

PRIME MINISTER

KINSALE GAS

Mr Prior's minute of 22 June reported the deterioration in the economics of the Kinsale Gas project. He set out three options - cancellation, perseverance and renegotiation. The Foreign Secretary recommends renegotiation though acknowledges that it might be necessary ultimately to cancel the project. To cancel the project without attempting further negotiation would have serious political disadvantages. The Chief Secretary believes that there is no genuine prospect that the economics of the project can be restored by further negotiations and recommends cancellation now.

Mr Prior's paper implies that renegotiation and cancellation are alternatives. In practice, these could be two stages in the same process. It would be important to enter further negotiations with a minimum objective which, if not achieved, would lead to cancellation. To enter negotiations knowing that the project would be retained come what may would be very dangerous particularly if this were ever known by the Opposition.

(i) Agree that the negotiations be attempted but in the knowledge that there is a price beyond which we cannot go? *Yes no*

(ii) Agree that after renegotiation the terms be put to colleagues for approval? *Yes no AT*

2 July 1984

CONFIDENTIAL

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10 DOWNING STREET

From the Private Secretary

3 July 1984

KINSALE GAS

The Prime Minister has seen your Secretary of State's minute of 22 June and subsequent minutes from the Chancellor of the Duchy of Lancaster, the Foreign Secretary and the Chief Secretary. She has noted the substantial deterioration in the economics of the project but believes the right course is to seek to renegotiate the terms. This should be done, however, in the knowledge that there is a point beyond which the UK cannot go and that it may ultimately be necessary to withdraw from the project. When revised terms have been renegotiated, the Prime Minister would like them to be put back to colleagues for decision on whether to proceed or to cancel.

I am copying this letter to the Private Secretaries to the members of E(A), to Len Appleyard (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Derek Hill,  
Northern Ireland Office.

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