ADDITIONAL INCOME BREAKDOWN.

DSW 184375

Action

13. Establish agreement with 7-8 key European capacitor producers to schedule MCS-1238 trials sufficient to make a commitment by Oct., 1977. - 5/1/76

14. Complete training of European technical personnel and provide technical documentation on MCS-1238 to support key customer and government activities in Europe - 3/15/76.

15. Increase dielectric domestic pricing Mar. 1, 1976, and review in June, 1976, to achieve the following objectives.

    a) Achieve performance income in 1976 of $3.2 $\overline{M}$.

    b) Additionally to generate additional sales income of approximately $2275 M over 18 months to cover:

        - $575 M - Residual book value on direct Aroclor investment at Sauget at June, 1977.

        - $650 M - Direct investment plus expense of interim blending for MCS-1238.

        - $300 M - Potential additional MAT expenditure for accelerated environmental testing.

        - $400 M - Reserve for dismantling and decontamination of Sauget Aroclor facilities.

        - $350 M - Decontamination of rail car fleet.

    c) To adjust the price differential between transformer grades to eliminate Inerteen 54201 CM/100-42 from range without loss of 1976 income.

16. Increase U.S. export price by at least 10% Mar. 1, 1976 to achieve 1976 P.I. of $.70 M.

CHART 3.

Split of additional income.

CAP vs TRANS.

ITEM.	CAP	TRANS	TOTAL.
Book value	380	195	575
1238 Invest.	650		650
Addit. MAT	150	150	300
Reserve Dismant.	260	140	400
Decontam. Radar	230	120	350
	1670	605	2275 ✓
In 1976	1170	400	1570
In 1977	500	205	705

DSW 184377

STLCOPCB4051163

U R G E N T

B. BUSINESS POSITION IDENTIFICATION / ANALYSIS.

1. OUR CURRENT RANGE OF PRODUCTS SERVES THE MINOR MARKETS NAMELY DIELECTRIC LIQUIDS IN CAPACITORS AND SPECIAL DIELECTRIC COOLANTS IN TRANSFORMERS.

2. CAPACITOR MARKET

A) THE EUROPEAN POTENTIAL FOR DIELECTRIC LIQUIDS IN CAPACITORS EXPRESSED AS M LBS ARCLOR IS :

74	75	76	77	78	79	80	85
21	17	20	20	21	21	21	21

THE GROWTH IS NEGLIGIBLE BECAUSE IMPROVEMENTS IN CAPACITOR DESIGN WHICH REDUCE THE AMOUNT OF LIQUID USED ARE ABSORBING THE NORMAL GROWTH OF 5-10 % p.a.

B) THE SPLIT BETWEEN WESTERN AND EASTERN EUROPE IS GIVEN IN CHART 1.

C) IN 1975 MONSANTO HELD APPROX. 35 % OF THE EUROPEAN MARKET

D) OUR MAJOR COMPETITORS IN EUROPE ARE PROBELEC, FRANCE (MONSANTO RELATIVE SHARE : 0.64), BAYER, GERMANY (MONSANTO RELATIVE SHARE : 1.25. WITH MINOR COMPETITORS, CAFFARO, ITALY AND COQUISA/FLEX, SPAIN.

E) USE OF OUR PRODUCT IN W.EUROPE (70% OF THE TOTAL EUROPEAN MARKET) IS LIMITED BY OECD RECOMMENDATIONS BUT THERE IS NO IMMEDIATE PRESSURE TO CONVERT TO A NON-PCB DIELECTRIC. EVENTS IN THE USA, HOWEVER, TOGETHER WITH PRESSURE THAT CAN BE BROUGHT INTO THE OECD BY THE U.S.GOVERNMENT IS LIKELY TO CREATE THE NEED FOR CONVERSION.

IN EASTERN EUROPE THERE IS CONCERN OVER WORKER SAFETY AND AN INCREASING USE OF WESTERN TECHNOLOGY. TO THE EXTENT THAT WESTERN CAPACITOR TECHNOLOGY WILL IN THE FUTURE BE BASED ON NON-PCB DIELECTRIC FLUIDS THE SAME DEMAND SHOULD BE PRESENT IN EASTERN EUROPE.

PRESENT ESTIMATE OF TIMING FOR A SWITCH TO NON PCB'S IS SEPT AT 1/1/79.

DSW 184378

STLCOPCB4051164

F) WE PLAN TO PROGRESSIVELY REPLACE AROCLOR WITH HCS 1238 (M LBS).

	'74	'75	'76	'77	'78	'79	'80	'85
HCS 1238	-	-		0.2	1.0	5.7	6.0	6.5
AROCLOR	6.0	5.5	5.9	6.0	4.0	-	-	-

G) IN CONVERTING TO REPLACEMENT FLUIDS FOR CAPACITORS MAJOR COMPETITION WILL NOT COME FROM PRODUCTS IDENTICAL TO HCS 1238 BUT FROM ALTERNATE TECHNOLOGIES.

E.G. PRODELEC'S CHLORONAPHTHENE 32 (CHLORINATED DICHLORODIPHENYL WHICH MIGHT BE RULED OUT BECAUSE OF ITS SIMILARITY TO A PCB).

DOW FLUID XF8-4169L (BUTYLATED MONOCHLORO DIPHENYL OXIDE) AND ESTERS.

3. TRANSFORMER MARKET

A) THE EUROPEAN POTENTIAL EXPRESSED IN M LBS OF PYROCLOR (AROCLOR + TRICHLOROBENZENES) IS :

'74	'75	'76	'77	'78	'79	'80	'85
28	27.5	25	23	25	26	28	30

B) ALL THE MARKET IS IN WESTERN EUROPE AS THE EASTERN BLOC IS SELF SUFFICIENT.

C) IN 1975 MONSANTO HELD APPROX. 10% OF THE EUROPEAN MARKET.

D) OUR MAJOR COMPETITORS IN EUROPE ARE :

PRODELEC, FRANCE	- MONSANTO RELATIVE SHARE	0.19
BAYER, GERMANY	- " " "	0.27
CAFFARO, ITALY	- " " "	0.44
COQUISA/FLIX, SPAIN	- " " "	0.47

E) THE EUROPEAN MARKET IS NOT UNDER THE SAME PRESSURE AS THE U.S. MARKET TO CONVERT THE NON-PCB REPLACEMENTS. HOWEVER EVENTS IN THE U.S.A. WILL AFFECT EUROPE BOTH VIA THE MEDIA AND THE OECD.

F) WE WILL DECIDE WHETHER TO SEEK TO REPLACE OUR CURRENT PCB BUSINESS WITH AN ALTERNATIVE ONLY WHEN REPLACEMENTS ACCEPTABLE TO THE U.S. MARKET ARE DEFINED.

THERE ARE ALREADY HIGHER COST ALTERNATIVES SAFETY TRANSFORMER SYSTEMS E.G. DRY TYPE TRANSFORMERS, CAST RESIN TRANSFORMERS, SPECIALLY PROTECTED MINERAL OIL FILLED TRANSFORMERS ETC. ANY NEW REPLACEMENT FLUID MUST BE ABLE TO COMPETE ON A COST/PERFORMANCE BASIS WITH THE EXISTING SYSTEMS.

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DSW 184379

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4. PROFIT TRENDS

A) TRADITIONALLY THIS BUSINESS YIELDED 25-30 % GROSS PROFIT (SEE APPENDIX 6) BUT IN THE LAST TWO YEARS PRICE CONTROLS AND COMPETITIVE ACTIVITY HAVE KEPT MARKET PRICES LOW.

B) THE COST OF AROCLOR REPRESENTS 5-10% OF THE COST OF MOST CAPACITORS. THE IMPACT OF FLUID COST IS MINOR. HOWEVER IN THE CASE OF TRANSFORMERS THE FLUID COST IS 25-35% OF THE COST OF THE TRANSFORMER AND THERE IS A LIMIT ON FLUID PRICE SINCE ALTERNATIVE SAFETY TRANSFORMER SYSTEMS ALREADY EXIST.

C) NON-PCB CAPACITOR FLUIDS

* MCS 123B TO YIELD 30% G.P. AND P.I. MIN. 20% ON REPLACEMENT CAPITAL.

D) NON-PCB TRANSFORMER FLUIDS

POSITION TO BE DEFINED.

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APPENDIX G

SALES OF DIELECTRICS OUT OF THE DONORA PLANT.

YEAR	ARCLOR (CAPACITORS)			
	Sales M LBS	Sales $M	G.P. $M	G.P. %
1972	7142	1172	336	29
1973	7208	1437	403	28
1974	7861	2440	546	22
1975	5471	2163	362	17
1976B	5861	2383	636	27

	PYROCLOR (TRANSFORMERS)			
	Sales M LBS	Sales $M	G.P. $M	G.P. %
1972	3193	643	166	26
1973	2518	546	139	25
1974	3422	1007	204	20
1975	2646	986	171	17
1976B	2205	832	215	26

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DSW 184381

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