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10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

12 December 1988

Dear George

Thank you for your letter of 5 December about Mr Gorbachev's visit. The visit has of course been postponed since you wrote. Nonetheless I will have the points you make very much in mind.

Yours ever

Raymond

The Right Honourable Earl Jellicoe, KBE, DSO, MC.

MEM



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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

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6 December 1988

I enclose a copy of a letter the Prime Minister has received from Lord Jellicoe. - at RFA

BFA I should be grateful if this could be taken into account in the briefing you are providing and for an early draft reply.

Could you please coordinate your reply in conjunction with the Department of Trade to whom I am copying this letter.

(C. D. POWELL)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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R6/12

The Rt. Hon. Earl Jellicoe, KBE DSO MC
Chairman

5th December 1988

Davy Corporation

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Tel: 01-637 2821
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The Rt. Hon Margaret Thatcher MP
10 Downing Street,
London SW1

Dear Margaret

In view of your forthcoming meeting with Mr Gorbachev when he visits London later this month, I am anxious that you are informed of Davy's interests in the USSR in case you have the opportunity to support us.

As you will see from the enclosed brief, the USSR remains an extremely important market for us. There are three main sectors where Davy are concentrating their thrust. In summary they are:-

Polyester Fibres

You may recall our meeting in Moscow when you gave so freely of your time in assisting us during the final stages of negotiations on the £1bn polyester fibre project for Blagoveshchensk. This had very strong and exceptional support from H M Government but we ultimately lost it, as did our West German competitors, to the Japanese.

We now have a similar but smaller project at Mogilev which is awaiting decision. This is our major and imminent contract in the USSR.

Iron and Steel Modernisation

There are tremendous opportunities in this field and Davy are determined to build upon the first contract secured for Magnetogorsk.

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Davy Corporation

Environmental

Discussions have taken place on this very important sector and the Russians have shown great interest in our technology. They are aware of the large plant we are building in the GDR for removing sulphur from power station flue gas.

I do hope that the occasion will arise to discuss these important topics.

Yours truly
George

JELlicoe

Encls.

DAVY CORPORATION
PRINCIPAL PROSPECTS IN THE USSR

BACKGROUND

Davy Corporation's first contract in the USSR dates back to 1930.

In the 1970s, the USSR was one of Davy's principal customers and typical contracts have been the £200 million methanol plants successfully installed in Siberia and the Urals, together with the £100 million Alpha Olefins plant under construction in the Tatar republic.

Since 1980, contracts secured by Davy have been of a minor nature although much effort has been expended in pursuit of prospects. Recent developments in perestroika appear to have further slowed down decisions.

Davy have an active representative office in Moscow.

THE POLYESTER FIBRE SECTOR

Over a period of several years, Davy have been attempting to secure contracts for the very large polyester fibre plants planned for the USSR by the Ministry of Chemical Industries.

Negotiations on a £1 billion polyester fibre project for Blagoveschensk commenced in 1984 and in December of that year Davy had the opportunity of making a presentation on the project to Mr Gorbachev during his UK visit. After protracted negotiations in Moscow and London Davy lost the contract to the Japanese in 1987. A subsequent bid was submitted for a smaller plant at Kursk but this was also lost to the Japanese.

The effort which Davy put in to bidding, rebidding, and negotiating with the Russians on both these projects has been costly and expenditure has been well in excess of £7 million.

Following the unsuccessful conclusion of negotiations on the first projects, Davy were encouraged to bid for a third plant at Mogilev. Long negotiations have taken place and agreement has now been reached on the technical and commercial content of the contract document but not on the final price.

A deutschmark price, equivalent to £75 million has been submitted and Davy's offer is based on supply being sourced from both the UK and Germany in equal proportions.

A decision on this contract has been imminent for some months and Davy continue to take a flexible approach to the various alternatives proposed to us by the client.

It is crucial that Davy be successful on this contract, not only as a recognition of the costly effort expended over the years, but also to achieve a breakthrough in the USSR in this particular field for which Davy have first class technology.

THE METALS SECTOR

Davy's advanced technology in modern iron and steelmaking techniques enables Davy to participate in modernisation of Soviet steel plants right through from ironmaking, to rolling and finishing. It is known that the USSR attach very strong importance to the upgrading of this industry.

Iron and Steel Making

A typical example where Davy technology and experience can be employed is the Rustavi plant in Georgia. This is a relatively old fashioned plant which wishes to replace its old iron and steelmaking with modern direct reduction arc furnace and continuous casting facilities. All these technologies are well known to Davy and preliminary proposals have been made.

Steel Strip Mill Automation and Modernisation

Davy's technology is second to none in the world on the modernisation of strip mills, both for steel and aluminium. Recently, in collaboration with GEC, Davy completed the major modernisation project on the hot strip mill at British Steel, Port Talbot, within time and budget and with the minimum amount of down time. Vice Minister Kugushin of the Ministry of Ferrous Metallurgy visited Port Talbot towards the end of 1986.

During the UK/USSR Joint Commission in Moscow in October 1987, this was referred to at a meeting with Minister Kilpakov of the Ministry of Ferrous Metallurgy attended also by Sir Bryan Cartledge, the Ambassador, Lord Jellicoe, and others.

As a result of this, in March 1988, we secured a small contract for modernising a strip mill for Magnitogorsk, worth approximately £13M.

In May 1988, GEC and Davy undertook a series of seminars in the Soviet Union on the modernisation and automation of strip mills which were very well received. Further seminars are planned to take place in 1988 and it is firmly expected that further contracts will follow that of Magnetogorsk.

Steel Continuous Casting

Davy Distington are among the world leaders for continuous casting of steel.

Currently the proportion of Soviet steel which passes through continuous casting plants is only of the order of 15% whereas the world average is 50% and in the Western world between 80% and 90%. The cost advantages of using the continuously cast route as opposed to the traditional route are extremely significant. There is, therefore, a substantial potential in the Soviet Union for continuous casting plants and, despite an initial disappointment in losing a plant for Novokuznesk, we are still energetically pursuing the continuous casting potential in the Soviet Union and plan a series of technical seminars during 1989.

ENVIRONMENT

Davy has executed many contracts for the control of the environment. These include sulphur removal from gases emerging from coal-fired power stations, copper smelters, nickel smelters and converting dust from electric arc steel furnaces to useful products, and also cleaning water for drinking. We are now focusing on this market and have had several discussions with the Russians who are very receptive to our technology.

SOVIET UNION

Unit of Gorbachev P.M.

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