

D/F with Treasury
response

AT 28/6

PM/84/109PRIME MINISTERKinsale Gas

1. I am responding to Jim Prior's minute of 22 June setting out the three options we have open to us. As Jim demonstrates, all have drawbacks.
2. Simple cancellation would lay us open to serious charges of bad faith, and would damage Anglo-Irish relations at a particularly delicate time.
3. I also agree that we cannot accept the pricing structure as at present negotiated. We have consistently held - and the Irish know this - that the viability of the project must be decided on its commercial merits. If the project goes ahead on the present basis it will require continuous subsidy from British public funds and lack all credibility as an example of North/South economic cooperation. This would antagonise the moderate unionists who originally gave the project cautious support (Ian Paisley has always opposed it) and prove to be a source of continuing friction in Anglo/Irish relations.
4. To attempt re-negotiation on the lines suggested in Jim Prior's minute is the only possible course. But we must consider its chances of success coolly. Although Garret FitzGerald's coalition government will unite with its Fianna Fail opposition to condemn us if we cancel the project Fianna Fail are unlikely to miss the opportunity of attacking the Irish Government for mishandling the affair. The Irish Minister with direct responsibility for Kinsale, Mr Spring, is particularly vulnerable following his party's debacle at last week's European elections. It is just possible that at the end of the day the Irish would be willing to give way on price per therm if they could point to the £141 m British capital contribution. But we cannot be sure. Kinsale Gas's survival does not depend on it



being able to sell to the North, and Mr Spring and the rest of the Irish Government may see political advantage in standing firm and blaming the British if the negotiations fail.

5. We should obviously make great efforts to avoid such an outcome, but not to the extent of accepting manifestly uncommercial terms. If we are in the end obliged to cancel we should attempt to soothe the Irish by offering to join them in exploring other possibilities for economic cooperation in the energy and other fields.

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