly had an impact on road traffic levels, but it is difficult to assess by how much as international traffic remains a relatively small part (perhaps 10-12%) of total road traffic on the major routes.

2.2.4 Outcomes: employment
The impacts of these changes in flows on transport sector employment have been ambiguous. It was expected that there would be a large reduction in ferry and port related employment which would only be partly compensated by tunnel employment. The increase in traffic might be expected to have indirect and induced impacts on employment in the wider transport sector. In practice the job losses in the port and ferry industry have been greater and the compensating job creation smaller than forecast. Eurotunnel’s UK employees peaked at just over 1500 in 2000, but this does not include the large numbers of sub-contractors, immigration, police and customs officials. But the port and ferry employment registered a loss of some 6000 jobs in Dover alone from 1991 to 2001 reducing its share of local employment from 18.4% to just 3.8%. This would have been catastrophic for the local economy if all the employment had been locally resident, but shift patterns on ferries led to a fairly wide distribution of residential locations. However, this loss came on top of the closure of the other major local industry coal mining at the same time.

2.3 Enterprises in other sectors
Ex ante studies identified a number of sectors that would be principally affected by the existence of the Channel Tunnel and associated infrastructure within Kent: tourism, retailing, manufacturing, wholesalers and road haulage. The Tunnel was expected to promote growth in these sectors in Kent for varying reasons and to generate additional indirect and induced employment within the county with employment increases of 13,000-14,000 jobs by 1995. Later revisions reduced some of these rather optimistic figures. For example, projected new tourism related employment was reduced from in the range 2,000 to 3,000 to around 500 new jobs after taking account of displacements and relocations of accommodation as well as visitors diverted away from Kent to France for short breaks. Similarly the initial predictions of up to 5000 new jobs in Kent by 1996 due to infrastructure improvements were later revised to a figure of around 2750.

2.3.1 Tourism
Tourist impacts depend both on visitors to Kent from outside and those stopping in Kent whilst en route to or from the Channel Ports or Tunnel. The Cross Channel Tourism Study in 1999-2000 recorded approximately 230,000 day-trips from the Continent to Kent and about 405,000 incoming trips (mostly from the near Continent) staying in Kent for one or more nights. Those whose main destination was Kent spent about £9.8 million on accommodation and those staying overnight while in transit spent about £6.4 million on accommodation. These relatively low figures reflected the fact that nearly half those staying in Kent were staying with friends or relatives. There is no reliable evidence of how many UK residents choose Kent for their holidays in order to make a short visit across the Channel. The figures for stays in Kent by United Kingdom residents en route to the Continent suggest that about 324,000 stayed for one or more nights en route, but the spending (about £6.6 million on accommodation) was again modest.

Kent has a considerable stock of hotel accommodation especially in seaside towns (including Dover and Folkestone) but there is a marked lack of modern high quality hotel accommodation. Although three new hotels have been built, several major available sites have remained undeveloped. Cross-Channel opportunities alone are not likely to be sufficient to guarantee a high level of hotel occupancy and the area is too far from London and the M25 to be seen as an attractive location for other sorts of hotel business.

The evidence on employment presents a slightly more positive picture in that employment in SIC55 (Hotels and Restaurants) has increased significantly in all four Districts in the Channel Corridor since 1991 with especially vigorous growth since 1998 (Ashford up 86%, Dover 58%, Maidstone 47%, and Shepway 34%). Regional and national figures for the same time periods which showed much less marked increases in SIC55 employment between 1998 and 2001 (8% and 6% respectively), although the Ashford figure may be affected by population growth of 12.3% occasioned by rapid expansion in housing from 1991-2001.

2.3.2 Retailing
Tourism was also expected to affect the development of the retail sector in Kent. Increased numbers of tourists would lead to retail spending and some retail activities might attract incoming cross Channel trips if the quality or price of goods offered in Kent was seen to be attractive, but it was recognised that Kent retail spending might also leak to the near continent if the quality and prices there were seen to be more attractive. Price differentials are affected not just by efficiency but also by differences in tax regimes between France and Belgium and the United Kingdom and changes in currency exchange rates between the pound and the Franc (to December 2001) and between the pound and the Euro (from January 2002). Sterling fell against the Euro from a rate of around 1.3 in 1994 to a low of 1.15 in 1996 before
strengthening rapidly to a high of 1.63 in 2002. It remains at around 1.5. This makes French prices attractive to UK residents and UK prices unattractive to Eurozone residents.

The Transmanche Tourism Research Programme recorded some 4.455 million day trips in 1999 from the UK resulting with an estimated £350 million expenditure on shopping in Nord Pas de Calais. In the same year some 680,000 staying trips to Nord Pas de Calais resulted in an estimated £54 million of shopping expenditure. Some 38% of travellers saw shopping as their main purpose of the trip and 96% reported shopping activity during the trip. If the proportion of this spend by Kent residents is estimated it suggests that in that year about £110 million of shopping spending leaked out of Kent into Nord Pas de Calais and adjacent regions. In contrast the incoming flows were much smaller in volume: 430,000 visitors of whom only 7% of these saw shopping as a main purpose of visiting, though 63% reported some shopping activity. They were responsible for a total spend in Kent of about £49 million. In addition Kent received about £8 million of shopping expenditure from those passing through the county en route to a channel crossing.

In the light of these figures it is not surprising that in Kent there has been little investment in shopping facilities directly aimed at the cross Channel travellers. This contrasts strongly with the developments around Coquelles, which have clearly been designed and managed to maximise their attraction for cross Channel shoppers. It seems that far from stimulating employment in retailing the expansion of cross Channel activity has probably had a net negative effect on employment. Generally figures reflect the national trend of a steady increase in retailing (consistent with population and spending growth) rather than exhibiting anything which might be called a Channel Tunnel effect.

2.3.3 Manufacturing
The stimulation to manufacturing was expected to vary according to the sub-sector. Kent had an under-representation of fast growing sectors and an over-representation of older declining industries. It was generally expected that the existence of the Channel Tunnel would stimulate growth in the more modern industries, including scientific instruments, medical equipment; office machinery and pharmaceuticals. Much of the benefit for manufacturing was expected to derive from the associated improvements to infrastructure, in particular to road and rail, leading to improved access to markets and improved availability of business services. The new infrastructure would provide additional opportunities for market expansion by opening up accessibility to European and deep sea markets, affecting business travel and movement of freight. However, only a small percentage of firms consider the savings in freight costs and time significant enough to consider changing location.

Generally most manufacturing firms based in Kent are small; nearly 60% of firms had five employees or less and only 21 firms (0.4%) had 500 or more. Although manufacturing remains an important sector in the Kent economy, we have no evidence that the Tunnel triggered an influx or growth in these firms. Employment figures are not substantially different to the national trend in the manufacturing industry. Although the figures for Great Britain show a general decline in manufacturing employment from 1991 to 2001, with a rise between 1995 and 1998, the figures for some of the Channel Corridor districts show that employment appears to be more resilient and overall manufacturing employment was higher in 2001 than it was in 1991.

There has been a substantial increase in employment in pharmaceuticals employment with 2,638 jobs created between 1991 and 2001 in Dover due to the expansion of one major employer, although this is balanced to some extent by a loss of 1195 jobs in this sector in Dartford. Employment in the manufacture of transport equipment (trains) rose substantially in Ashford between 1995 and 2001 although there was a fall of 39% in the number employed in this sector in the Kent region as a whole. In contrast employment in the manufacture of electrical machinery and apparatus has risen overall in Kent by over 50% over the 10 year period, but with no particular concentration in the Channel Corridor. Even larger was the growth (93%) in employment in the manufacture of medical/precision instruments, but this was almost entirely due to growth in Medway.

2.3.4 Wholesaling, transport and warehousing
Employment figures for SIC 6024 (freight transport by road) show only a 5% increase from 1991 to 2001 in Kent, well below the national, especially in Dover from 1991 to 1995, possibly related to the fall in border control activities in the Single European Market. Land use evidence for this sector shows there was little activity until 1998, a brief flurry from 1999 until 2001 and then a falling away of activity.

3. Future Prospects
The evidence collected in this study suggests that although the Channel Tunnel has resulted in significant changes to the flows of passengers, vehicles and freight (with consequential direct effects on employment) it has not had the expected impact on economic development locally or more widely within Kent. It may be argued that 10 years is too short a time to see a major re-structuring and re-orientation of a local economy. This is especially true to the extent that one key element in the transport network, the Channel Tunnel Rail Link, will only be finally completed in 2007 when it will provide the opportunity for the acceleration of domestic rail services between London and Ashford and other towns in
the less developed East Kent. This section therefore seeks to look further ahead and to identify the most likely scenarios for the future. These scenarios are not mutually exclusive and different combinations of them will have significantly different implications for Kent. The developments are presented in 2 groups: developments in transport networks and markets; and changes in the wider social, economic and political context.

3.1 Future transport sector changes and their impact

Possible scenarios considered were:
- Greater technical and operational integration of tunnel services with other networks leading to an increase in operating efficiency.
- Implementation of the EU’s 2nd and 3rd railway packages leading to greater potential for through freight services, and the entry of new operators, but also opening the tunnel to the open access regime.
- A shift in transport costs and regulation against road transport leading to a favourable move in the competitive position of rail for both freight and passenger services.
- Restructuring of Ferry operators from Dover – although it is an unlikely scenario that all ferry operations out of Dover would cease, there is scope for some restructuring of the industry although this may lead to instability in the market. This could have negative consequences both for traffic through Kent and for employment more generally.
- Financial restructuring of Eurotunnel leading to bankruptcy and foreclosure by the banks as major creditors. This would lead to a new management structure, but potentially a substantial reduction in the fixed costs due to the writing off of debt.
- Restructuring of Eurostar, due to continuing financial problems and competition from low cost airlines. Depending on the nature of any change this could have major impacts on the local economy.
- The impact of CTRL, especially on domestic services, has already been mentioned in the context of the growth of Ashford, but has important implications for the whole of East Kent and for potential integration across the Channel.
- Low-cost airlines have been cited as a major reason for problems of all cross-Channel operators, but this argument needs to be treated with caution as much of the activity of such airlines has been in creating new markets which may be only partial substitutes for traditional cross-Channel traffic.
- The impact of road congestion, especially on the main approach corridors is a major source of concern because of the unpredictability of the delays which constitute a major cost to truck based freight.

3.2 Changes in the Broader Context

Possible scenarios considered were:
- Retail price differences across the Channel due mainly to tax differences and exchange rate changes may change with important impacts both on traffic levels (and the direction of flow) and on local retail activity.
- The intensification of security and illegal migrant precautions could have a significant long-term effect on short term, especially day trip, movements which constitute a large part of cross-Channel traffic with consequences for further integration.
- Integration of the cross-Channel housing and labour markets leading to an increase in commuting, currently only at very low levels compared with the moves across other intra-EU borders, could have a significant impact on both traffic levels and regional economic integration.
- An exogenous change in Kent’s position in the UK economy could arise from the expansion of Ashford and Kent Thameside. However, Kent is likely to remain somewhat insulated from some of the other growth pressures on South East England by its geographical position to the east of London.

3.3 Assessing the likelihood of future scenarios

Tables 1 and 2 summarise three possible outcomes for each of the scenarios considered above, and assess the likelihood of each outcome by giving each a probability score between 1 and 3, where 1 = high probability, 2 = moderate probability, and 3 = low probability.
<table>
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<th>Issues</th>
<th>Possible Future Outcomes</th>
<th>Probabilities*</th>
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<td>Technical and operational integration</td>
<td>A. Integration greatly increased</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>B. Some increased integration</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>C. Integration unchanged</td>
<td>3</td>
</tr>
<tr>
<td>Implementation of the EU’s 2nd and 3rd railway packages</td>
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<tr>
<td></td>
<td>B: Some progress on objectives</td>
<td>1</td>
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<tr>
<td></td>
<td>C: No change</td>
<td>2</td>
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<tr>
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<td>A: Major shift achieved</td>
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</tr>
<tr>
<td></td>
<td>B: Modest shift achieved</td>
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</tr>
<tr>
<td></td>
<td>C: Little change</td>
<td>1</td>
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<tr>
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<td>3</td>
</tr>
<tr>
<td></td>
<td>B: Some operator turnover, services stable</td>
<td>1</td>
</tr>
<tr>
<td></td>
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<td>C: Successful refinancing of Eurotunnel</td>
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<td>A: Eurostar Expands services and intermediate stops using two London termini</td>
<td>3</td>
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<td></td>
<td>B: Eurostar Focuses on CTRL Route with intermediate stops</td>
<td>1</td>
</tr>
<tr>
<td></td>
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<td>2</td>
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<tr>
<td></td>
<td>B: CTRL track used by Eurostar and rail franchise services only</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>C: CTRL track used by Eurostar only</td>
<td>3</td>
</tr>
<tr>
<td>The role of the low-cost Airlines (LCAs)</td>
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<td>1</td>
</tr>
<tr>
<td></td>
<td>B: LCAs continue but with limited cross-Channel services</td>
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<tr>
<td></td>
<td>C: LCAs marginalised in all relevant markets</td>
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<td>2</td>
</tr>
<tr>
<td></td>
<td>B: Some investment relieves congestion</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>C: Major investment in Thames crossing and motorway capacity</td>
<td>3</td>
</tr>
</tbody>
</table>

*Probabilities: High = 1, Moderate = 2, Low = 3*
The picture of the Tunnel’s future impact derived from the Tables is as follows:

**Transport context:**
- We expect some technical and managerial integration of Channel Tunnel operations with rail operations in the UK and mainland Europe. Such integration will be encouraged by the implementation of the EU’s railway packages. We do not however believe that this will be underpinned by any decisive shift in policy towards rail transport.
- As regards cross-Channel ferry services, we expect there to be some operator changes, but a continuing high level of service.
- Similarly we do not expect there to be any major change in the position of Eurotunnel – expecting the banks to continue to support it but restricting it from any major new initiatives or investments.
- Eurostar will, we expect, focus on the CTRL route St Pancras-Stratford-Ebbsfleet-Ashford, and, at least in the medium term, seek to develop intermediate facilities at Ebbsfleet, in Europe it will focus, as at present, on the three major destinations (Brussels, Paris and Lille).
- All the surface operators will continue to face competition from vigorous low-cost airline operators, for at least part of the market.
- We see limited prospects of fully integrated through rail services despite the opportunities offered by St Pancras and CTRL.
- Finally, we expect the issue of road traffic congestion to pose a continuing problem for both the Channel Tunnel and other surface cross-Channel operators.

**Wider context:**
- We see a number of tendencies which will limit the role and impact of the Tunnel.
- We believe cross-Channel traffic will grow slowly because of the increasing convergence of prices, the perceived need to continue a high level of precautions against illegal migration and terrorist activity, and minimal growth in cross-Channel commuting.
- Expansion will be dependent upon major economic change in areas served by the Tunnel and CTRL: the only likely area of growth seems to be Ebbsfleet and the Thames Gateway which may well become a major economic growth pole for South East England but with only a subsidiary role in relation to Europe. We do not believe Ashford, Dover or Shepway will experience major economic growth as a result of the Channel Tunnel, independently of the planned growth area role for Ashford in terms of employment, housing and services.

### Table 2: Issues in a Broader Context – Future Outcomes and Probabilities

<table>
<thead>
<tr>
<th>Issues</th>
<th>Possible Future Outcomes</th>
<th>Probabilities*</th>
</tr>
</thead>
<tbody>
<tr>
<td>The differences in retail price across the Channel</td>
<td>A: Major differentials persist 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B: Some price differentials occur 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C: Price equalisation 2</td>
<td></td>
</tr>
<tr>
<td>The intensification of security and illegal migrant precautions</td>
<td>A: High security sensitivity persists 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B: Security concerns moderate 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C: Security concerns cease 3</td>
<td></td>
</tr>
<tr>
<td>Integration of the cross-Channel housing and labour markets</td>
<td>A: High levels of cross-Channel commuting 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B: Modest growth in cross-Channel commuting 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C: Cross-Channel commuting remains minimal 1</td>
<td></td>
</tr>
<tr>
<td>A change in Kent’s position in the UK economy</td>
<td>A: Kent develops economic activities using locational advantage in relation to Europe 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B: Kent and Thames Gateway become economic growth areas within the SE Region 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>C: Kent economy dominated by commuting and local services 2</td>
<td></td>
</tr>
</tbody>
</table>

* Probabilities: High = 1, Moderate = 2, Low = 3