

TRANSPORTATION OF VINYL CHLORIDE MONOMER
TO POTTSTOWN, PA., AND PERRYVILLE, MD.

I. The Tariff

We are currently operating under a tariff which permits VCl movement to Pottstown from either Freeport, Texas, or Plaquemine, Louisiana in tank cars of 210,000 pounds minimum net weight for \$.73/cwt provided an annual guaranteed minimum quantity of 20,000 tons is met. A year in this case covers May through April, so no difficulty will be encountered in terms of additional payment to the railroads when we change to a new "tariff year," since the minimum in the current year will have easily been met.

The proposed new tariff will permit lower transportation costs. A copy of the proposal was sent to you earlier. It will permit VCl to be moved to Pottstown and Perryville from either Freeport or Plaquemine in 38,000 gallon tank cars (approximately 270,000 pounds net) at rates as follows for annual guaranteed minimum tonnages:

50,000 tons ----- \$.69/cwt.

75,000 tons ----- \$.65/cwt.

The railroads involved stand ready to publish the tariff upon approximately sixty days notification. One of the conditions contained in the proposal has caused us to conclude that it is unwise to put the new tariff into effect sooner than necessary to accommodate the first shipment of VCl to Perryville--to wit, the exclusion of the use of our current 31,000 gallon tank cars to Perryville after one year from the effective date of the new tariff.

Very recent word from Pottstown indicates resin production is to begin at Perryville the first week of May. In view of this, we have requested that the tariff be made effective April 1, 1968. *mo*

Prior to the completion of the conversion of our tank car fleet, a mixture of 31,000 gallon and 38,000 gallon cars will be used to transport VCl to your plants. All VCl moved in 31,000 gallon cars will move at \$.73/cwt, and the quantities moved in 38,000 gallon cars will move at \$.69/cwt, depending upon how we (Firestone and Dow) instruct the carriers. They will commence using the \$.65/cwt rate effective the first of any month, at our request, but should

Firestone fail to take 75,000 tons in the succeeding twelve months, it will be necessary to remit \$.04/cwt times the quantities moved in 38,000 gallon cars during the twelve month period to the carriers.

As the shipper, and Dow is the shipper--paying freight to the carriers at your request--Dow will be required to put up an indemnity bond to assure the guaranteed annual volume rates. We are willing to do this, but we expect Firestone to pick the month that freight invoicing changes to \$.65/cwt for 38,000 gallon cars, and agree to reimburse Dow for any additional freight charges paid to the carriers as a result of Firestone's inability to sustain a 75,000 ton annual rate. These two points should be covered by a letter, co-signed by Firestone, and made a part of the VCI contract between us.

The guaranteed rate principle is risky, as you can see, because if, for example, only 70,000 tons were moved at \$.65/cwt, the railroads would insist upon reimbursement of \$56,000.

Dow believes the carriers might be talked into the following modifications of the principle, and would like to pursue the thought with the carriers, if you agree with us that it would be desirable: After one year's operation under the indemnity bond system, remove the bond and let the rate on 38,000 gallon cars become \$.65/cwt or \$.69/cwt for each month, based on the quantity shipped in the preceding twelve months. This, of course, could result in \$5,000 or so additional freight in an occasional month, but may be a good insurance policy against a potential \$50,000 payment. We would like your opinion on this matter.

II. Conversion to 38,000 Gallon Tank Cars

At the time of the signing of our VCI contract, Firestone and Dow had already accomplished a change-over to the use of the large 31,000 gallon tank cars. The use of these cars permitted a reduction of \$.05/cwt in freight, saving Firestone \$50,000 per year on 100,000,000 pounds. Dow assumed the commitment for tank car rental for the 47 - 31,000 gallon cars currently in the "Firestone Fleet," and protected Firestone against a rate higher than the 30,000 gallon rate, should Dow for any reason elect to ship a smaller car.

Now that we are planning the conversion of our Firestone Fleet to 38,000 gallon cars, one of our problems becomes the redeployment

of the 31,000 gallon cars. While we insist they are excellent cars for the service intended, the railroads object to the two-axel trucks, and they are uneconomical if not kept moving. They are simply not in great demand.

We are going to the 38,000 gallon cars for two good reasons:

1. To reduce Firestone's transportation costs. (Should save Firestone \$116,000 in 1969, based on estimated 145,000,000 pounds.)
2. Railroads positively will not handle 31,000 gallon cars to Perryville after one year from the effective date of the new tariff.

Our understanding at an earlier date was that Perryville would probably start resin compounding operations early in the second quarter of 1968, but that resin production would not likely start until very late in the quarter, or perhaps the first of July.

Based on this understanding, and not being sure at that time that 31,000 gallon cars would be permitted into Perryville at all, we ordered seventeen 38,000 gallon cars for delivery in May 1968. These cars would be sufficient to serve Perryville at the rate of 50,000,000 pounds annually.

A second order of 41 - 38,000 gallon cars is scheduled for delivery during the fourth quarter of 1968, giving us enough 38,000 gallon cars to service you up to a 190,000,000 pound annual rate.

We also arranged to have one of the first 17 cars delivered early for trial runs which will enable both Dow and Firestone to evaluate its serviceability. This car has been released to Freeport. It will make a trip to Midland this month, and upon return to Freeport, will be shipped to Pottstown. We expect that it will arrive in Pottstown at the end of February or the first of March. We will keep your Pottstown people advised about this shipment.

Our inspector examined this car prior to its release from the shop. We feel the performance will be completely satisfactory, but want to see how it rides the rails.

III. Transportation Charges

We recognize that Firestone desires to minimize the cost of moving vinyl chloride to its resin plants as rapidly as possible, and Dow will cooperate with Firestone in this regard.

There is little chance of securing the initial cars prior to May, but once they are received, we will dedicate them to Firestone service.

Assuming we are both satisfied with the test runs of the prototype car, we will attempt to move up delivery of the remaining 41 cars. We feel there is a reasonable chance to do so, but an improved schedule will be dependent upon the shop work load, and our success in finding ways to solve the problem of disposing of or redeploying the 31,000 gallon cars.

While 1968 will be a year of transition, Firestone's average cost of transporting VCI will be decreasing during the year. By 1969, the complete conversion to 38,000 gallons cars, plus your increased monomer consumption, should enable Firestone to enjoy a \$.65/cwt rate on the total quantity of VCI purchased.

IV. Action Required

A. By Firestone

1. Comment regarding 12 months trailing average versus indemnity bond guarantee for future use. (by return letter)
2. Report on suitability of 38,000 gallon prototype car (March 1968)
3. Indicate willingness to modify contract regarding the indemnity bond (by return letter).
4. Advise Dow which month 75,000 ton guarantee should start (when appropriate).

B. By Dow

1. Request carriers to make tariff effective April 1, 1968 (already in process).
2. Discuss with carriers proposal for trailing average rate (if Firestone agrees).
3. Send amendment letter to Firestone regarding indemnity bond (upon receipt of Firestone's approval).
4. Advise Firestone regarding schedule of prototype car to Pottstown.
5. Advise railroads of start of 75,000 ton guarantee (upon notice from Firestone).
6. Improve delivery schedule of last 41 - 38,000 gallon cars if at all possible. (upon report of successful trips of prototype)