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Prime Minister

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I am writing to let you know my views on how the question of the possible supply of natural gas from the Republic of Ireland to Northern Ireland might be handled in the context of the Anglo-Irish summit.

2. You will recall that in response to suggestions coming from the Republic that they would be willing to supply natural gas to Northern Ireland from the Kinsale field Humphrey Atkins suspended the rundown of the Northern Ireland gas industry which was then under way and set in motion detailed studies into the Irish proposition.

3. Those further studies have now been completed. They have incorporated not only the findings of specialist consultants on the likely demand for the gas and engineering aspects but also additional relevant information from the South about its plans for a Cork/Dublin pipeline. They were aimed at establishing whether and on what terms a supply of Kinsale gas to Northern Ireland would be capable of achieving and maintaining financial viability. The results of the studies show that, if the terms were right, a pipeline project could provide the basis of a viable gas supply to at least the major potential demand centre of Belfast - and possibly on a wider scale within the Province - at less cost to public funds than would be involved in a closure of the entire gas industry in the Province. The assessments are made on the best information coming forward at official level on the price we are likely to be charged for supplies of gas and on the prices we can charge consumers. The supply price is a critical factor in the viability of the whole project; and I believe it will have to be determined at Ministerial level.

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4. There is no doubt in my mind that we must go forward to complete the assessment. We certainly could not suggest on the basis of the work carried out so far that a project involving Kinsale gas is unlikely to be financially viable. While a detailed security assessment has yet to be completed, the initial view of the Security forces is that such considerations would not present a major obstacle if it were decided to implement a pipeline project.

5. In all the circumstances I am firmly of the view that nothing would be gained and much credibility stands to be lost if we do not go forward into discussions with the South and I therefore propose to proceed on that course. A project of this nature fits well into our declared intention of seeking further areas for practical North/South economic co-operation.

6. It was implicit in our announcement last June that we would seek to reach a final decision on the Kinsale proposition by the end of this year and it will therefore be necessary to move immediately on to this next stage if we are to have any chance of meeting that timetable. I propose to ask Adam Butler to make contact with his opposite number in the Republic and to arrange a meeting on the matter as soon as possible. I will keep you and Cabinet colleagues fully posted on the outcome of the further talks with the Republic and if they produce terms for a supply of gas which favour that proposition against a closure of the gas industry here then I would, of course, wish to consult widely on the implications.

7. The Irish will undoubtedly want to discuss the matter at the summit and it will help our negotiating position if they make the running. I see advantages to us in impressing upon them at the highest political level that the price is the crucial factor. I am recommending that the communique should note that the supply of Kinsale Gas to Northern Ireland might be viable and that the responsible Ministers will now negotiate about the terms.

8. I am also writing to Peter Carrington, Leon Brittan and Nigel Lawson to put them in the picture. A copy of this minute goes to Sir Robert Armstrong.

JAMES PRIOR