MEMORANDUM TO DR. M. STERN

SUBJECT: Meeting with Degussa on March 15, 1971

DATE: March 19, 1971

FROM: J. W. Rawlings

Copies to: Messrs. J. C. Stephenson
J. L. Myers
H. Trautmann

Mr. Frankenbusch opened the meeting by stating that Degussa was not actively pushing A-28 and A-14 sales pending agreement with us. He stated that Degussa was unhappy about the one way flow of information with respect to marketing information and in this regard made a special point of the difficulty they had been having in the polyester resin field because of nozzle fouling. He indicated that they are presently selling A-28 at from 8.0 to 8.5 DM per kilogram ($1.00 to $1.08 per lb.) and A-14 at from 4.0 to 4.5 DM per kilogram ($.56 to $.60 per lb.). He went on to say that he believes the best optimum price for A-28 is 7.0 DM per kilo, or about $.86 per pound.

The next point made by Mr. Frankenbusch was that they can, and have, in their laboratories manufactured A-28 using asbestos ore. (NOTE: While nothing was said about our pending German patent on A-28, it is impossible to ignore the implied threat in the event that our patent is not allowed.)

At the present time, Degussa is selling about 6 tons of A-28 a month and about 1 ton of A-14 a month. This equates to an annual rate of 144,000 lbs. of A-28 and 24,000 lbs. of A-14 which is substantially under what we have in our budget, i.e., 300,000 lbs. of A-28 and 120,000 lbs. of A-14. I indicated that the numbers in our budget were based on estimates received from them. Frankenbusch responded by saying that they were not as optimistic now about A-28 sales volume growth as they had been originally. (At this point, he gave me their latest market sampling data and we reviewed it in some detail.) They did, however, indicate that they were maintaining their present level with almost no marketing effort and that certainly the volume could be increased over

the present rate. Frankenbusch then made a relatively long speech from which the following basic points emerged:

1. UCC and Degussa must now decide to go down the road together or part company. If we determine not to proceed, Degussa would want enough time to sell its existing inventory of material and to inform its customers that the material could thereafter be obtained from UCC. As he put it, "The development money we have spent would have to be credited against experience."

2. It would clearly be in the best interest of both parties to manufacture A-28 in Europe if, as and when the annual volume reached the neighborhood of 500 tons. He made it clear that he was not talking about opening dried 244 cake but the basic manufacture of A-28 from asbestos ore. He feels strongly that such a manufacturing effort should be a UCC/Degussa 50/50 joint venture. I interjected that we might be more inclined to license the manufacture under those circumstances and while he obviously didn't think much of the idea, he was willing to recognize it as a possibility. At this point, he indicated that the present agreement should contain some sort of right of first refusal to Degussa with respect to European manufacture by joint venture or license.

3. UCC must consider Degussa as a partner and not just a distributor, i.e., generally we should treat them better. Apparently, requests for information have been ignored or the responses have been slow — generally a plea for us to get more with it.

At this point, we turned to discussion of the proposal contained in my letter of March 2nd and particularly the block price schedule for A-28 which, in effect, provided for approximately a 25% price increase to Degussa for A-28. A long discussion ensued, the gist of which was that the prices as proposed would force Degussa to terminate the relationship with Carbide.

At this point, we were shown figures purported to be Degussa's costs relating to the distribution of A-28 in Europe. It became apparent that Degussa, within a relatively short period of time, wanted an A-28 price which would afford them a 20% return on sales before tax and approximately a 10% return after tax. While this is a high return by U.S. standards for a reselling operation, it presents a strange sort of problem with respect to Degussa. In many instances, their aerocil product competes directly with A-28. If there is too great a difference in margin between their own product and A-28, it will certainly be reflected in a lower volume

of A-28 sales. This, of course, represents the primary UCC problem with respect to working with Degussa. It should be noted that they never really complained very much about the A-14 prices. From this, I could only conclude that first, they are able to sell the A-14 without difficulty at the present prices and, secondly, that A-14 is relatively insignificant with respect to their long range view of the European market.

At this point, we set aside considerations of price and talked about volume. I restated the fact that UCC could not enter into a five year agreement without assurance of a substantial growth in volume. Therefore, it was important that we set a minimum level of dollar volume per year which would be acceptable to us, that is, we could terminate the agreement at the end of any one year if Degussa had not purchased a combined minimum dollar volume of A-14 and A-28. They did not object to this proposal in principle but said that the base volume and increases proposed in my letter of March 2, 1971 were not realistic. They proposed that we accept their present sales level as the base with a 30% increase per year thereafter. Their volume proposal would then breakdown as follows:

Year	Lbs. A-28	Lbs. A-14
1971	144,000	24,000
1972	188,000	32,000
1973	245,000	42,000
1974	317,000	54,000
1975	413,000	70,000

At this point, we separated for approximately one hour during which Mr. Trautmann and I reviewed our general position. Basically, we reviewed the fact that we are presently not capable, because of the lack of any technical support, to even maintain, through Union Carbide Europe, the present rate of A-28 sales enjoyed by Degussa. Furthermore, Mr. Trautmann was of the opinion that Union Carbide Europe could not match Degussa's sales potential at anywhere near the costs that they had shown to us. In this light, we reviewed our initial price proposal and modified it downward to a point where the A-28 price at the 200,000 lb./per year level would result in approximately an 8.5% price increase to them but with the lowest block price being equal to their present c.i.f. Antwerp price. This proposed block schedule was as follows:

First 50,000 lbs. or part thereof	$.60
Second 50,000 lbs. or part thereof	.59
Third 50,000 lbs. or part thereof	.58
Fourth 50,000 lbs. or part thereof	.57
Fifth 50,000 lbs. or part thereof	.56
Sixth 50,000 lbs. or part thereof	.55
All over 300,000 lbs.	.54

The A-14 price schedule was modified very little and on a c.i.f. Antwerp basis, was proposed as follows:

First 50,000 lbs. or part thereof	24.5¢
Second 50,000 lbs. or part thereof	23.5¢
Third 50,000 lbs. or part thereof	22.5¢
Fourth 50,000 lbs. or part thereof	21.5¢
Fifth 50,000 lbs. or part thereof	20.5¢
Sixth 50,000 lbs. or part thereof	19.5¢
All over 300,000 lbs.	18.5¢

The above c.i.f. Antwerp prices are based on a total freight insurance handling cost from King City to Antwerp of 15¢ per lb. for A-28 and .05¢ per lb. for A-14. Our proposal was to include any increase or decrease in freight insurance and handling costs above or below the respective 15¢ and .05¢ levels for the account of Degussa. Moreover, all of the above prices would be subject to quarterly escalation based on any increase or decrease (unlikely) in the average hourly labor rate at King City. We then applied these price schedules to Degussa's minimum dollar purchase levels per year:

1971	$ 90,000
1972	117,000
1973	152,000
1974	198,000
1975	258,000

The above dollar sales levels are just not acceptable as minimums upon which we have the option to terminate the agreement. At this point, we rejoined the Degussa group and gave them the new price schedules including our proposals on escalation but indicated that the dollar volume termination figures resulting from these prices and their volumes were not acceptable. They then stated that they would like to review the proposed prices and would like us to propose the dollar volume that would be acceptable to us as a basis for unilateral termination. We agreed that both matters would take some time to consider and that it would be appropriate for UCC to submit the new price proposal plus our new minimum annual dollar sales figures to Degussa in writing in the near future. We have now determined to submit the new proposal in the form of a complete contract with the price schedules and escalation provisions as proposed,

but with the minimum dollar amounts set as follows:

First contract year April 15, 1971 thru April 14, 1972 ...	$120,000
Second contract year April 15, 1972 thru April 14, 1973 ..	150,000
Third contract year April 15, 1973 thru April 14, 1974 ...	200,000
Fourth contract year April 15, 1974 thru April 14, 1975 ..	260,000
Fifth contract year April 15, 1975 thru April 14, 1976 ...	340,000