Monsanto

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

DATE: February 2, 1977 — cc: C. Paton

SUBJECT: Plan to maximize G.E. Service Shop Purchases from Monsanto

REFERENCE:

TO: D. Wood
B2SD

1. Recommendation

This is to recommend a six-month extended credit plan for the General Electric power Delivery Service Division as an added incentive for them to buy the major portion of their warranty/makeup requirements from Monsanto. Payment of this receivable would commence in October, 1977 and be paid in six equal monthly installments terminating in March 1978.

With this approach Monsanto does not have to cut a price. This recommendation is consistent with the time frame of the credit plan approved by management for our capacitor accounts.

This recommendation could be implemented in negotiations with G.E., if necessary. If Prodelec decides not to supply G.E., then Monsanto would supply all of G.E.'s requirements with shipment by October 31 and payment under normal net 30 day terms.

Assuming (1) Monsanto sells G.E. 512M lbs. ($376M) of Inerteen 70/30 in October, (2) extended credit terms over 6 months and (3) an annual carrying charge of 8 percent, the cost of this plan to Monsanto would be about $17M.

2. Background

Ed Feuerstein, Manager Power Delivery Service Division in Schenectady, forecasted in December 1976 requirements for warranty/makeup of 1012M pounds. In phone conversations since December, we have learned that G.E. has been negotiating actively with Prodelec on some portion of these requirements. Ed Feuerstein has expressed the desire to continue with Monsanto as the supplier for as long as possible.

Ed Feuerstein has also indicated that G.E. is willing to use Inerteen 70/30 instead of Pyranol B3 (Thus consuming more Aroclor 1254).

Regarding manufacture of Askarel transformers, Ed has

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has stated that G.E. Philadelphia will manufacture Askarel units well beyond our withdrawal date of October 31st. Also, G.E. Shreveport and Houston and G.E. Gelph in Canada (A 100% owned G.E. affiliate) will manufacture through October 1977. Therefore, selling to G.E. within our sales policy is not a problem. G.E. has designated 15 service shops to continue as repair locations for Askarel units. Each service shop is a profit center and is therefore held accountable for inventory costs and turnover. For this reason, Feuerstein is reluctant to force high inventory costs on his service shop managers. One way for G.E. to avoid these higher inventory costs would be to buy from Monsanto as long as possible and then shift to Prodelec as the supplier. With this approach G.E. avoids the costs of acquiring large inventories and carrying for several months. Inventory carrying cost is G.E.'s major concern rather than risk of spill from inventory.

There is the possibility that Prodelec will elect not to supply G.E. because of potential liabilities. With G.E. currently negotiating with Prodelec this is an unanswered question.

While Congressman Aspin of Wisconsin stated in December 1976 that he would try to get Congress to take action that would move the cutoff for PCB imports forward from January 1979, we have not learned of any further steps by Aspin.

We have learned from Monsanto Europe that Prodelec does not supply a product equivalent to Aroclor 1254. Their material is higher chlorinated and is comparable to Aroclor 1260. This product has obvious drawbacks for G.E. for environmental reasons. A 1260 type material would be more persistent in the environment. It might be difficult, for G.E. to defend with the EPA a decision to move from a product containing Aroclor 1254 to one containing material of a higher chlorina-ation. This will be pointed out to G.E.

Therefore, the issue is how do we maximize our share of G.E.'s requirements.

Shipment of as much as possible of the Inerteen 70/30 to G.E. will reduce the amount of Aroclor 1016 bottoms (1148) which have to be incinerated. Incineration of the 1148 represents a cost of 50¢ per pound (raw materials, manufacturing and incineration) to Monsanto.

My estimate is that if Monsanto does nothing to encourage G.E. to buy more material from Monsanto, we might ship the service shop division about 500M pounds before October 31st of G.E.'s 1012M pounds forecasted. This would leave 512 M pounds of additional requirements which represent a gross profit of about $184M. In terms of 1016 bottoms to be incinerated, this 512M lbs. represents a cost of about $180M (assuming G.E. uses Inerteen 70/30).

3. Viable Alternatives, But of Lower Preference

As an incentive for G.E. to buy more of their requirements from Monsanto we could offer them a special lower price - (a) cut the price 10¢ per pound or (b) roll back the price 5¢ per pound.

(a) Cut the price 10¢ per pound - While this option would result in lower gross profit, it has merit if Monsanto delayed the rollback until September 1, 1977. Westinghouse, the only other remaining Inerteen 70/30 volume customer, will maintain Phoenix as a manufacturing location until August. Therefore, by waiting until September 1, we do not lose profit on the Westinghouse shipments. My estimate is that Monsanto would have shipped G.E. service shops about 400M lbs. of their requirements by August 31. This would leave 612M pounds of G.E.'s requirements. If we cut the price 10¢ per pound, this is a reduction in our gross profit of $61,200. Assuming G. E. would buy the remaining 612M pounds from Monsanto, this would avoid a cost of about $214M (raw materials, manufacturing and incineration) represented by incineration of Aroclor 1016 bottoms.

(b) Cut the price 5¢ per pound - this alternative has the same merit as (a) above, plus giving Monsanto $30,600 gross profit over (a).

4. Alternatives Considered and Reasons for Rejection:

(a) Monsanto could move stock to G.E.'s service shop location on a consignment basis. - This is rejected because Monsanto would retain title to the material with the inherent liabilities.

(b) Monsanto might ship to G.E. after October 31st. - This is rejected because the decision has already been taken that all shipments must be made by October 31st.

(c) Monsanto could take no action - This is rejected because it is estimated that Monsanto will ship only 500M before October 31st of the 1012M pounds now forecasted by G.E. With this alternative we will forego up to $184M in GP and incur costs by incineration of 1148 representing about $180M, additionally.

(d) Monsanto might make the EPA aware of G.E. intentions to buy from Prodelec - This is rejected because it could tend to alienate Feuerstein/G.E. and cause them to minimize their purchases from Monsanto. G.E. would likely take a very hostile view toward any such action by Monsanto which suggested in any way we were attempting to manipulate EPA to "control" G.E.'s actions.

5. Action Requested

It is requested that Management approve the recommendation.

We will meet with Ed Feuerstein after February 15 to negotiate all, or a major share of G.E.'s requirements. Again, the credit plan option would be used only if G.E. anticipates placing orders with Prodelec.

J. A. Alley

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