

At SH

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?
  
- (ii) Agree that after renegotiation the terms be put to colleagues for approval?

2 July 1984

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