

FILE

da



10 DOWNING STREET

From the Private Secretary

11 January 1984

Northern Ireland Electricity Service: Possible Sale of Electricity
Generating Sets to Argentina

The Prime Minister has seen your Secretary of State's minute of 9 January.

B/E Mrs. Thatcher agrees that the OD discussion on 25 January of relations with the Argentine should include a discussion of the subject raised by Mr. Prior and that meanwhile the Chairman of the Northern Ireland Electricity Service should be advised to defer any visit to Buenos Aires.

I am copying this letter, together with Mr. Prior's minute, to Richard Hatfield (Cabinet Office), in view of the addition to the business for OD on 25 January.

A. J. COLES

John Lyon, Esq.,
Northern Ireland Office.

NR

CONFIDENTIAL Prime Minister.



Agree to discuss at OD on 25
January and that meanwhile the
Chairman of the Northern Ireland Electricity
Service should defer any visit to
Buenos Aires? Yes no

Prime Minister

NORTHERN IRELAND ELECTRICITY SERVICE: POSSIBLE SALE OF ELECTRICITY
GENERATING SETS TO ARGENTINA

In the early months of 1982 the Northern Ireland Electricity Service (NIES) was negotiating with the Argentine authorities for the possible sale of two GEC (300 mega watt) oil-fired electricity generating sets owned by NIES but surplus to their requirements. The generators, ordered in the early 1970's have never been brought into service. The reasons for this are explained in the attached background note. The city of Buenos Aires apparently has environmental conditions similar to those which the sets were designed to meet and in 1982 was the only serious customer for them. The Falklands war intervened before negotiations reached the final stage. Since that time the NIES has been searching for a new customer, but so far has not had much success in interesting potential buyers.

2. Just before Christmas, GEC's agent in Mexico City advised Mr Gaston, Chairman of the NIES, of renewed Argentinian interest in purchasing the generating sets. On our advice he said the sets were still available but would need clearance from the United Kingdom Government before entering any negotiations. Against this background, the GEC agent and Morgan Grenfell representative in Buenos Aires met Argentinian representatives on 23 December. The Argentine side included a government lawyer with authority to negotiate, which indicated that this matter has been considered at the highest level in Argentina. GEC understand that the Argentine authorities are very keen to produce new generating equipment as a practical demonstration of their determination to improve conditions for the general population and industry which currently experience frequent cuts in electricity supply.

CONFIDENTIAL

As/....

CONFIDENTIAL

3. As an alternative to selling the sets, valued in 1980-81 at some £60m, consideration has been given to converting them for use with coal rather than oil. Although we have yet to take decisions, as to the overall future strategy for the NIES, current indications are that on this particular issue the balance of advantage will lie in disposing of the surplus oil fired sets at the best negotiable price. If the NIES are given authority to negotiate with the Argentine authorities my officials would keep in close touch with the NIES about the progress of negotiations and the arrangements for financing a deal which, in view of the state of the Argentine economy, and ECGD's possible reluctance to provide cover, might be difficult to arrange.

4. It would appear that the approach to the NIES, via GEC, from the Buenos Aires Electricity Authority (SEGBA) is the first one made to the British authority since you made it clear that the Government wished to see a resumption of commercial contacts with Argentina. I recognise that our statements of readiness in principle to restore commercial relations need to be followed up by substantive discussions and that the content and modalities of these are still to be decided in OD on 25 January. But I hope we can agree that, in the meantime, it would be inconsistent with what we have said publicly if we were to respond negatively at this stage to the Argentine approach.

5. If you consider it appropriate the OD meeting on 25 January would provide an opportunity for further discussion of this issue, together with other aspects of the resumption of normal relations with Argentina. However an element of urgency has arisen because on 6 January Mr Gaston received, by telephone, an invitation to visit Buenos Aires between 16 and 23 January for discussions with representatives of SEGBA, a government lawyer and the Argentine Minister for Energy. Thus we need to give him early guidance as to how to respond to this invitation.

6. Subject to your views and those of colleagues in OD, to whom I am sending a copy of this minute, I propose to advise Mr Gaston to say that he is grateful for the invitation to visit Buenos Aires

-2-
CONFIDENTIAL

/but

CONFIDENTIAL



but his present commitments are such that he could not make the visit until some time after 25 January. In the meantime, he will of course need to seek detailed guidance from the British Government on the matter and will be in touch again as soon as possible.

7. Mr Gaston already recognises that this issue needs to be handled with considerable caution and he is ready to be guided by us in any contacts he may have with the Argentine authorities. It would be most helpful if I could have views on my proposed advice to him quickly.

Distill

J P

(Approved by the Secretary of State and signed in his absence)

9 January 1984

CONFIDENTIAL



Background Note

Surplus Electricity Generating equipment owned by the NIES

In May 1972, to meet a forecast increase in demand for electricity in Northern Ireland of at least 10% per annum in each year to 1980, it was decided to build a new oil fired 1200 MW power station at Kilroot. Accordingly, four 300 MW generating sets were purchased from GEC. However, because of the increase in oil prices, recession and a weakening demand for electricity only two of the four sets were brought into service. In March 1981 it was decided construction of the third and fourth generating units should be abandoned. The NIES was asked to dispose of the third and fourth sets if a purchaser could be found. Storage currently costs £2m per annum. Since 1981 a full examination of the future electricity generating needs of Northern Ireland has been undertaken. This indicates that electricity demand is unlikely to increase above an average rate of 2% and that when the current plant, which can cope with present demand, needs replacement, coal fired equipment would, both on cost and strategic grounds, be preferred to oil.

The GEC and Morgan Grenfell representatives

The GEC agents who would be acting on behalf of NIES are Mr Jim Foster currently based in Mexico City, who handled the negotiations in 1982 and Mr Eduardo Davidoff, in Buenos Aires. We understand that Mr Davidoff is a well accredited representative of GEC. He is not the Davidoff who precipitated the Falklands conflict by landing on South Georgia nor as far as we have been able to ascertain, is he related to him. The merchant bankers Morgan Grenfell are represented by Mr Robin Deane who would be working alongside Mr Davidoff in Buenos Aires.