



10 DOWNING STREET

THE PRIME MINISTER

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 137/84**

30 July 1984

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Dear Garret.

Thank you for your letter of 10 July about the Kinsale Gas project. I have discussed the issue once more very thoroughly with my colleagues: hence the short delay in my replying.

I was very glad when the two Governments reached agreement on the project last autumn. This was not just because of its importance for Northern Ireland, but because it seemed to me a project which demonstrably served the interests of both North and South. We could thus present it as an important step in the improved Anglo-Irish relations which we both want. This only makes the keener my disappointment that its future has been put at risk by changes in circumstances since the agreement was reached.

As Adam Butler has explained to the Tanaiste, the price of gas to Northern Ireland as determined by the formula in the Memorandum of Understanding is already far above anything that was foreseen last year. This means that the future competitive position of gas against coal in the Northern Ireland market is being seriously and continuously eroded. Moreover forecasts of demand have also changed considerably. As you say, these relate to the later years of the project, but it is precisely in that period that the project was due to earn the surpluses necessary to balance the heavy losses in the early years.

Thus instead of there being economic benefits for both sides as we hoped last autumn, we now find that it would impose a considerable burden on us. The gap between the price for the gas that would be produced under last October's formula and the price that we should now need in order to ensure a viable project is equivalent to a price cut of the order of 15p per therm. We cannot fill that gap without creating a wholly unfair burden on our economy.

I am reluctant to have to think in terms of abandoning the project. But the wider interests we both have at heart would not be served, at any rate on this side, by our entering into it on such manifestly uneconomic terms as those which I have described above. If you and your colleagues were able to make suggestions that would go a very substantial way towards bridging the gap, we should of course be ready to discuss them with you. Otherwise, I am sure you will agree, we have no alternative, in the face of these economic realities, but to end the project.

Should that also be your conclusion, it would be important to end the present uncertainty as soon as possible. In that event, may I say how anxious I am to make sure that a setback on this matter does not damage our ability to make progress on other business.

Y
Lansdown

Raymond D. Shalton



KEEP

10 DOWNING STREET

THE PRIME MINISTER

Thank you for your letter of 10 July about the Kinsale Gas project. I have ^{discussed it with you more very thoroughly} thoroughly re-examined the issue with my colleagues: hence the short delay in my replying.

I was very glad when the two Governments reached agreement on the project last autumn, ^{this was not just} not only because of its importance for Northern Ireland, but also because ^{it seemed to be a project which demonstrated} of its significance as a major example of mutually beneficial economic co-operation between North and South, ^{and that we could see it as an important step in the process which we both want} and indeed its benefits for Anglo-Irish relations as a whole. ^{It only makes the keener my disappointment} So it is a corresponding disappointment to me that its future has been put at risk by changes in circumstances since the agreement was reached.

As Adam Butler has explained to the Tanaiste, the price of gas to Northern Ireland as determined by the formula in the Memorandum of Understanding is already far above anything that was foreseen last year, ^{this means that} and the future competitive position of gas against coal in the Northern Ireland market is being seriously and continuously eroded. ^{However, forecasts of demand have also changed considerably} There are also major changes in the demand forecasts. As you say, these relate to the later years of the project, but it is precisely in that

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period that the project was due to earn the surpluses necessary to balance the heavy losses in the early years.

This instead of the benefit for both sides which we hoped for
1985-86
We went into the project last autumn in the belief that it offered economic benefits to both countries. On our side, the changes I have referred to have turned the benefit into a burden. The gap between the price for the gas that would be produced under last October's formula and the price that we should now need in order to ensure a viable project is very large: on the assumption that the final price in 1985-86 is 28.5p per therm, the gap is equivalent to a price cut of some 15p per therm. We cannot fill that gap. If we were to do so we should create a wholly unfair burden on our economy.

I am reluctant to have to think in terms of abandoning the project. But the wider interests we both have at heart would not be served, at any rate on this side, by our entering into it on such manifestly uneconomic terms. *as those which have discussed above* If you and your colleagues were able to make suggestions that would go a very substantial way towards bridging the gap, we should of course be ready to discuss them with you. Otherwise I think that we had better both face up to the economic realities, and agree to terminate it. If that is also your conclusion, it will be important to end the present uncertainty as soon as possible; and of course we should want to discuss with you how the project could be brought to an end with least damage to the fabric of Anglo-Irish relations. I am anxious to make sure that a setback on this project does not damage our ability to make progress on other business.

Dr. Garret FitzGerald, TD.

FROM: JOHN GIEVE
 DATE: 26 July 1984



ANDREW TURNBULL

10 Downing Street
 SW1

Dear Andrew

KINSALE GAS

TPM
 The Chief Secretary has seen the draft letter for the Prime Minister to send Dr Fitzgerald that Graham Sandiford circulated on 25 July. He thinks that the passage marked B in the final paragraph is completely unacceptable; it would give a clear impression that we could accept a reduction in price of, say, 7 or 8p. More generally, he feels that neither Options A or B have quite the right flavour. As he understood it the intention was not to invite a further round of the negotiations but to seem to walk away from the deal without completely closing the door on further proposals. He would prefer, therefore, a draft on the following lines:

"I am very sorry that we should find ourselves in this position but I see no alternative to facing up to the realities confronting us and acknowledging that in view of the scale of economic difficulty involved in the project we should now agree to terminate it. If this is also your conclusion then it will be important to end the present uncertainty as soon as possible and our Government will need to be in touch urgently to discuss how the project should be brought to an end with least damage to the close & flourishing relationship between our two countries that is so important to both of us. Of course, ^{if} at some later stage, circumstances should alter and you should feel disposed to make a different proposal then we should be very happy to consider it".

2. Copies of this go to Graham Sandford, Colin Budd,
and Richard Hatfield.

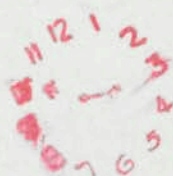
Yours sincerely

John Gieve

JOHN GIEVE

IRELAND: Natural Gas in N. Ireland: May 79

26 JUL 1984



520

Prime Minister

Andrew T

RTA has prepared a redraft
of the letter to Mr Fitzgerald
Content?

Ref. A084/2159

MR POWELL

AT 2617

Kinsale Gas

wm cp

The Private Secretary to the Secretary of State for Northern Ireland sent me a copy of his letter of 25 July, with a draft reply to the Taoiseach.

2. The Prime Minister asked me to look carefully at the draft in relation to other business between her and the Taoiseach.

3. I have slightly recast the draft letter in that light, and I attach a revised draft herewith. You will see that, in the last paragraph of the draft, I have adopted the version preferred by the Foreign and Commonwealth Secretary and the Secretary of State for Northern Ireland which talks about "suggestions which would go a substantial way towards bridging the gap", but I have strengthened that by talking about "a very substantial way".

RTA

ROBERT ARMSTRONG

26 July 1984

It is just not clear in
simple enough. Some of
the language on the point
was put very well

mb



DRAFT LETTER FROM THE PRIME MINISTER TO

Dr Garret FitzGerald
An Taoiseach
Dublin

Thank you for your letter of 10 July about the Kinsale Gas project. I have thoroughly reexamined the issue with my colleagues: hence the short delay in my replying.

I was very glad when the two Governments reached agreement on the project last autumn, not only because of its importance for Northern Ireland, but also because of its significance as a major example of mutually beneficial economic co-operation between North and South, and indeed its benefits for Anglo-Irish relations as a whole. So it is a corresponding disappointment to me that its future has been put at risk by changes in circumstances since the agreement was reached.

As Adam Butler has explained to the Tanaiste, the price of gas to Northern Ireland as determined by the formula in the Memorandum of Understanding is already far above anything that was foreseen last year; and the future competitive position of gas against coal in the Northern Ireland market is being seriously and continuously eroded. There are also major changes in the demand forecasts. As you say, these relate to the later years of the project, but it is precisely in that period that the project was due to earn the surpluses necessary to balance the heavy losses in the early years.



We went into the project last autumn in the belief that it offered economic benefits to both countries. On our side, the changes I have referred to have turned the benefit into a burden. The gap between the price for the gas that would be produced under last October's formula and the price that we should now need in order to ensure a viable project is very large: on the assumption that the final price in 1985-86 is 28.5p per therm, the gap is equivalent to a price cut of some 15p per therm. We cannot fill that gap. If we were to do so we should create a wholly unfair burden on our economy.

I am reluctant to have to think in terms of abandoning the project; but the wider interests we both have at heart would not be served, at any rate on this side, by our entering into it on such manifestly uneconomic terms. If you and your colleagues were able to make suggestions that would go a very substantial way towards bridging the gap, we should of course be ready to discuss them with you; otherwise I think that we had better both face up to the economic realities, and agree to terminate it. If that is also your conclusion, it will be important to end the present uncertainty as soon as possible; and of course we should want to discuss with you how the project could be brought to an end with least damage to the fabric of Anglo-Irish relations. I am anxious to make sure that a setback on this project does not damage our ability to make progress on other business.



10 DOWNING STREET

Prime Minister ①

RTA has not yet seen this, but subject to any comments he may have, are you content?

If so do you prefer A or B?

AT

25/7

Wants

rechecked

- c) it is too woolly
 - v) not clear.
- mt

From: THE PRIVATE SECRETARY

CEPC



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Charles Powell Esq
10 Downing Street
LONDON SW1

AT
For you I think
CDP

25 July 1984

Dear Charles

KINSALE GAS

I enclose a draft reply to Dr Garrett FitzGerald's letter of 10 July to the Prime Minister. The draft is based on the conclusions of yesterday's meeting of E(A) and has been drawn up in consultation with the Treasury and with the Foreign and Commonwealth Office.

In the final paragraph of the draft the Treasury think that the passage marked 'A' and shown in square brackets should be included; the Foreign and Commonwealth Office think that the passage marked 'B' and shown in square brackets would be more appropriate. Either passage would be consistent with the minutes of E(A), but my Secretary of State, who has approved the draft, is inclined to think that the text proposed by the FCO would reduce the dangers of Anglo-Irish relations while retaining the firmness of approach on which E(A) are agreed.

I am copying this letter and enclosure to the Private Secretaries to Members of E(A), to the Private Secretary to Sir Geoffrey Howe and to Richard Hatfield.

Your sincerely,

Graham Sandys



DRAFT LETTER TO DR. GARRET FITZGERALD

Thank you for your letter of 10 July about the Kinsale Gas project. Although time is very short, I thought it important thoroughly to re-examine the issues with my ^{Celmer} colleagues before replying.

We are acutely conscious of the importance of the Kinsale Gas project for Northern Ireland, for economic co-operation between North and South, and for Anglp-Irish relations as a whole. You know already how very glad I was when the two governments reached agreement on the project last Autumn. It was therefore very distressing for us to find that circumstances had undermined the economic viability of the project which we had seen as being a major example of mutually beneficial economic co-operation.

As Adam Butler explained to Mr. Spring, the price of gas to Northern Ireland as determined by the formula in the Memorandum of Understanding is already far above anything that was foreseen last year; and the future competitive position of gas against coal in the Northern Ireland market is being seriously and continuously eroded. There are also major changes in the demand forecasts; as you point out, these relate to the later years of the project - but it is precisely in that period that the project was to earn the surpluses necessary to balance the heavy losses in the early years. The combination of price changes and market shrinkage has destroyed the project's viability.

I believe I attach as much importance to this project as you - but it is precisely because of its importance in the development of Anglo Irish relations that it seems to us crucial that we should not go ahead with the project on a false prospectus. Both governments were united last Autumn in their belief that the project offered economic benefits to both countries. On our side the benefit has now turned into a burden. The gap between the price for the gas that would be produced under last October's formula and the price that we would now need in order to ensure a viable project is very large - on the assumption that the formal price in 1985/86 is 28.5p per therm the gap is equivalent to a price cut of some 15p. I appreciate the enormity for you of any suggestion that your government should fill that gap; but I hope that you will also understand that it is impossible for us to



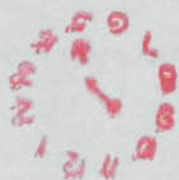
fill it. If we were to do so we would create a wholly unfair burden on our economy; and the project itself would suffer from the perception that it was being pursued solely for political reasons.

I am very sorry that we should find ourselves in this position.

A [However, unless you have any proposal for yourselves bridging the gap]

B [However, unless you can make suggestions which would go a substantial way towards bridging the gap] that lies between the project and economic viability (and I can see that this might be unacceptably difficult for you and your colleagues), then I see no alternative but to face up to the realities confronting us, and to acknowledge that in view of the scale of economic difficulty involved in the project, we should now agree to terminate it. If this is also your conclusion, then it will be important to end the present uncertainty as soon as possible, and our governments will need to be in touch urgently to discuss how the project should be brought to an end with least damage to the close and flourishing relationship between our two countries that is so important to both of us.

IRELAND: Natural Gas : May 79



20 JUL 1984