Monsanto

FROM (NAME & LOCATION): B2SD David Wood

DATE: March 2, 1977

CC:

SUBJECT: G. E. SCHENECTADY

REFERENCE:

TO: C. Paton

Recommendation approved
Leed. Mills
3/4/1977

Situation

G. E. wish to retain an ability to repair PCB filled transformers for two to three years and estimate a need for 33,000 gallons (400M lbs.) for each year.

They are concerned about the carrying cost of holding inventory for the two year period after we have ceased distribution and also about the potential write-off and incineration charge in the third year 1979. The latter is a real risk should Congress or EPA apply more pressure to bring forward timetables on PCB discontinuation.

They have two options, either to buy 1.2$\bar{M}$ lbs. from Monsanto prior to October 31, 1977 or to buy approximately 400M lbs. from Monsanto and to purchase from Prodelec for 1978/79 at a price of 68.5¢/lb. delivered subject to escalation. The French have indicated that they are not prepared to commence U.S. supply until after October 31, 1977. Buying from the French on a spot basis minimizes the risk to G. E. of having to incinerate surplus PCB stocks.

To meet budgeted transformer fluid sales volumes we need to sell 1.2$\bar{M}$ lbs. to G. E. Each 100M shortfall below this level would create an additional 70M still bottoms for incineration at a cost of about $32M.

G. E. has already agreed to purchase fluid from Monsanto as Inerteen 70/30, traditionally a Westinghouse blend, which contains 10% more 1254 than G. E.'s standard Pyranol blend. G. E. would prefer to buy the total 1.2$\bar{M}$ lbs. from Monsanto for many reasons but ask for some price recognition from Monsanto of their inventory risk and carrying cost.

They requested they be allowed to pay for final deliveries in Sept./Oct. '77 in equal payments through June '78. We believe that they would accept equal payments through March '78 in line with our capacitor fluid base line.

0433689

IN - 10 REV. 1/72

TOWOLDMON0057706

They implied that they would be prepared to buy the total 1.2M lbs. at 66.5¢/lb. average, ie. our scheduled bulk price for Inerteen 70/30. Although their average price if they combined purchases from MIC and Prodelec would be $0.678/lb., this has to be offset by the lower inventory cost in buying their needs from Prodelec after 10/31/77. Furthermore they do not have to place their 1979 orders (if any required) with Prodelec until late 1978 thereby minimizing risk of being caught with unneeded product which would have to be incinerated.

Recommendation

We conclude sales agreement with G. E. for 1.2M lb. Inerteen 70/30 on the following terms:

(a) 300-400M lbs. in bulk at schedule price of $0.665/lb. FOB St. Louis

(b) 800-900M lb. in drums at bulk price

(c) Payment for the 800-900M lb. in drums to be made in six equal payments between 10/1/77 and 3/31/78.

(d) All shipments to be made prior to 10/31/77.

This recommendation is consistent with our approved policy for Aroclor 1016 customers requiring material for use after 10/31/77.

We have consulted anti-trust legal group who state that distressed goods exemptions in Robinson-Patman Act allow us a flexibility in pricing in this instance.

Alternatives

1. Stick to scheduled price and standard credit terms. High risk that G. E. would place 800M lbs. with French with GP loss to Monsanto of $204M+ additional incineration charge of $280M.

   Further additional delays in firming up this contract jeopardize a phase out production schedule which already requires completion of budgeted volumes by end April if we are to have flexibility to clear further 1254 surpluses in overseas markets. Rejected.

2. Invoice at schedule price and issue rebate on third year volume of $40M to represent share of risk of possible incineration. This would be cosmetic only and does not alter overall economics. It would have been useful if there had been Patman legal difficulties. Rejected.

3. Stick to our scheduled price and attempt to convince G. E. that they should buy from MIC because otherwise we will complain to EPA of Prodelec imports. Rejected because EPA have no legal authority to prevent imports prior to

TOWOLDMON0057707

1/1/79. Bad will generated by such a move on our part would lose us 800-900M lb. business and cost us $484M in lost profit.

D. Wood

cs

0433691

TOWOLDMON0057708