



**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T122AA/84**

**a MASTER
OPS**

10 July, 1984.

Oifig an Taoisigh
Office of the Taoiseach

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister.

Dear Margaret,

I was concerned and indeed taken aback to hear from the Tanaiste that the Minister of State at the Northern Ireland Office Mr. Butler has indicated to him that the British side now want a radical change in the terms of the Memorandum of Understanding signed on behalf of both Governments in October 1983 providing for the supply of Kinsale Gas to Northern Ireland.

You will recall that the negotiation of this important project was heralded in our joint communique of 5 November, 1981 and that on 7 November, 1983, we jointly welcomed the satisfactory conclusion of negotiations.

The reasons given by Mr. Butler for this change of attitude include recent changes in the sterling/dollar exchange rate and in the price of heavy fuel oil, which under the agreement determine the price of gas. But the central factor is a downward revision in projected market size.

But the more pessimistic forecast now being put forward relates only to the year 1990 and beyond, and involves a level of demand which is two-thirds of the maximum figure stipulated in the agreement, while the agreement itself allows that the quantity of gas to be taken may be reduced to one-third of the maximum.

The agreement between our two Governments on this project was seen in our two countries as the most important economic initiative between North and South in Ireland ever undertaken. A withdrawal from its terms at the initiative of either side would, I feel sure, adversely affect the public perception of our relations and of our capacity to work together.

/.....



Oifig an Taoisigh
Office of the Taoiseach

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I feel that I have no option but to ask you whether your Government is prepared to proceed on the basis of the understanding agreed in October, 1983.

Best Wishes.

Yours,

Ireland: Economic Co-operation
5779

AMBASÁID NA hÉIREANN, LONDAIN



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

1 AT
2 CDP
14/7.

3. CF to BIF
with draft
replies from NIO

AF
1217

12th July 1984

Dear Private Secretary,

With reference to my letter of 10th July in which I enclosed the text of a letter from the Taoiseach, Dr Garret FitzGerald TD to the Prime Minister, The Rt Hon Mrs Margaret Thatcher, I now enclose herewith the Taoiseach's original letter. I should be grateful if you would kindly bring it to the attention of the Prime Minister.

*Yours sincerely
Noel Dorr*

Noel Dorr
Ambassador

Mr Charles Powell
Private Secretary to
The Rt Hon Mrs Margaret Thatcher MP
10 Downing Street
London SW1

Encl.

file

507



10 DOWNING STREET

From the Private Secretary

10 July 1984

KINSALE GAS

The Prime Minister has been sent the attached note from the Irish Government on Kinsale gas. She will be speaking to Dr. FitzGerald on the telephone tomorrow morning on another subject but it is possible that he will use the opportunity to raise the question of Kinsale gas. I would be grateful if you could advise, by close of play tonight, on the line which the Prime Minister should take if this happens.

I am copying this letter to John Gieve (Chief Secretary's Office), Peter Ricketts (Foreign and Commonwealth Office), Alex Galloway (Chancellor of the Duchy of Lancaster's Office) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Derek Hill, Esq.,
Northern Ireland Office

From: THE PRIVATE SECRETARY

CONFIDENTIAL

NORTHERN IRELAND OFFICE

WHITEHALL

LONDON SW1A 2AZ



Dear Andrew

Kinsale Gas

I attach as requested a line to take for use by the Prime Minister if Dr Fitzgerald raises the topic of Kinsale gas, about which he has written.

I am copying this letter to John Gieve, Peter Richetts, Alex Galloway and Richard Hatfield

Yours ever

Derek

CONFIDENTIAL

KINSALE GASLine to Take:

We do regard the understanding reached last year as very important but it is essential that the project at least covers its operating costs. We do have a serious difficulty about future demand given the current price. I therefore hope it will be possible to reach a mutually satisfactory accommodation on price. Mr Butler is ready to discuss this further with Mr Spring.

Background Note:

On 4 July Mr Butler, Minister of State for Northern Ireland met the Irish Minister of Energy in Dublin. He explained that the combination of oil price changes, exchange rate changes and new market assessments had shown that the project, hitherto marginally viable, would now offer no return on the Government's investment. If HMG were to proceed with the project on the present basis it would have to invest heavily to cover the capital costs without real prospect of repayment or return. It could not contemplate moving forward with a project which did not even cover its operating costs.

2. HMG's view is that the only way forward is for the Irish to offer a reduction in the price per therm. However the meeting did not discuss the level of price reduction needed (nor is one contemplated in Dr FitzGerald's letter) but unless this is reduced by at least 5 p per therm the project is unlikely to be able to recover its operating costs. (let alone full costs)

3. The Irish Cabinet met on 10 July to discuss the gas issue. Dr FitzGerald may seek an understanding from the Prime Minister that HMG would be willing to make a significant contribution to the project - perhaps disregarding some or all of the £140m capital costs. This issue would have to be agreed collectively.

Prime Minister
Andrew and I both
feel it would be a
mistake to get into the
substance during the
telephone call. A procedural
reply - received the message,

will look into it & let
you have an answer soon -
would be better.
CDP 10/7.

AMBASÁID NA HÉIREANN, LONDAIN.



IRISH EMBASSY, LONDON.

17 Grosvenor Place

SW1X 7HR

10th July 1984

Dear Mr Powell

I should be most grateful if you would be kind enough to convey to the Prime Minister the enclosed ^{text of a} letter from the Taoiseach, Dr Garret FitzGerald TD.

Yours sincerely

Noel Dorr
Ambassador

Mr Charles Powell
Private Secretary to the Prime Minister
10 Downing Street
London SW1

10th July 1984

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister

Dear Margaret

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The reasons given by Mr Butler for this change of attitude include recent changes in the sterling/dollar exchange rate and in the price of heavy fuel oil, which under the agreement, determine the price of gas. But the central factor is a downward revision in projected market size.

But the more pessimistic forecast now being put forward relates only to the year 1990 and beyond, and involves a level of demand which is two-thirds of the maximum figure stipulated in the agreement, while the agreement itself allows that the quantity of gas to be taken may be reduced to one-third of the maximum.

The agreement between our two Governments on this project was seen in our two countries as the most important economic initiative between North and South in Ireland ever undertaken. A withdrawal from its terms at the initiative of either side would, I feel sure, adversely affect the public perception of our relations and of our capacity to work together.

I feel that I have no option but to ask you whether your Government is prepared to proceed on the basis of the understanding agreed in October 1983.

Best wishes,

Yours,

Garret FitzGerald