How big plans get derailed
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Dan, a rail planner, called me at the time of the Eurotunnel initial public offering in 1987. "We have to buy shares in this company," he said. "With reduced cross-Channel travel times and marginal costs near zero the company's going to have a virtual monopoly. This is our chance to get rich!"

Today, Eurotunnel is on a slippery slope to insolvency. If it were a normal company it would have been liquidated. But we are stuck with the €8bn (£5.5bn) hole in the ground that is Eurotunnel. How did Baroness Thatcher's planned beacon of infrastructure privatisation become a disaster? The cause lies with the IPO, which was as pie-in-the-sky as any dotcom IPO a decade later. Promoters overstated revenues and understated costs and risks. The IPO aimed to get construction started, with little concern for creating a sound company.

With unfailing logic the disaster unfolded. During construction, costs began to overrun, 80 per cent on capital costs and 140 per cent on financing costs. Share prices fell by two-thirds between 1989 and 1990. When operations began in 1994, overstated revenues returned to haunt the company as revenue shortfalls; less than half the traffic forecast materialised. Share prices fell another two-thirds during 1995. Restructurings and talk of collapse have since pressed share prices down to about 17p yesterday, or less than 2 per cent of the peak value.

In one important sense, however, Eurotunnel is a success. In the wake of massive cost overruns on defence projects and transnational collaborative ventures such as Concorde in the 1960s and 1970s, the Channel tunnel treaty, signed by Britain and France in 1987, stipulates that the taxpayer must be protected from financial risk, which is to be borne by the private sector. Only people who decided to invest in Eurotunnel have lost money. That is no small feat for a project such as this.

Compare this with what happened with the Great Belt underwater rail tunnel, which was opened in 1997 and links Scandinavia with continental Europe. Costs over-ran by 110 per cent and the tunnel proved non-viable even before operations began. The Danish state owns the tunnel and decided to cover the deficit with cross-subsidies from tolls on the Great Belt road bridge. This is more typical of large-scale infrastructure projects than what happened with the Channel tunnel. In terms of transparency, accountability and economic efficiency, Eurotunnel is a more healthy set-up than crosssubsidising state-owned enterprises.

The main lesson to be learnt from Eurotunnel and similar projects is that there is no short-cut. Technological, political and financial risks are large. Jockeying for position and profit is rampant. Thus, the core problem is risk allocation. Risk should be placed on those best able to identify and manage it. But this is easier said than done.

Privatisation has not been the cure-all many predicted. The best of both private and public sectors must be brought into play. Public-private partnerships offer a glimmer of hope. A recent study by the UK National Audit Office found that cost overruns were lower and value for money higher in PPPs than in other projects.

More than anything, we need to call the bluff of misleading IPOs and appraisals of infrastructure projects. It is where problems start for nine out of 10 projects. The short-term interests of those who profit from construction must be balanced with long-term operational interests. And forecasters and promoters must carry the full risks of their forecasts. Good governance also requires that cost and revenue forecasts be reviewed and possibly redone by independent bodies such as national auditors or independent analysts. Professional and even criminal penalties should be considered for people who consistently produce misleading IPOs and appraisals. Finally, we need to stop projects with inflated benefit-cost ratios. Too many projects are built that should not have been. Many projects that should have been built are not, losing out to projects that looked good on paper but were bad in reality.

Eurotunnel is a failure as a business but the tunnel is unlikely to close. It will live on as a legacy to the experimental attitude that is necessary to achieve efficient, large-scale infrastructure provision.

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