

PREM19

75

INDUSTRIAL POLICY

(National Enterprise Board -
Hartlepool titanium project)

MT

Confidential Filing

The N.E. B.'s involvement in a
Titanium project at Hartlepool.

INDUSTRIAL

POLICY

AUGUST 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
28.8.79							
5.9.79							
PREM 19/45							



FILE



Ind Pol. ^{VCS}

CC MOD

10 DOWNING STREET

From the Private Secretary

17 September 1979

The Prime Minister has now had an opportunity to see your letter of 7 September in which you say that the NEB propose to make a full public presentation of their titanium project. She has no objection to this proposal.

I am sending a copy of this letter to Roger Facer (Ministry of Defence).

T. P. LANKESTER

Andrew Duguid, Esq.,
Department of Industry.

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PS/ Secretary of State for Industry

11 September 1979

→ Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

NBOM

R
18/9

Dear Tim

Thank you for your letter of 5 September about the proposed titanium sponge plant.

As I explained in my letter of 24 August, my Secretary of State will review the NEB's involvement in the project at the end of this year. His intention is that it should be a temporary involvement whose object is to attract private sector investment. He fully recognises that the project's ultimate importance is Rolls Royce and that a longer-term NEB involvement would be difficult to reconcile with the Government's policy towards the NEB. However, he is anxious that, at this stage, nothing should be said in public which might prejudice the negotiations which the NEB are having with various private sector interests.

These negotiations are proceeding on the basis of the NEB's considered view that the new plant will produce an acceptable rate of return on the investment. The forecast of profitability of the operation is based on a number of assumptions about the titanium market of which the most critical relates to the future level of world prices for titanium sponge. Predictions of price movements are never easy, but the NEB consider that they have been conservative in their estimates of likely price trends. Rolls-Royce have guaranteed to pay a premium price for their requirements from the new plant in the form of a specific margin above the world price. This guarantee reflects the company's dependence on this material and was one of the measures required of Rolls-Royce by the NEB in order not only to ensure that the project was likely to earn a rate of return which would be attractive to potential private sector investors, but also to avoid suggestions of a subsidy being given to Rolls Royce.

My Secretary of State recognises that to the extent that private finance cannot be secured, public finance - not necessarily through the NEB - will have to make good the deficit. In such circumstances

/he intends...



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he intends to ensure that any net increase in public expenditure is kept to a minimum.

I am copying this letter to Roger Facer (MoD).

Yours sincerely
Peter Mason

Peter Mason
Private Secretary

228

18 SEP 1978
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B H 2 1
7 6 3 4
B H 2 1

[Faint handwritten scribbles]



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PS/ Secretary of State for Industry

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

Postscript

Despite your doubts about 7 September 1979
this project, you did
not ask Sir Keith Joseph
to reverse his decision to
approve it. A public
statement ^{by the NEB} now seems desirable. *This is a matter for the NEB.*
Are you content? *- not me*

Dear Tim,

The NEB and their partners are disturbed at the adverse effects on commercial confidence in the titanium project that have been produced by the Press publicity in recent days. On 17 September planning consent is expected for the project and the NEB would then like to make a full public presentation of the merits of the venture, particularly with an eye to influencing French and German opinion. (Hitherto, at my Secretary of State's request, the NEB have limited themselves merely to saying that they are seeking a private sector solution). The possibility of finding U K partners is, of course, still open. *Just!*

My Secretary of State thinks that in agreeing to the proposal there could be nothing but advantage for the achievement of the Government's objective of maximising the private financial support for the project.

I am copying this letter to Roger Facer (MOD).

Yours sincerely

Andrew

ANDREW DUGUID
Private Secretary

- Postscript :
- ① The French have told Sir Keith (who is in Paris) that they are interested in joining in on this project.
 - ② The NEB want to make the titanium statement notwithstanding the RR's current troubles. *TL 13/9*

REPUBLIC OF INDONESIA
DEPARTMENT OF POSTS AND TELECOMMUNICATIONS
POSTAL SERVICE
JANUARY 1978



cc MOP.

HS

Ind Pol.

5 September 1979

The Prime Minister was grateful for your letter of 30 August explaining the background to the NEB's involvement in the Hartlepool titanium project. She has commented, however, that this NEB investment appears to be, in effect, a straight subsidy to Rolls Royce; and in order to have a complete picture of Rolls Royce's losses, it really ought to be added to them.

I am sending a copy of this letter to Roger Facer (Ministry of Defence).

T.P. LANKESTER

Peter Mason, Esq.,
Department of Industry.

L



Secretary of State for Industry

TL to handle
This is a straight Rolls Royce subsidiary on the added to their bikes.

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30 August 1979

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

You asked for further information on the titanium project. The key point - not very clearly brought out here - is that RR are hooked on titanium alloys produced by sodium reduction - the so-called 'Hunter process'. No plant elsewhere - or current or in prospect - produces this type of alloy.

TL 31/8

Dear Mike

Thank you for your letter of 28 August recording the Prime Minister's comments on my letter of 24 August about the NEB's involvement in a titanium project at Hartlepool.

Rolls Royce need to obtain a permanent and assured new source of supply of titanium for the alloys for their engines; their need is in no sense temporary.

Most engine makers make some use of titanium alloys in some of the most highly stressed parts of their engines, though Rolls make more extensive use of it than their competitors, and in particular rely much more heavily on the most advanced titanium alloys. The US engine manufacturers for the most part use titanium alloys derived from titanium sponge refined by magnesium reduction by the so-called Kroll process, the most common process for titanium production. The main sources of supply of Kroll sponge are the USA, Japan and Russia. The latter is the largest producer in the world, and dumping from Russia has been an important factor in discouraging further investment by Western producers. Rolls Royce have designed their engines to use IMI titanium alloys based on titanium granules refined by ICI by a sodium reduction process. This process yields titanium with different characteristics from Kroll sponge and the substitution of Kroll sponge for sodium reduced titanium in the manufacture of alloys changes the alloys' performance unacceptably for Rolls' needs. Indeed Rolls Royce consider it important that their supplies should be produced by essentially the same process as used by ICI, since they are concerned that even sponge produced by sodium reduction will not have identical characteristics if a different sodium reduction process is used. The proposed new plant is designed with this in mind. To satisfy themselves about the performance of a new material takes several years for the advanced alloys and ICI's decision to close their sponge plant does not allow Rolls Royce time for this.

As US practice shows, it is quite possible to design aero-engines so as to make less use of titanium than do Rolls if this is done from the start. However Rolls have designed all their recent engines increasingly to exploit what they consider to be the advantages of

/titanium....



titanium alloys. To alter these engines now so as to substitute other alloys or other metals would take a number of years and be extremely costly if it proved practicable at all, which cannot be guaranteed. Thus the view of Rolls Royce, which is endorsed by expert advice of MoD, is that a continued and dependable alternative source of sodium-reduced sponge made by the ICI process is imperative to enable the continued production of these engines and for spares for such engines already in service.

The French and German aero-engine producers also make some use of IMI alloys derived from sodium-reduce sponge and thus face the same problem as Rolls Royce, though to a much smaller degree.

There are only two sources in the world outside Russia of sodium-reduced sponge apart from ICI: one in the United States, the other, in Japan, which was put into mothballs soon after it was first commissioned some years ago. While the owners of the Japanese plant have said that they are considering re-opening it there do not seem to be prospects of securing the assured supply needed by Rolls Royce from either of these sources. As I have explained, even if supplies from the US and Japan were available, these alternative materials would have to be fully proved for use in Rolls Royce engines and they cannot be relied on.

The French have a similar, though smaller, problem to Rolls Royce. French officials have said that their government is considering establishing a new facility for the same reasons. Since they have not advanced with the planning of their project to the same extent as the NEB it is less likely that they could have it ready at the time necessary to meet Rolls' need. There would be commercial disadvantage for Rolls Royce in being totally dependent for a critical material on a plant which would probably be substantially financed by the French government who also own their French aero-engine competitor, and if a new plant is needed in Europe of which Rolls Royce would be the major customer it seems greatly preferable that it should be in the UK rather than in France. Efforts have therefore been made to bring the French in as investors in the British project. It is hoped by the NEB that a substantial part of the money for the project - perhaps £9 million - can be obtained from the EEC on favourable terms.

Your letter also mentioned reports that RTZ have refused to participate in the project and have expressed doubts about its viability. RTZ have expressed interest in participating on several occasions in the last six months, only subsequently to lose interest again, but we understand that discussions are still active. These vacillations on RTZ's part may reflect the uncertainty of the commercial prospects in view of the mothballing of the Japanese plant and the ever present threat of Russian dumping on the Western market, but they do not necessarily indicate a fundamental unviability. There are in any case a number of other companies with which the NEB are exploring the possibilities of involvement.

/I am...



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I am sending a copy of this letter to Roger Facer in the Ministry of Defence.

Yours sincerely

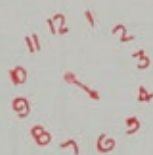
Peter Mason

PETER MASON
Private Secretary

P.S. The free market price of titanium has quadrupled since 1977 - an indication of the current shortage position. Despite RT2's doubts, the commercial prospects ought to be reasonable.

T.

30 AUG 1979





10 DOWNING STREET

From the Private Secretary

28 August 1979

B/F 30-8-79

CC MOD.

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JS

R 28/8

The Prime Minister has seen your letter to me of 24 August in response to her request for information about the NEB's involvement in a titanium project at Hartlepool.

The Prime Minister has noted the background set out in your letter. She has commented that it looks as if the need is temporary, and she has asked whether other aero-engine manufacturers use titanium and, if so, where they get their supplies. She has also noted that RTZ (one of whose directors is also an NEB director) will reportedly not participate because the project is not viable and she has further noted a report in Saturday's Financial Times that Japan and France are considering "expanding" production. The Prime Minister has therefore asked whether there is any possibility of filling the temporary need by purchase from Japan and France.

I should be grateful if you could let me have a response on these points as early as possible this week.

I am sending a copy of this letter to Roger Facer (Ministry of Defence).

M. A. PATTISON

Peter Mason, Esq.,
Department of Industry.

PRIME MINISTER

You asked about this decision, which leaked earlier in the week.

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MAP

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PS/Secretary of State for Industry

* It looks as if the need is temporary. What do other aero-engine manufacturers use & where do they get their supplies?

August 1979

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

○ I gather that RTZ (whose director Martin Frame is also director of NEB) won't participate because the project isn't viable

□ The F.T. today (Saturday) indicates that Japan and France are considering "expanding" production. Can we not buy -

Dear Mike

You told me that the Prime Minister has asked for a note on the reports in the press yesterday about the NEB's involvement in a titanium project costing £25m at Hartlepool. As I mentioned to you, both the Secretary of State and Mr Butler are away from the office at the present time but I spoke briefly to Sir Keith yesterday and he is aware of the press reports.

(company) for them. etc.

The background to this matter is that Rolls Royce (RR) uses titanium alloys in its aero-engines. These engines, of various generations, including the latest, are in civil and military service worldwide and, in particular, are essential to the operations of the RAF and some NATO forces. The alloys concerned are derived from titanium sponge, of which ICI at present is the only European producer. Eighteen months ago ICI told RR that they wished to close their plant (at Wilton) because it is ageing, uneconomic and does not fit in with their plans for the future of the site. Attempts to persuade them to provide continuing supplies have been unsuccessful.

It would not be feasible, in the time for which ICI supplies will be available, for RR to re-design their engines to use either titanium from other sources or non-titanium materials. It is, therefore, imperative that satisfactory arrangements be made to meet RR's requirements: the consequences of not doing so would be intolerable both in commercial and defence terms.

As the NEB own RR this problem has been of close concern to them since it was first identified and they have endeavoured to bring together a group to invest in a new plant. My Secretary of State considered that this plant should if at all possible be privately financed (though a minority investment by Rolls Royce might be desirable) and the NEB accordingly has been making most energetic efforts to secure private sector participants and so to the fullest possible extent replace the public sector role in the project. There are a number of potential participants, but time will be needed to bring them to the point of commitment and it would have delayed matters for the NEB to have had to hand over to RR the negotiations already in progress.

/Because.....



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Because of this, and because it is essential to make physical progress with the development of the new facility to avoid RR running out of titanium, my Secretary of State agreed that the project should proceed for the time being under the aegis of the NEB - though under the management of two private sector companies with experience of such projects - subject to the NEB making every effort to recruit the fullest possible private sector participation to replace their own involvement and that if this did not succeed the position was to be reviewed by the end of this year. My Secretary of State did not feel it necessary to bring this individual case to his colleagues in view of his expectation that the NEB's involvement would be temporary.

My Secretary of State was aware of the public interest that would be shown in this matter: you may recall the publication of a well-informed article in the New Statesman as early as 11 May and there were a number of subsequent newspaper articles. He therefore asked the NEB to make no announcement on the matter and to limit any statement to saying that they had been authorised to proceed with the project pending completion of their discussions with private sector interests which it was expected would lead to a satisfactory solution. We believe that the press reports that have now appeared had their origin in a planning application to the relevant local authority in the North East: most of the detailed background had already appeared in the earlier press reports.

I am sending a copy of this letter to Roger Facer; officials of the Ministry of Defence have been closely consulted at all stages.

Yours sincerely
Peter Mason

PETER MASON
Private Secretary

24 AUG 1979

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END

Filmed at the National
Archives (TNA) in London

February 2010