EUROSTAR™

Jacques Damas, CEO

Huw Merriman
Chair of the Transport Select Committee

26 September 2022

Dear Mr Merriman,

Thank you for your letter of 7 September in which you share, on behalf of the Transport Select Committee, your concern about the impact of the maintained closure of Ebbsfleet and Ashford international stations. I too value the constructive relationship between Eurostar and the Committee.

I fully appreciate the disappointment felt by many at the continued closure of the Kent stations and, indeed, the recent announcements regarding Disneyland Paris – a popular destination for many of our British customers, including those previously from Ashford. I also appreciate the economic impact of such a decision on the South-East and the loss of choice for individual travellers. I can understand that people contrast these decisions with the recovery in travel this year and question why we have not moved to re-open the stations.

In the circumstances, I felt it right to offer a detailed explanation. There are **two main factors in the short-term**:

- First, the Committee is aware of the unique impacts on the business caused by the pandemic and the associated travel restrictions. We had our revenues cut by 95% for 15 months in 2020-21 and were hit hard by the Omicron wave in December 2021 and early 2022, the restrictions attached to which had a further impact of at least £50m. Contrary to the £7bn in state aid given to our airline competitors – many of whom also have overseas and state-backed shareholdings - Eurostar did not receive any state-backed loans. Our shareholders put a further £250m into the business (almost double the total historic amount ever taken out in dividends); but Eurostar needed to find an additional £500m in commercial debt in order to survive. This commercial debt is at considerably higher cost than the loan facility offered to the airlines and Eurostar must continue to meet the demanding financial ratios underpinning these loans.

- Second, the Committee will be aware that, following the UK's departure from the European Union, additional border checks apply to UK citizens seeking to enter Schengen, as they do to all Third Country nationals. Since c.40% of our customers are UK nationals, this has resulted in a significant increase in the processing times at stations. The stamping of British passports by continental police adds at least 15 seconds to individual passengers' border crossing times. Automated systems such as e-gates are less effective.

  Eurostar has been taking action and working with the authorities. We have upgraded the French passport gates in St Pancras and more UK gates are now going into Paris. We are installing an extra French control booth in London (where space is extremely constricted). However, as things stand, peak capacity through the stations is c.30% lower than pre-Brexit. Even with all booths manned, St. Pancras can currently process a maximum 1500 passengers per hour vs. 2200 in 2019. It is only the fact that Eurostar has capacity-limited trains and significantly reduced its timetable from 2019 levels, that we are not seeing daily queues in the centre of London similar to those experienced in the Channel ports.

  This situation has obvious commercial consequences and is not sustainable in the mid-to-long term. But the immediate consequence is that we are currently not able to respond to the high demand on our core routes linking capital cities. Re-opening the intermediate stations (where demand and yields are much lower) would make things even worse as it would take away from London vital border police resources. The reality of traffic numbers is such that a police officer controls 5 to 10 times more passengers in our large terminals than in intermediate stations

For completeness, there has also been another internal and temporary challenge to keep in mind. We have been hampered by the shortage on maintenance engineers in our main Temple Mills depot in Stratford. As a consequence, some of our train sets are not ready in time and this occasions delays on departure with day-long knock-on effects. Eurostar did not make any operational staff redundant during the pandemic but we were struggling to replace those who left and this has resulted in a numbers and skills gap. To address this, we have been recruiting more than 40 maintenance engineers since the spring. This factor, which could have forced us to limit our timetable in normal circumstances, has not because border constraints are higher. I am confident that we will overcome it in the coming months as we do control how to address it.

The combination of the two main short-term factors above means that, despite the return to travel, Eurostar cannot currenty pursue a strategy of volume and growth. We are having to focus services on those core routes which make the maximum contribution per train and to charge higher prices to our customers. The whole focus of this effort is to manage and reduce the debts we had to incur; there is no prospect of any dividends to shareholders until this is done.

The reason we have declined to offer any near-term prospect for review of this decision is that the pressures I refer to are not abating. The expectations of recovery within the business held by the banks continue to step-up in 2023. The pandemic has certainly abated, but the risk remains. The uncertainty regarding the EU's 'Entry Exit System (EES) – much discussed with the Committee – hangs over us.

Finally, there is a **third main factor** in the mid- to long-term. We cannot yet reasonably predict how both business and leisure markets will respond to the various structural changes such as the energy crisis and new work-from-home habits. There is considerable uncertainty about the ability of customers to pay in the context of the current and forecast pressures on the cost of living. At the same time the business itself faces nearly £100m in increased inflationary pressures. Once again, this is most acute on the UK side where the HS1 infrastructure – which is already three to four times more expensive per km than its French equivalent – is now rising in price almost three times as fast.

Recently, Eurostar and Southeastern Trains came together with HS1 to jointly propose a measure to alleviate pressure on charges in the near-term using funds already in the system. The Government did not object but the process considerations tabled by the Regulator have meant that this important initiative has run into the sand. As a result, Eurostar and Southeastern are able to commit to fewer trains next year and into 2025 than they otherwise would have done. This is of particular concern because we are now starting the Periodic Review that will fix charges for the five years from 2025. Eurostar believes that unless a different position is taken in that review on the balance between near-term and long-term risks, and unless UK charges are reduced, then, at best, the business will find itself indefinitely locked into the present position of having to focus on driving high-yield from a limited customer and service base.

In such an uncertain context, I have the duty, as CEO, to make the right decision and secure my company's future. I am therefore cautious not to overcommit.

I hope that these elements provide sufficient background to the difficult decisions we have taken and why there is no immediate prospect of reversing these. Although I will leave my role as Eurostar CEO by the end of the month, I know that my successor, Gwendoline Cazenave, together with my colleagues, will be pleased to engage with you and the Committee if you wish to discuss some of the issues raised in the letter in greater detail. In particular, we would welcome any support the Committee could give to protect international travel in the context of the governmental and regulatory risks I highlight.
Yours sincerely,

Jacques Damas