Monsanto

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

DATE: January 26, 1977 CC: H. N. Brandstetter

SUBJECT: Final PCB Orders

REFERENCE:

TO: D. Wood
B2SD

1. Recommendation

This is to recommend a "letter agreement" to go to our customers before final order acknowledgements. Attached is a draft of the letter. This letter, when signed by Monsanto and countersigned by our customers, should minimize order cancellations. It will force the customers to examine their requirements very closely before placing orders on Monsanto. Through this approach we can manufacture the product with, in my judgement, confidence that the orders will ship to our customers.

2. Background

a. Monsanto is vulnerable to manufacturing orders for customers and then having them cancelled before they are shipped. This could result in substantial costs (approximately 50¢/lb.) to Monsanto for raw materials, manufacturing, and incineration. The effectiveness of G.E.'s strategy for licensing other capacitor manufacturers could impact the extent of Monsanto risk. Currently, six accounts - Aerovox, Cornell-Dubilier, EUC, Jard, Mallory and Universal - are scheduled to receive shipments which will cover their production into 1978. If all six accounts were to convert to non-PCB on December 31, 1977, our risk would amount to about 2.5M lbs., or $1,250M. Assuming some of the accounts converted to a GE licensed product in the July/August time frame, our vulnerability could reach 4M lbs., or $2M.

b. We will handle return of rail car planning through separate correspondence and discussions with our customers.

c. Alternatives considered and reasons for rejection:

1. Take-or-pay agreement. We considered this option in preparing the original phase-out plan. At that

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time it was decided we should not adopt this approach if it could be avoided.

2. A cover letter, for final order acknowledgements, could simply state that we consider the order firm and not subject to cancellation. This is rejected because it lacks effectiveness in protecting Monsanto against order cancellation after the product has been manufactured.

3. Action Requested

Approval to send the attached letter to transformer and capacitor customers before acknowledgements are sent out for final PCB orders.

J. A. Alley

tmc

Enclosure: 1

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D R A F T

Dear Customer:

This letter concerns your final order of PCB dielectric fluid for delivery after (March 1/May 1), 1977. The quantities specified in your order will be part of the final production run of this askarel grade. It will not be possible for Monsanto to divert this material to another customer.

Because Monsanto cannot ship this material to another customer, and would therefore have to bear the costs for raw materials, manufacture and incineration, we will require your agreement to pay Monsanto, as partial compensation to Monsanto for the above costs, 50¢/lb. for any portion of the ordered quantity which is not accepted and paid for by you. Such payment, if any, will be due within 30 days of notice to Monsanto of cancellation or by November 1, 1977, whichever date is earlier.

We also remind you that PCB fluid shipped under this order is not returnable to Monsanto. Disposition of the fluid is the responsibility of your company. We expect that the fluid will be used in your production, or the material will be moved by your company to an incinerator approved for the disposal of PCB's.

In recognition that you accept the terms stated above, please countersign this letter and return it promptly to Monsanto. Upon

receipt of the countersigned letter, Monsanto will, after receiving your final order, acknowledge the order, and undertake to manufacture and ship the product.

All other terms and conditions of sale outlined on our standard acknowledgement form will apply to your final order. (A copy of our standard acknowledgement form is enclosed for your review.) Nothing in this letter agreement should be construed as modifying the terms of our indemnification agreement with you, dated _____.

Yours very truly,

T. H. Lafferre

Marketing Director

Functional Products

_____

Customer Signature

_____

Date

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