

OPS cc MASTER



file 80 L

cc two
CS try
NIO
D/N
CO

SUBJECT FILED ON:
IRELAND: Supply of Natural Gas
May 79

10 DOWNING STREET

THE PRIME MINISTER

30 July 1984

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. J 137/84**

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.

Yours sincerely

Raymond Shafter