

Subject cc master
of 1

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Seen at 1450 on 16/8/84.
Told FCO to ensure that
reply does not issue before
Monday 20 August.

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39162 - 1

Sub
16/8

PP DUBLIN

GRS 530

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FM FCO 151015Z AUG 84

TO PRIORITY DUBLIN

TELEGRAM NUMBER 161 OF 15 AUGUST

MIPT

KINSALE GAS.

1. FOLLOWING IS TEXT OF MESSAGE FROM THE PM TO THE TAOISEACH.
AS MRS THATCHER IS AWAY UNTIL 28 AUGUST WE DO NOT PROPOSE TO SEND
A SIGNED LETTER.

BEGINS

THANK YOU FOR YOUR LETTER OF 8 AUGUST. I AM SORRY THAT YOU HAVE
BEEN UNABLE TO OFFER ANY SUGGESTIONS THAT MIGHT ENABLE US BOTH TO
CONTINUE WITH THE KINSALE GAS PROJECT. IN MY LETTER OF 31 JULY
I EXPRESSED MY DISAPPOINTMENT THAT CHANGES IN ECONOMIC CIRCUM-
STANCES HAD PUT THE PROJECT AT RISK. HOWEVER, I FULLY ACCEPT
THAT PRICE CHANGES OF THE ORDER REQUIRED TO SAVE THE PROJECT WOULD
BE VERY DIFFICULT FROM YOUR POINT OF VIEW. I HOPE THAT YOU IN
YOUR TURN WILL UNDERSTAND THAT THE BURDEN WE IN THE UNITED KINGDOM
WOULD FACE IF WE WENT AHEAD ON THE BASIS OF THE EXISTING FORMULA
WOULD BE AT LEAST AS HEAVY, AND WE ARE NOT PREPARED TO BEAR IT
ALONE.

IN CASE THERE SHOULD BE ANY MISUNDERSTANDING I WOULD MAKE CLEAR
THAT WHILE I DREW ATTENTION IN MY LETTER TO THE EXTENT OF THE
DETERIORATION IN THE ECONOMIC PROSPECTS FOR THE PROJECT, I DID NOT
SUGGEST A PRICE REDUCTION OF ALMOST HALF. THE FACT IS THAT OUR
CALCULATIONS SHOWED THAT A REDUCTION OF THIS MAGNITUDE WOULD BE
NEEDED FOR THE PROJECT TO YIELD THE SAME RETURN AS ORIGINALLY
ENVISAGED AT THE TIME THE MOU WAS SIGNED: IN MY LETTER I SOUGHT
AN INDICATION AS TO WHETHER YOU AND YOUR COLLEAGUES WERE ABLE TO
GO A VERY SUBSTANTIAL WAY TOWARDS BRIDGING THE GAP.

IT WAS ALWAYS CENTRAL TO THE PROJECT THAT ANY DEAL MUST BE TO THE
ECONOMIC ADVANTAGE OF BOTH SIDES. THIS VIEW WAS REPEATED ON
SEVERAL OCCASIONS BY MINISTERS AND WAS REGARDED AS SUFFICIENTLY

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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T145/84

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IMPORTANT TO BE INCLUDED IN THE PREAMBLE TO THE MEMORANDUM OF UNDERSTANDING. IN THE LIGHT OF THAT, YOU WILL APPRECIATE THAT YOUR DECISION EFFECTIVELY MEANS THAT THE PROJECT CANNOT PROCEED.

YOU ARE RIGHT TO POINT OUT THAT THERE WILL BE DEEP DISAPPOINTMENT IN NORTHERN IRELAND THAT THE GAS INDUSTRY IS NOT TO BE PRESERVED BY IMPORTING NATURAL GAS: BUT I THINK THERE WOULD HAVE BEEN EVEN MORE WIDESPREAD DISMAY IF THE UNITED KINGDOM GOVERNMENT HAD DECIDED TO PROCEED WITH THE PROJECT IN THE KNOWLEDGE THAT FROM ITS OUTSET IT WAS UNECONOMIC. APART FROM THE CRITICISM THAT WOULD JUSTLY BE MADE OF SUCH AN ECONOMIC POLICY, YOU AND I WOULD BOTH HAVE TO FACE THE POLITICAL DIFFICULTIES CREATED BY THE INEVITABLE WIDESPREAD SUSPICION THAT ECONOMIC CONSIDERATIONS WERE BEING OVERRIDEN, AT CONSIDERABLE COST, BY OTHER FACTORS. THESE COULD EASILY HAVE LED TO OTHER MISUNDERSTANDINGS IN THE FUTURE. THE TANAISTE'S PRESS CONFERENCE ON 8 AUGUST HAS AROUSED CONSIDERABLE PRESS SPECULATION ON THE FUTURE OF THE PROJECT AND ON THE IMPLICATIONS FOR ANGLO-IRISH RELATIONS. THAT THE PROJECT CANNOT PROCEED SHOULD THEREFORE BE ANNOUNCED FAIRLY SOON. I AM ASKING OUR AMBASSADOR IN DUBLIN TO SEEK IMMEDIATE DISCUSSIONS WITH YOUR OFFICIALS AS TO THE BEST WAY OF DOING THIS. ON OUR SIDE WE SHALL WISH TO CONTINUE TO LAY THE STRONGEST EMPHASIS ON THE FACT THAT THIS IS A DECISION FORCED UPON US BOTH BY ECONOMIC REALITIES AND THAT IT DOES NOT IN ANY WAY DIMINISH OUR DESIRE FOR CONTINUED PROGRESS ON THE WIDE RANGE OF OTHER BUSINESS BETWEEN OUR TWO GOVERNMENTS.

ENDS

YOUNG

NORTHERN IRELAND
LIMITED

RID
NAD
INFO D
WED
MAED
NEWS D
PUSD
SCU
PS
PS/LADY YOUNG
PS/MR WHITNEY
PS/PUS

MR DEREK THOMAS
SIR W HARDING
MR GOODALL
MR BARRINGTON
MR O'NEILL
MR JENKINS
MR D C THOMAS
BUCKINGHAM PALACE

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10 DOWNING STREET

From the Private Secretary

14 August 1984

The Prime Minister has now had a chance to consider David Coleman's letter of 10 August and the draft reply to Dr. Garret FitzGerald which was enclosed. Mrs. Thatcher has agreed to the draft subject to a number of relatively minor amendments and I attach the final version. On timing, however, the Prime Minister considers that it is an unpropitious moment in Anglo-Irish relations to send the message and she would prefer to wait until the present furore has died down. Nevertheless she understands the argument for an early reply and I should be grateful therefore if, together with the Foreign and Commonwealth Office, you could consider when the reply should be sent and provide advice on that point. Since the Prime Minister is away until 28 August the reply will need to be transmitted in the form of a message rather than a letter and I should be grateful if Stuart Eldon to whom I am copying this letter could make the necessary arrangements.

I am sending copies of this letter to the Private Secretaries to members of E(A), to Colin Budd (Foreign and Commonwealth Office), Stuart Eldon (Baroness Young's Office, FCO) and Richard Hatfield (Cabinet Office).

Timothy Flesher

Graham Sandiford, Esq.,
Northern Ireland Office.

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SLH

JAAES

MESSAGE FROM THE PRIME MINISTER TO DR. FITZGERALD

Thank you for your letter of 8 August. I am sorry that you have been unable to offer any suggestions that might enable us both to continue with the Kinsale Gas project. In my letter of 31 July I expressed my disappointment that changes in economic circumstances had put the project at risk. However, I fully accept that price changes of the order required to save the project would be very difficult from your point of view. I hope that you in your turn will understand that the burden we in the United Kingdom would face if we went ahead on the basis of the existing formula would be at least as heavy, and we are not prepared to bear it alone.

In case there should be any misunderstanding I would make clear that while I drew attention in my letter to the extent of the deterioration in the economic prospects for the project, I did not suggest a price reduction of almost half. The fact is that our calculations showed that a reduction of this magnitude would be needed for the project to yield the same return as originally envisaged at the time the MOU was signed; in my letter I sought an indication as to whether you and your colleagues were able to go a very substantial way towards bridging the gap.

It was always central to the project that any deal must be to the economic advantage of both sides. This view was repeated on several occasions by Ministers and was regarded as sufficiently important to be included in the preamble to the Memorandum of Understanding. In the light of that, you will appreciate that your decision effectively means that the project cannot proceed.

You are right to point out that there will be deep disappointment in Northern Ireland that the gas industry is

not to be preserved by importing natural gas; but I think there would have been even more widespread dismay if the United Kingdom Government had decided to proceed with the project in the knowledge that from its outset it was uneconomic. Apart from the criticism that would justly be made of such an economic policy, you and I would both have to face the political difficulties created by the inevitable widespread suspicion that economic considerations were being overridden, at considerable cost, by other factors. These could easily have led to other misunderstandings in the future.

The Tanaiste's press conference on 8 August has aroused considerable press speculation on the future of the project and on the implications for Anglo-Irish relations. That the project cannot proceed should therefore be announced fairly soon. I am asking our Ambassador in Dublin to seek immediate discussions with your officials as to the best way of doing this. On our side we shall wish to continue to lay the strongest emphasis on the fact that this is a decision forced upon us both by economic realities, and that it does not in any way diminish our desire for continued progress on the wide range of other business between our two governments.

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CCNO



Treasury Chambers, Parliament Street, SW1P 3AG

Tim Flesher Esq
10 Downing Street
LONDON SW1

14 August 1984

Dear Tim,

KINSALE GAS

This is to confirm that the Minister of State is content with the draft letter for the Prime Minister to send to Dr Garrett Fitzgerald enclosed in David Coleman's letter to you of 10 August.

I am copying this to recipients of David Coleman's letter.

Yours sincerely,

Debbie McCambridge

P.P. M E CORCORAN
Private Secretary

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MLAEE

MESSAGE TO THE PRIME MINISTER

FROM TIM FLESHER

C O N F I D E N T I A L

KINSALE GAS:

EVERYONE NOW AGREES THAT FOLLOWING DR FITZGERALD'S MESSAGE WHICH YOU SAW LAST WEEK THERE IS NO OPTION BUT TO CANCEL THE PROJECT. THE ADVICE IS THAT YOU SHOULD REPLY TO DR FITZGERALD AS SOON AS POSSIBLE CONFIRMING THIS. THIS WILL COME AS NO SURPRISE TO THE IRISH SINCE MR SPRING GAVE A PRESS CONFERENCE LAST WEEK WHICH WAS CLEARLY BASED ON THE ASSUMPTION THAT THE PROJECT WOULD BE CANCELLED.

2. NIO ALSO ADVISES THAT YOU SHOULD TAKE THE OPPORTUNITY OF YOUR REPLY TO SET THE RECORD STRAIGHT ABOUT DR FITZGERALD'S CLAIM IN HIS MESSAGE THAT WE HAD SUGGESTED A PRICE REDUCTION OF 50%.

3. AS SOON AS YOUR REPLY IS DELIVERED TO THE IRISH GOVERNMENT NIO AND THE FCO ADVISE HMHUT THE AMBASSADOR IN DUBLIN SHOULD SEEK DISCUSSIONS WITH THE IRISH ON THE BEST WAY OF MAKING THE ANNOUNCEMENT. FOLLOWING IS THE TEXT OF DR FITZGERALD'S MESSAGE FOR REFERENCE:

"THANK YOU FOR YOUR LETTER OF 31 JULY, IN CONNECTION WITH THE SUPPLY OF KINSALE GAS TO NORTHERN IRELAND. MY GOVERNMENT HAVE CONSIDERED YOUR ARGUMENTS CAREFULLY AND I MUST SAY TO YOU THAT WE DO NOT FIND IN THEM GROUNDS FOR CHANGING THE TERMS OF WHAT WAS AGREED BETWEEN OUR MINISTERS. I REGRET VERY MUCH THAT YOUR GOVERNMENT ARE NOW PROPOSING TO ABANDON THE PROJECT DESPITE THE INTENTION TO IMPLEMENT IT FULLY WHICH WAS RECORDED IN THE MEMORANDUM OF UNDERSTANDING CONCLUDED BY BOTH GOVERNMENTS. WE WELCOMED THIS ACHIEVEMENT IN OUR JOINT COMMUNIQUE ON 7 NOVEMBER 1983.

"THE TERMS OF THE UNDERSTANDING WERE DRAWN UP IN SUCH A WAY AS TO BE FAIR TO BOTH PARTIES AND TOOK FULL ACCOUNT OF UNCERTAINTIES ABOUT FUTURE ENERGY PRICES EXCHANGE RATES AND DEMAND.

"YOU HAVE SUGGESTED A PRICE REDUCTION OF ALMOST HALF AS BEING NECESSARY TO ENSURE A VIABLE PROJECT. THIS WOULD INVOLVE SUPPLYING THE GAS AT A PRICE SO FAR BELOW ITS ECONOMIC VALUE AS TO BE UTTERLY UNREASONABLE.

"I SHARE YOUR ANXIETY TO MAKE SURE THAT A SETBACK ON THIS MATTER DOES NOT DAMAGE OUR ABILITY TO MAKE PROGRESS ON OTHER BUSINESS. I WOULD, HOWEVER, BE CONCERNED THAT THE PERCEPTION, PARTICULARLY IN NORTHERN IRELAND, OF A FAILURE BY YOUR GOVERNMENT TO IMPLEMENT THIS IMPORTANT ANGLO-IRISH AGREEMENT WOULD BE VERY NEGATIVE.

"I REMAIN CONVINCED THAT A POSITIVE APPROACH TOWARD IMPLEMENTING THE PROJECT WOULD BE SUCCESSFUL AND ACCORDINGLY MY GOVERNMENT WISHES TO PROCEED AS WAS AGREED."

4. FOLLOWING IS THE DRAFT MESSAGE TO DR FITZGERALD:

"THANK YOU FOR YOUR LETTER OF 8 AUGUST. I AM SORRY THAT YOU HAVE BEEN UNABLE TO OFFER ANY SUGGESTIONS THAT MIGHT ENABLE US BOTH TO CONTINUE WITH THE KINSALE GAS PROJECT. IN MY LETTER OF 31 JULY I EXPRESSED MY DISAPPOINTMENT THAT CHANGES IN ECONOMIC CIRCUMSTANCES HAD PUT THE PROJECT AT RISK. HOWEVER, I FULLY ACCEPT THAT PRICE CHANGES OF THE ORDER REQUIRED TO SAVE THE PROJECT WOULD BE VERY DIFFICULT FROM YOUR POINT OF VIEW. I HOPE THAT YOU IN YOUR TURN WILL UNDERSTAND THAT THE BURDEN WE IN THE UNITED KINGDOM WOULD FACE IF WE WENT AHEAD ON THE BASIS OF THE EXISTING FORMULA WOULD BE AT LEAST AS HEAVY, AND WE ARE NOT PREPARED TO BEAR IT ALONE.

"IN CASE THERE SHOULD BE ANY MISUNDERSTANDING I WOULD MAKE CLEAR THAT WHILE I DREW ATTENTION IN MY LETTER TO THE EXTENT OF THE DETERIORATION IN THE ECONOMIC PROSPECTS FOR THE PROJECT, I DID NOT SUGGEST A PRICE REDUCTION OF ALMOST HALF. THE FACT IS THAT OUR CALCULATIONS SHOWED THAT A REDUCTION OF THIS MAGNITUDE WOULD BE NEEDED FOR THE PROJECT TO YIELD THE SAME RETURN AS ORIGINALLY ENVISAGED AT THE TIME THE MOU WAS SIGNED: IN MY LETTER I SOUGHT AN INDICATION AS TO WHETHER YOU AND YOUR COLLEAGUES WERE ABLE TO GO A VERY SUBSTANTIAL WAY TOWARDS BRIDGING THE GAP.

"IT WAS ALWAYS CENTRAL TO THE PROJECT THAT ANY DEAL MUST BE TO THE ECONOMIC ADVANTAGE OF BOTH SIDES. THIS VIEW WAS REPEATED ON SEVERAL OCCASIONS BY MINISTERS AND WAS REGARDED AS SUFFICIENTLY IMPORTANT TO BE INCLUDED IN THE PREAMBLE TO THE MEMORANDUM OF UNDERSTANDING. IN THE LIGHT OF THAT, YOU WILL APPRECIATE THAT YOUR DECISION EFFECTIVELY MEANS THAT THE PROJECT CANNOT PROCEED.

"YOU ARE RIGHT TO POINT OUT THAT THERE WILL BE DEEP DISAPPOINTMENT IN NORTHERN IRELAND THAT THE GAS INDUSTRY IS NOT TO BE PRESERVED BY IMPORTING NATURAL GAS: BUT I THINK THERE WOULD HAVE BEEN EVEN MORE WIDESPREAD DISMAY IF THE UNITED KINGDOM GOVERNMENT HAD DECIDED TO PROCEED WITH THE PROJECT IN THE KNOWLEDGE THAT FROM ITS OUTSET IT WAS UNECONOMIC. APART FROM THE CRITICISM THAT WOULD JUSTLY BE MADE OF SUCH AN ECONOMIC POLICY, YOU AND I WOULD BOTH HAVE TO FACE THE POLITICAL DIFFICULTIES CREATED BY THE INEVITABLE WIDESPREAD SUSPICION THAT ECONOMIC CONSIDERATIONS WERE BEING OVERRIDEN, AT CONSIDERABLE COST, BY OTHER FACTORS. THESE COULD EASILY HAVE LED TO OTHER MISUNDERSTANDINGS IN THE FUTURE.

"THE TANAISTE'S PRESS CONFERENCE ON 8 AUGUST HAS AROUSED CONSIDERABLE PRESS SPECULATION ON THE FUTURE OF THE PROJECT AND ON THE IMPLICATIONS FOR ANGLO-IRISH RELATIONS. THE FACT THAT THE PROJECT CANNOT PROCEED WILL THEREFORE HAVE TO BE ANNOUNCED VERY SHORTLY, AND I AM ASKING OUR AMBASSADOR IN DUBLIN TO SEEK IMMEDIATE DISCUSSIONS WITH YOUR OFFICIALS AS TO THE BEST WAY OF ARRANGING THIS, WITH A VIEW TO MINIMISING ANY DAMAGE TO OUR CONTINUING RELATIONSHIPS. ON OUR SIDE ~~WE SHALL WISH TO CONTINUE~~ WE SHALL WISH TO CONTINUE TO LAY THE STRONGEST EMPHASIS ON THE FACT THAT THIS IS A DECISION FORCED UPON US BOTH BY ECONOMIC REALITIES, AND THAT IT DOES NOT IN ANY WAY DIMINISH OUR DESIRE FOR CONTINUED PROGRESS ON THE WIDE RANGE OF OTHER BUSINESS BETWEEN OUR TWO GOVERNMENTS."



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NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

Tim Flesher Esq
10 Downing Street
London
SW1

10 August 1984

Dear Mr Flesher,

KINSALE GAS

Your letter of 8 August sought advice on whether, and in what form, any reply should be made to Dr FitzGerald's message of 8 August.

Dr FitzGerald's message indicates clearly that the Irish are unwilling to agree to the significant reduction in the price of gas that we would need to continue with the project on any of the bases discussed by E(A) on 24 July. In these circumstances, my Secretary of State believes there is no option but to cancel the project forthwith. He understands that the Prime Minister takes a similar view.

In the light of the Prime Minister's own letter to him of 31 July, Dr FitzGerald will not be expecting any other decision from us; and Mr Spring, the Tanaiste, would not have held his press conference on 8 August (you will have seen Dublin telegram No 380 containing the text of his prepared statement) unless he too assumed that the project was about to be cancelled.

Mr Prior suggests, therefore, that the Prime Minister should reply to Dr FitzGerald at once to tell him that in the light of his reply the project is being cancelled. Courtesy alone requires that we should tell Dr FitzGerald this; but there are also some points made in Dr FitzGerald's own message of 8 August which require correction. He is, for instance, wrong to claim that the Prime Minister suggested a price reduction of almost half; and since Mr Spring has subsequently made great play in the press of the unreasonableness of the United Kingdom's proposal that the Irish should cut their selling price by almost 50%, Mr Prior thinks it important that the Prime Minister's reply to Dr FitzGerald should seek to set the record straight. The enclosed draft does this.

The draft also picks up Dr FitzGerald's remark (in his penultimate paragraph) about perceptions in Northern Ireland. He is right to point out that some (mainly nationalists) will decry our decision, but should not be allowed to forget that others (mainly unionists) would be even more critical of the government if we were seen to be going ahead for purely political reasons with a project which

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was, on our own admission, manifestly uneconomic.

Mr Prior proposes that a formal announcement about the cancellation of the project should be made very soon after the Prime Minister's reply has been delivered to the Irish Government. He suggests that at the same time as delivering the letter, the Ambassador in Dublin should be instructed to speak to the Irish Government (at the most senior level available) to make it plain that the failure of the project stems solely from the scale of economic difficulty now posed by the project; that the economic unattractiveness of the project results from changes which are, contrary to apparent Irish belief, genuine, severe, and of recent derivation; and above all to emphasise that HMG's commitment to making progress on all other areas of business between the two governments remains as firm as ever. The Ambassador should also seek immediate discussions with Irish Officials about the way of announcing that the project cannot proceed.

On timing, Mr Prior suggests that the Prime Minister should write to Dr FitzGerald as soon as possible. The issue has already been thrown wide open to the public by Mr Spring's press conference on 8 August, and it is essential that the United Kingdom government should announce a firm decision within the next few days. Delay would allow unwelcome room for speculation both in Northern Ireland and within the Irish Government that Dr FitzGerald's letter (or Mr Spring's press conference) was causing us to rethink our attitude. There also seems to be some advantage to Anglo Irish relations in getting this awkward business settled during the holiday period, so that it does not have to be picked up again during September.

This advice has been agreed with the Foreign and Commonwealth Office.

I am copying this letter, and enclosures, to the Private Secretaries of members of E(A), to the Private Secretary to the Foreign and Commonwealth Secretary, and to the Private Secretary to Sir Robert Armstrong.

*yours sincerely,
Aid Coleman*

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DRAFT LETTER

FROM THE PRIME MINISTER TO DR. FITZGERALD

Thank you for your letter of 8 August. I am sorry that you have been unable to offer any suggestions that might enable us both to continue with the Kinsale Gas project. In my letter of 31 July I expressed my disappointment that changes in economic circumstances had put the project at risk. However, I fully accept that price changes of the order required to save the project would be very difficult from your point of view. I hope that you in your turn will understand that the burden we in the United Kingdom would face if we went ahead on the basis of the existing formula would be at least as heavy, and we are not prepared to bear it alone.

In case there should be any misunderstanding I would make clear that while I drew attention in my letter to the extent of the deterioration in the economic prospects for the project, I did not suggest a price reduction of almost half. The fact is that our calculations showed that a reduction of this magnitude would be needed for the project to yield the same return as originally envisaged at the time the MOU was signed; in my letter I sought an indication as to whether you and your colleagues were able to go a very substantial way towards bridging the gap.

It was always central ~~to the discussions on~~ the project that any deal must be to the economic advantage of both sides. This view was repeated on several occasions by Ministers ~~over the years of negotiation~~ and was regarded as sufficiently important to be included in the preamble to the Memorandum of Understanding. In the light of that, you will appreciate that your decision effectively means that the project cannot proceed.

You are right to point out that there will be deep disappointment in Northern Ireland that the gas industry is not to be preserved by importing natural gas; but I think there would have been even more widespread dismay if the United Kingdom Government had decided to proceed with the project in the knowledge that from its outset it was uneconomic. Apart from the criticism that would



justly be made of such an economic policy, you and I would both have to face the political difficulties created by the inevitable widespread suspicion that economic considerations were being overridden, at considerable cost, by other factors. These could easily have led to other misunderstandings in the future.

The Tanaiste's press conference on 8 August has aroused considerable press speculation on the future of the project and on the implications for Anglo-Irish relations. ^{That} ~~The fact that the project cannot proceed will therefore have to be announced very shortly,~~ ^{should} ~~and I am asking our Ambassador in Dublin to seek immediate discussions with your officials as to the best way of arranging this, with a view to minimising any damage to our continuing relationships.~~ ^{fairly soon} ~~with a view to minimising any damage to our continuing relationships.~~ ^{doing}

On our side we shall wish to continue to lay the strongest emphasis on the fact that this is a decision forced upon us both by economic realities, and that it does not in any way diminish our desire for continued progress on the wide range of other business between our two governments.