



Ireland

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Prime Minister

Some solid points here.To note.

Mes 23/11

Prime Minister

PROPOSAL FOR SUPPLY OF NATURAL GAS TO NORTHERN IRELAND FROM
IRISH REPUBLIC

I fully understand the political and economic case for the proposals contained in the Secretary of State for Northern Ireland's minute of 11 November. There are however several areas of concern to me, and I hope that close attention can be given to them before finalising the terms of the deal, as the draft Heads of Agreement attached to the minute contain only the barest outline of these terms.

My principal concern is that the terms should not be such that they are thought to endorse the upward trend of prices for gas traded internationally, which a number of producing countries have been actively seeking. This is particularly important at a time when the British Gas Corporation is entering negotiations for the purchase of Sleipner gas from the Norwegians. If these negotiations are successful, Sleipner gas will become as significant a part of supply to the British market in the 1990's as Frigg gas is now. While I do not wish to exaggerate the influence of the Kinsale terms, a poor deal would be unhelpful.

On the face of it, the price proposed for the Kinsale gas (taken with the escalation clause and including transmission costs and capital contribution) appears high in comparison with the prices for other internationally traded gas. It is not so far out of line however that I would wish to argue against acceptance in this particular case. But the conditions under which gas is supplied are crucial in determining the reasonableness or otherwise of a given price, and many of these are left open in the Draft Heads of Agreement. The following points in particular are not fully dealt with:

- The extent to which gas will be made available to meet peak demand in winter;
- the precise priority and cut-off arrangements for supply as between customers in Northern Ireland and the Republic;
- the financial provisions should demand in Northern Ireland grow more slowly than projected;

Ireland, May '79, Natural Cen.



29 Nov 1982



- the starting date, reference prices, formulae and other key conditions for escalation provisions.

I believe that these points are being discussed with the Republic but a satisfactory understanding will have to be reached on them before we can safely conclude that the proposed deal is reasonable.

I understand also that the Republic negotiators have proposed an exchange of side-letters, as part of which HMG would undertake to use its best endeavours, in the event that gas was not available to the Republic in 20 years time, to offer supplies which Northern Ireland may then have from "another source". Any such understanding would be most unwise. It would certainly constrain the Government greatly in relation to any possible decision to supplement gas supplies to Northern Ireland at a later date from the UK Continental Shelf, if we would thereby put ourselves under a contingent obligation to make a supply available to the Republic as well. I see less objection to a side-letter referring to gas discovered in Northern Ireland, but would much prefer any such understanding to be avoided altogether unless this is essential to finalising the deal.

Finally, I note that EC assistance is being sought for the project. Provided such assistance is made available under existing schemes (for example, the ERDF), I see no objection. If however the Commission were to propose a special instrument, this might provide a precedent for other special cases relating to gas pipelines or conversion of appliances to natural gas. In that event, we would need to weigh up very carefully the likely overall benefit to the UK of such a precedent being set.

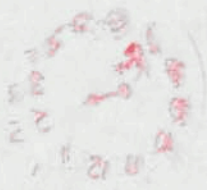
I am copying this minute to Members of E Committee and to Sir Robert Armstrong.

YL.

SECRETARY OF STATE FOR ENERGY

23rd November 1982

Ireland, May 79
Natural Gas to N. Ireland



23 NOV 1984

COMMUNICATIONS
UNIT
LONDON



Prime Minister (2)

MS 29/4

MS

Secretary of State for Energy

PROPOSAL FOR SUPPLY OF NATURAL GAS TO NORTHERN IRELAND FROM IRISH
REPUBLIC

I have seen a copy of your minute of 23 November to the Prime Minister.

I am glad that you accept the case made in my minute to the Prime Minister of 11 November concerning the supply of natural gas from the Republic of Ireland to Northern Ireland. For my part I fully understand your concern that any arrangements made in this deal do not cause problems for UK energy policy and it is for that reason that my officials have been in very close touch with yours during the negotiations and during the process in which we are now engaged of refining the Heads of Agreement. The expanded Heads which we are currently discussing with the Republic have, as you know, resulted from the advice of BGC and solicitors who were recommended to us by the BGC. Your officials have been kept in the picture and it is my intention that my officials and yours should remain in close contact through the remainder of the process. I see no difficulty in meeting the points made in your minute; indeed, most of them are already catered for. On the specific point you make about a supply of gas to the Republic, clearly there can be no question of our putting HMG under any obligation of that nature which did not have the specific agreement of Department of Energy.

Finally, I note your point about the wider significance of any EC assistance to the project and I will ensure that your officials and those of other interested Departments will be kept fully consulted on any developments.

I am/...



I am copying this minute to the Prime Minister, Members of E Committee and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be the initials "JP".

J P

29 November 1982