

*Opp - ce master  
subject*  
*Ireland: Supply of Natural Gas  
May 1977*

*Confidential*

*Seen at 1450 on 16/8/84  
Told FCO to ensure that  
reply does not issue before  
Monday 20 August.*

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PP DUBLIN

GRS 530

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FM FCO 151015Z AUG 84

TO PRIORITY DUBLIN

TELEGRAM NUMBER 161 OF 15 AUGUST

MIPT

KINSALE GAS.

1. FOLLOWING IS TEXT OF MESSAGE FROM THE PM TO THE TAOISEACH.  
AS MRS THATCHER IS AWAY UNTIL 28 AUGUST WE DO NOT PROPOSE TO SEND  
A SIGNED LETTER.

BEGINS

THANK YOU FOR YOUR LETTER OF 8 AUGUST. I AM SORRY THAT YOU HAVE  
BEEN UNABLE TO OFFER ANY SUGGESTIONS THAT MIGHT ENABLE US BOTH TO  
CONTINUE WITH THE KINSALE GAS PROJECT. IN MY LETTER OF 31 JULY  
I EXPRESSED MY DISAPPOINTMENT THAT CHANGES IN ECONOMIC CIRCUM-  
STANCES HAD PUT THE PROJECT AT RISK. HOWEVER, I FULLY ACCEPT  
THAT PRICE CHANGES OF THE ORDER REQUIRED TO SAVE THE PROJECT WOULD  
BE VERY DIFFICULT FROM YOUR POINT OF VIEW. I HOPE THAT YOU IN  
YOUR TURN WILL UNDERSTAND THAT THE BURDEN WE IN THE UNITED KINGDOM  
WOULD FACE IF WE WENT AHEAD ON THE BASIS OF THE EXISTING FORMULA  
WOULD BE AT LEAST AS HEAVY, AND WE ARE NOT PREPARED TO BEAR IT  
ALONE.

IN CASE THERE SHOULD BE ANY MISUNDERSTANDING I WOULD MAKE CLEAR  
THAT WHILE I DREW ATTENTION IN MY LETTER TO THE EXTENT OF THE  
DETERIORATION IN THE ECONOMIC PROSPECTS FOR THE PROJECT, I DID NOT  
SUGGEST A PRICE REDUCTION OF ALMOST HALF. THE FACT IS THAT OUR  
CALCULATIONS SHOWED THAT A REDUCTION OF THIS MAGNITUDE WOULD BE  
NEEDED FOR THE PROJECT TO YIELD THE SAME RETURN AS ORIGINALLY  
ENVISAGED AT THE TIME THE MOU WAS SIGNED: IN MY LETTER I SOUGHT  
AN INDICATION AS TO WHETHER YOU AND YOUR COLLEAGUES WERE ABLE TO  
GO A VERY SUBSTANTIAL WAY TOWARDS BRIDGING THE GAP.

IT WAS ALWAYS CENTRAL TO THE PROJECT THAT ANY DEAL MUST BE TO THE  
ECONOMIC ADVANTAGE OF BOTH SIDES. THIS VIEW WAS REPEATED ON  
SEVERAL OCCASIONS BY MINISTERS AND WAS REGARDED AS SUFFICIENTLY

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**PRIME MINISTER'S**  
**PERSONAL MESSAGE**  
**SERIAL No. T145/84**

*and  
14/8*

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IMPORTANT TO BE INCLUDED IN THE PREAMBLE TO THE MEMORANDUM OF UNDERSTANDING. IN THE LIGHT OF THAT, YOU WILL APPRECIATE THAT YOUR DECISION EFFECTIVELY MEANS THAT THE PROJECT CANNOT PROCEED.

YOU ARE RIGHT TO POINT OUT THAT THERE WILL BE DEEP DISAPPOINTMENT IN NORTHERN IRELAND THAT THE GAS INDUSTRY IS NOT TO BE PRESERVED BY IMPORTING NATURAL GAS: BUT I THINK THERE WOULD HAVE BEEN EVEN MORE WIDESPREAD DISMAY IF THE UNITED KINGDOM GOVERNMENT HAD DECIDED TO PROCEED WITH THE PROJECT IN THE KNOWLEDGE THAT FROM ITS OUTSET IT WAS UNECONOMIC. APART FROM THE CRITICISM THAT WOULD JUSTLY BE MADE OF SUCH AN ECONOMIC POLICY, YOU AND I WOULD BOTH HAVE TO FACE THE POLITICAL DIFFICULTIES CREATED BY THE INEVITABLE WIDESPREAD SUSPICION THAT ECONOMIC CONSIDERATIONS WERE BEING OVERRIDEN, AT CONSIDERABLE COST, BY OTHER FACTORS. THESE COULD EASILY HAVE LED TO OTHER MISUNDERSTANDINGS IN THE FUTURE. THE TANAISTE'S PRESS CONFERENCE ON 8 AUGUST HAS AROUSED CONSIDERABLE PRESS SPECULATION ON THE FUTURE OF THE PROJECT AND ON THE IMPLICATIONS FOR ANGLO-IRISH RELATIONS. THAT THE PROJECT CANNOT PROCEED SHOULD THEREFORE BE ANNOUNCED FAIRLY SOON. I AM ASKING OUR AMBASSADOR IN DUBLIN TO SEEK IMMEDIATE DISCUSSIONS WITH YOUR OFFICIALS AS TO THE BEST WAY OF DOING THIS. ON OUR SIDE WE SHALL WISH TO CONTINUE TO LAY THE STRONGEST EMPHASIS ON THE FACT THAT THIS IS A DECISION FORCED UPON US BOTH BY ECONOMIC REALITIES AND THAT IT DOES NOT IN ANY WAY DIMINISH OUR DESIRE FOR CONTINUED PROGRESS ON THE WIDE RANGE OF OTHER BUSINESS BETWEEN OUR TWO GOVERNMENTS.

ENDS

YOUNG

NORTHERN IRELAND  
LIMITED

RID  
NAD  
INFO D  
WED  
MAED  
NEWS D  
PUSD  
SCU  
PS  
PS/LADY YOUNG  
PS/MR WHITNEY  
PS/PUS

MR DEREK THOMAS  
SIR W HARDING  
MR GOODALL  
MR BARRINGTON  
MR O'NEILL  
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