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UNCLASSIFIED

ALL DESKBYS 081330Z

FM DUBLIN 081230Z AUG 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 380 OF 8 AUGUST 1984

AND TO IMMEDIATE NIO (BELFAST) AND NIO (LONDON)(FOR BURNS)

ADVANCE COPY
IMMEDIATE

TELECON BARRIE/STIMSON:KINSALE GAS

FOLLOWING IS STATEMENT BY TANAISTE EMBARGOED FOR 1330Z.

BEGINS

" I WAS VERY CONCERNED TO LEARN OF A STATEMENT TO THE MEDIA ON 6TH AUGUST BY THE MINISTER OF STATE AT THE NORTHERN IRELAND OFFICE, MR ADAM BUTLER, MP, WHEN HE SAID, REGARDING THE SALE OF KINSALE GAS TO NORTHERN IRELAND, THAT "ON PRESENT CALCULATIONS THE EXISTING DEAL CAN NO LONGER BE VIABLE"

THE "EXISTING DEAL" REFERS TO THE MEMORANDUM OF UNDERSTANDING SIGNED ON BEHALF OF BOTH GOVERNMENTS IN OCTOBER, 1983, FOLLOWING TWO YEARS OF DETAILED NEGOTIATIONS. THE SATISFACTORY CONCLUSION OF NEGOTIATIONS WAS SUBSEQUENTLY WELCOMED BY THE TAOISEACH AND THE PRIME MINISTER IN THEIR JOINT COMMUNIQUE ON 7TH NOVEMBER, 1983.

THE BRITISH GOVERNMENT HAVE NOW CHANGED THEIR ATTITUDE AND HAVE SUGGESTED THAT THE IRISH GOVERNMENT ACCEPT A REDUCTION OF ALMOST 50 PERCENT IN THE AGREED PRICE PER THERM OF GAS. THE MEMORANDUM PROVIDES THAT THE FIRST REVIEW OF THE TERMS OF THE DEAL TAKES PLACE ONLY AFTER FIVE YEARS AND ANY CHANGE COULD THEN BE MADE ONLY BY THE AGREEMENT OF BOTH PARTIES. THIS PROVISION WAS INSERTED AT THE INSISTENCE OF THE BRITISH AUTHORITIES WHO WISHED TO SECURE FINALITY AND CERTAINTY IN THE TERMS.

FINALITY AND CERTAINTY IN THE TERMS.

THE REASONS ADVANCED BY THE BRITISH SIDE FOR THEIR CHANGE OF ATTITUDE RELATE TO RECENT PRICE AND MARKET DEVELOPMENTS. THE IRISH GOVERNMENT FIRMLY BELIEVE THAT THESE CONSIDERATIONS DO NOT JUSTIFY ANY CHANGE IN THE TERMS OF THE OCTOBER 1983 AGREEMENT FOR THE FOLLOWING REASONS:

- FIRST, THE MEMORANDUM OF UNDERSTANDING LINKED THE PRICE OF KINSALE GAS TO THE PRICE OF HEAVY FUEL OIL WHICH, OF COURSE, VARIES UPWARDS AND DOWNWARDS IN RESPONSE TO MARKET FORCES. BECAUSE OF SOME CURRENT EVENTS THE PRICE OF OIL HAS ESCALATED AND, ACCORDINGLY, THE PRICE OF GAS WILL BE HIGHER SO LONG AS THESE EVENTS CONTINUE. THE REPUBLIC WILL NOT BENEFIT FROM THIS PRICE INCREASE BECAUSE IT HAS IN TURN TO PAY A HIGHER PRICE FOR IMPORTED OIL TO REPLACE EXPORTED GAS.

- SECOND, BECAUSE OF UNCERTAINTY ABOUT THE ULTIMATE SIZE OF THE MARKET, THE MEMORANDUM OF UNDERSTANDING DELIBERATELY ALLOWED SUFFICIENT FLEXIBILITY TO CATER FOR A WIDE VARIATION IN THE DEMAND FOR GAS IN THE NORTH. A RECENT CONSULTANTS' ESTIMATE OF MARKET DEMAND IS WELL ABOVE THE MINIMUM QUANTITY OF GAS WHICH THE BRITISH AUTHORITIES ARE COMMITTED TO TAKE.

ONE CAN ONLY CONCLUDE, THEREFORE, THAT THE RANGE OF VARIABLES REGARDING FUTURE PRICES AND VOLUME DEMAND IS WITHIN THE RANGE ALLOWED FOR LAST OCTOBER WHEN BOTH GOVERNMENTS AGREED TO PROCEED WITH THE GAS DEAL. FURTHERMORE, THE COST PER THERM AGREED IN OCTOBER, FOLLOWING PROTRACTED NEGOTIATIONS, WAS AND REMAINS THE BEST COMMERCIAL OFFER THAT THE IRISH GOVERNMENT CAN MAKE.

WE HAVE CONFIRMED TO THE BRITISH GOVERNMENT OUR READINESS AND DESIRE TO PROCEED ON THE TERMS THAT WERE AGREED. '' ENDS

GOODISON

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