TO: ADMINISTRATIVE

FOR: H. E. O'CONNELL

FROM: C. W. WOLFE

RE: VCM SALES

DATE: APRIL 17, 1970

CC: DCL
RMP
RES

In the 1972/1976 period, increased purchases of VCM by Tenneco Plastics from Shell could possibly lead to a significant profit-generating situation for TCI. If THCD markets its own VCM production to others, letting Tenneco Plastics purchase its entire requirements from Shell for the life of the Shell contract, an additional $4,910,600 might be generated. This is based on equating probabl~~y~~e market price to the pricing on the last increment purchased from Shell. If we use the average price that Tenneco Plastics will probably be paying to Shell under the current proposed purchase schedule, we would probably generate an additional $2,520,000 over a five-year period, as opposed to transferring THCD product to Tenneco Plastics at the average Shell price. This is based on a 4.2¢/lb. net back for THCD sales.

The dollar savings to TCI are significant, and this approach should be pursued if (1) Shell can make the total amount of VCM required by Plastics available 1972/1976 extending 3rd increment pricing (2) we can develop the export market in 1971 by purchasing VCM from others, (3) we feel confident that we can market the VCM output of our plant at prices above the transfer price. I feel the answers to all three of these ~~are~~ may be affirmative. I urge that we get concurrence from TCI management to proceed on this course of action once we get confirmation from Shell that the quantities required can be provided at third increment pricing.

The amount of VCM that we would have to market is estimated as follows:

MM POUNDS - VCM

YEAR	PLASTICS' ESTIMATED DEMAND	PROBABLE VCM PRODUCTION (1)	POSSIBLE AVAILABILITY (2)
1970	171		
1971	240	171	171
1972	308	160	160
1973	350	179	121
1974	409	190	111
1975	454	181	81
1976	508	176	56

NOTES:

(1) Based on R & H Acetylene Sales Contract.

(2) Assuming additional acetylene sold to D. B. or GAF.

The latest Shell proposal that we have in THCD hands quotes on the following requirement

1972	75 - 100
1973	100 - 125
1974	125 - 150
1975	160 - 200
1976	180 - 225

first increment of 75,000,000 pounds	4.17 cents per pound
second increment of 75,000,000 pounds	3.89 cents per pound
third increment of 75,000,000 pounds	3.64 cents per pound

.0459% 5
API 37.5

Dist IBP 385
56% 520
90% 600

.1%
NV0 Nil

000269

The average unescalated prices[(1)] for the quantity Plastics proposes to purchase from Shell would be as follows:

YEAR	VOLUME - MM LBS.	PRICE - ¢/LB.
1972	148	4.03
1973	171	3.98
1974	219	3.91
1975	273	3.85
1976	332	3.82

We expect that the amount of VCM that we would sell rather than transfer to Tenneco Plastics could be moved at levels above the average sales price or at levels significantly above the base price on the last increment to be purchased from Shell. (We assume this increment and price could be expanded to include the additional quantities required.) We would anticipate making two to three year export contracts with companies such as Solvay, Pechiney, Reposa, Mitsui, Mitsubishi, etc., to provide a base load for our sales program. We would also expect to participate in short-term contracts and spot domestic business at levels higher than the Shell price structure. We do not conceive that during the period of the Shell contract that spot VCM prices will fall below our Shell contract price. Assuming that our outside sales of VCM average a plant net back of 4.2¢ per pound, we would anticipate profit generated by purchasing Plastics' total requirement from Shell as follows:

[(1)] Escallation on purchases should wash out with increase in THCD sales price.

YEAR	LAST INCREMENT PRICING	AVERAGE SHELL PRICING
1972	$ 896,000	$ 272,000
1973	1,002,400	394,000
1974	1,054,000	551,000
1975	1,013,600	634,000
1976	985,600	669,000
TOTAL	$4,951,600	$2,520,000

even if 3.9 used for addition material 0.34 ¢ lb gener cw

As optimistic as this picture looks, we must remember that capital investment in increased storage capacity would be required. I estimate that $500,000 should allow us to double our storage capacity and increase our loading rate to levels that would insure our ability to handle both an export program and a domestic program, possibly without a tank car fleet. The new storage might possibly be refrigerated rather than pressure to conserve capital investment.

I urge that these concepts be presented to TCI management for review, and if we initiate such a program, that we immediately take steps to buy and sell product in the export market for 1971.

Chuck

C. W. WOLFE

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