



Ireland
Prime Minister (2)

MUS 30/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon James Prior MP
Secretary of State
Northern Ireland Office
Great George Street
London SW1P 3AJ

30 November 1982

R. J.

Thank you for sending me a copy of your minute to the Prime Minister of 11 November. I have since seen her reply of 15 November, and Nigel Lawson's minute of 25 November.

I have some reservations about this proposal:

- First, I see that it will lead to a sizeable increase in expenditure next year, especially if the gas is to be supplied throughout Northern Ireland as you prefer. The conclusion that it will save public expenditure depends on the forecasts for the period after 1990, which are bound to be very uncertain.

- Secondly, the forecasts assume that supply of Kinsale gas will make possible a five-fold increase in sales of gas in Northern Ireland. Indeed, such an increase is stated to be "necessary for a viable industry". But we cannot be certain that it will take place given the poor prospects for growth of energy demand, and the escalation of the price of Kinsale gas with the price of oil.

interruption

- Thirdly, there is clearly cause for concern about the security considerations. You quote your security advisers as saying only that these considerations 'would not be an insuperable obstacle' and that terrorist attacks are likely. The Prime Minister has referred to the possibility of intervention of supply.

- Fourthly, I have noted Nigel Lawson's reservations about the proposed terms of the deal with the Irish Republic.

Nevertheless, I accept that the project has important employment implications, and if colleagues generally are content, I would not want to oppose its going ahead, on these provisos:

- First, that any additional costs are borne within your PES allocation. I see that you have accepted this, and your acceptance helps substantially to deal with my worries.

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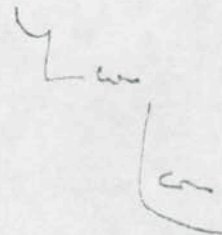
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- Secondly, I am concerned that there should be no question of Kinsale gas following the precedent of the Northern Ireland Electricity Service, whose price is of course subsidised at a level equivalent to the highest in Great Britain. I should be grateful to have your assurance now that the transitional subsidies provided for under the terms of your project, and due to be phased-out by 1987-88, will be the limit of Exchequer subsidy to the Northern Ireland gas industry.

- Thirdly, I should like to ask for your agreement that financial targets based on a percentage return on net assets, on the pattern of those we set for nationalised industries in Great Britain, should be set for the Northern Ireland gas industry. The industry as a whole is not projected to move into operating profit until 1988-89. But I should like to suggest that our officials should study, and report back to us on, the feasibility of setting annual deficit targets for the industry, which would plot a path to eventual profitability. I would envisage these targets being formally set for the industry, as is our practice for certain deficit industries in Great Britain such as British Rail.

I should be glad to have your agreement to these provisos.

I am sending copies of this minute to the Prime Minister and to other recipients of yours.



LEON BRITTAN

Ireland

Economic Co-operation

May 79

30 May 1982





Am I right in thinking
that Northern Ireland
has extensive but
unworked coal deposits?
mt

Prime Minister (2)

ms 4/12

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

The Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

13 December 1982

Handwritten signature

Handwritten initials

Thank you for your letter of 30 November in response to my minute to the Prime Minister of 11 November about the proposals to bring natural gas to Northern Ireland from the Irish Republic.

I am grateful for your confirmation that subject to your provisos and to the attitude of our colleagues, you do not oppose the project going ahead.

As far as your provisos are concerned, I can confirm that PES costs will be borne within the existing Northern Ireland PES allocations.

As I explained in the opening paragraph of my minute to the Prime Minister, my objective was to establish a viable Northern Ireland gas industry. It is certainly not my intention that the industry should be subsidised other than in the transitional years until it moves into profitability as foreseen in the project evaluation. I am, however, sure that you do not expect me at this stage to guarantee against all future contingencies, nor to commit succeeding administrations.

I have no objection to officials discussing financial targets. On the assumptions used in the analysis, the Kinsale project yields an internal rate of return of 6.9% in real terms. As you know, I intend private sector involvement if at all possible and, if I am successful in this respect, financial targets would not be appropriate. If, however, you



feel that it would be helpful to plan against the possibility that the industry will remain completely in the public sector, I am content that we should do so.

I am sending copies of this letter to the Prime Minister and to other recipients of yours.

*Yours
Truly*

cc. PS/PJS (L+B)
PS/Sir E Bell
Secretary
MR Angley
MR Cole ✓
MR Burns
MR Alexander
MR Shepard
MR Stummond
MR Warnock