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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