



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

PS/Secretary of State for Industry

11 September 1979

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

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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