Monsanto

FROM (NAME & LOCATION): J. A. Alley - B2SD

DATE: May 20, 1977 cc

SUBJECT: Recommendation for reducing costs for incinerating excess Aroclor 1016 bottoms (Aroclor 1148)

REFERENCE:

TO : D. Wood
B2SD

1. Situation

Analysis of the imbalance between capacitor grade Aroclor 1016 and transformer grades made at the PCB plant indicates we will have about 1.3M pounds of excess Aroclor 1016 bottoms (Aroclor 1148) by the completion of 1016 production. There is the potential that orders will be obtained from Bokaro Steel in India which would consume 300M pounds of 1148. However, this would still leave about 1000M lbs. of Aroclor 1148.

It therefore becomes desirable to try to sell additional transformer grade volume to avoid the cost of incineration. The plant has indicated that Inerteen 70/30 orders can be accepted until July 15th. However, any significant volume orders should be in-hand by July 1st in order to manufacture and drum the fluid, before August 1st. The plant now plans to shutdown PCB production on this date so that personnel now assigned to PCB production can be reassigned and trained because of the startup of a new department at W.G. Krummrich. If these personnel are not reassigned, W.G. Krummrich will be faced with the problems inherent to hiring new people on August 1st and then laying off personnel in October.

The following costs were provided by Bill Engman at W.G. Krummrich:

Aroclor 1148:

Biphenyl	9.85¢/lb.
Chlorine	7.87¢/lb.
Total raw material cost for 1148:	17.72¢/lb.

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Inerteen 70/30:

Aroclor 1148 (17.72 x .7)	=	12.40¢/lb. of 70/30
Conversion of Aroclor 1148 to Aroclor 1254	=	1.00¢/lb. of 70/30
TCB	=	11.30¢/lb. of 70/30
Epoxide and attapulgus clay	=	0.50¢/lb. of 70/30
Drums and drumming	=	3.15¢/lb. of 70/30
Conversion costs (operators, utilities, blending, depreciation, etc.)	=	2.20¢/lb. of 70/30
TOTAL COST OF PRODUCING 70/30	=	30.55¢/lb. of 70/30

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If the raw materials for Aroclor 1148 are viewed as sunken costs, additional costs in the form of incineration are estimated at $195M (1.3M X 15¢/lb.)

The cost of raw materials plus the cost of incineration represents a total cost to Monsanto of $425M (1.3M X 17.72¢ + 15¢).

General Electric Service Shop Division has placed a blanket order for 31,000 gallons of Inerteen 70/30 to ship between May 5, 1977 and October 31st, 1977. The following paragraph is an excerpt from a letter sent to me by Ed Feuerstein, Manager of G.E.'s Power Delivery Service Division.

"As previously advised, we expect to stay in the business of repairing and maintaining askarel transformers as long as 'it is economically and environmentally feasible.' Therefore, it is possible the above blanket order will not satisfy our needs over the next two to three years and if you develop a significant imbalance in your production as you phase out of the askarel business, we would consider additional purchases at significantly lower prices as a hedge against long-term requirements. Our quantities would probably be in increments of 25,000 gallon lots."

We are currently shipping 25M gallons (312,500 lbs.) of Inerteen 70/30 in drums to Westinghouse in St. Louis. Based on phone conversations with Westinghouse Service Shop Division management in Pittsburgh there is some potential for selling additional material to them (Westinghouse is currently in the decision process on about 300M lbs. of off-spec Pyranol B3).

Since General Electric and Westinghouse service shop divisions are continuing to service askarel units both organizations might be willing to purchase additional volumes of Inerteen 70/30 if the price is attractive enough to offset inventory carrying costs and the risk of maintaining large volumes of PCB's on hand as PCB regulations develop.

Since our tank car fleet is required for capacitor Aroclor 1016 shipments before phaseout, all Inerteen 70/30 shipments would be in drums. The current list price for Inerteen 70/30 in truckload quantities of drums is $.715 per pound F.O.B. Sauget, Illinois.

We have already cleared with legal that in a distressed goods situation such as this we are able to exercise much greater flexibility in pricing without contravening Robinson-Patman.

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2. Recommendation

It is recommended that a "floor" price of $.31 per pound F.O.B. Sauget Illinois be established for Inerteen 70/30.

The benefits to Monsanto of this pricing strategy are:

a) For each pound of Inerteen 70/30 sold Monsanto recovers 12.4¢ (17.72 x .7) in Aroclor 1148 raw materials cost. On 1.3M pounds of Aroclor 1148, this is $161M. 73 mm

b) For each pound of Inerteen 70/30 sold Monsanto avoids an incineration cost of about 10.5¢ (15¢ X .7). On 1.3M pounds of Aroclor 1148, Monsanto avoids a total incineration cost of $195M.

c) On any price above 31¢ per pound Monsanto realizes a profit.

[We would initiate negotiation at a level of 50-55¢ per lb. for 25,000 gallon increments]

3. Alternatives considered and reasons for rejection.

a) Monsanto could make no price reduction offer. This option is rejected because the probability is very high that G.E. or Westinghouse would not agree to buy additional material. Monsanto would incur incineration costs of up to $195M plus foregoing the recovery of raw materials costs up to $161M. 73 mm

b) Monsanto could make minor price reduction offers. Rejected. The important result to be achieved is to get additional business from G.E. and Westinghouse between now and July 1st. The price must be sufficiently attractive to get G.E. and Westinghouse to move quickly. Time is running out on Monsanto and the orders must be obtained soon. In my judgment, Monsanto should make G.E. and Westinghouse an offer they cannot reasonably turn down if they can justify buying the material for their future requirements.

4. Action requested

Management approval of recommendation.

J. A. Alley

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