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January 9, 1948

War Assets Administration
Washington 25, D. C.

Att. Mr. Irving Gumbel, Chief
Chemical and Light Metals Branch
Industrial Division
Office of Real Property Disposal

Gentlemen:

By Agreement of Lease dated March 22, 1946, Southern Alkali Corporation leased from Reconstruction Finance Corporation, acting by and through War Assets Corporation, a portion of the magnesium plant site and facilities near Lake Charles, Louisiana, known and designated as Plancor 264, for conversion into and operation as a plant for the production of chlorine and caustic soda and other chemicals.

Pursuant to the provisions of the Lease Agreement, portions of the leased premises have been cleared and Southern has erected thereon a chlorine-caustic plant having a rated daily production capacity of 240 tons of chlorine and 264 tons of caustic soda. Construction of this plant is substantially completed and it is now ready for operation.

On November 26, 1947 I met with your Messrs. Gumbel and Talbot in Washington, on the invitation of the former, to discuss the possibility of a present outright sale to Southern of the leased premises on a negotiated basis. It was agreed that Southern would give the matter further study and would shortly submit for your consideration a proposal to purchase at a price and under terms and conditions which it considered would reflect the present fair value of the leased premises.

Southern is presently disposed to offer to purchase in fee simple all property both real and personal, including appurtenant rights and easements, embraced in the "leased premises" as defined in the Lease Agreement, together with the power transmission line interconnecting the power plant on the leased premises and Cities Service Refining Corporation's Tutwiler Refinery near Lake Charles and the transformer station adjoining said Refinery, for the sum of Seven Million Five Hundred Thousand Dollars ($7,500,000). The power transmission line and transformer station, though not a part of Plancor 264, were constructed and installed in conjunction therewith to provide stand-by power service to the Refinery and would be useful to Southern, at least temporarily, for the same purpose.

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The price above suggested represents, in our opinion, the present fair value of the property we are offering to purchase. We know of no formula for precisely measuring the present fair value of industrial land and facilities of this character originally built for one purpose and subsequently converted and adapted to another use. However, in an effort to arrive at a figure that would be reasonably accurate as a measure of its value, we have explored two approaches. We first appraised its present value on the basis of construction and conversion costs, making appropriate comparisons with the cost of constructing the chlorine-caustic plant at Natrium, West Virginia, Plancor 394, built by Pittsburgh Plate Glass Company for Defense Plant Corporation in 1942 and leased to and subsequently purchased by Pittsburgh Plate Glass Company. We then endeavored to measure the present cash value of the aggregate rentals that might reasonably be expected under the Lease Agreement over its entire twenty-year term. The following analyses and tabular summaries will indicate the bases of the lump sum price above-mentioned.

Value Based on Comparison with Natrium Plant

As you know, although Plancor 264 was originally designed and constructed as a magnesium plant, its operation as such was discontinued shortly after its completion because of excessively high production costs resulting from engineering errors and operating difficulties. The superabundance of economical and efficient magnesium productive capacity elsewhere in the country made it imperative that the only hope of salvaging any substantial portion of the government's investment in this plant lay in its conversion and adaptation to the manufacture of some other product. Sinc like magnesium metal the production of electrolytic caustic soda and chlorine requires a large amount of direct current electrical energy, as well as large floor space, this plant was obviously more suitable for conversion to such production than to any other use. The Lease was consummated in mutual recognition of this fact.

Southern first cleared the cell buildings and surrounding areas of obsolete and useless magnesium producing machinery, equipment and installations, at a cost of approximately $320,000 of which your Administration paid under the Lease the sum of $216,000. Southern then proceeded at its own expense to construct and install in and about the buildings thus cleared a chlorine-caustic plant at a cost of approximately Eleven Million Dollars ($11,000,000).

In marked contrast to the Lake Charles plant, Plancor 394 at Natrium was designed and built in the first instance as a chlorine-caustic plant, with a rated daily productive capacity of 200 tons of chlorine and 220 tons of caustic soda. Built during the war, its construction cost the government approximately $14,300,000. In terms of production units this represents approximately $71,500 per ton per day of chlorine production capacity. (Actual cost is used notwithstanding the fact that a subsequent

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RFC appraisal developed a normal reproduction cost for Plancor 394 of slightly less than $12,475,000 which would result in a unit cost of approximately $62,350 per ton of daily chlorine production capacity.)

On this basis the present 240 ton plant at Lake Charles consisting of the usable portions of the magnesium plant together with the chlorine-caustic facilities installed by Southern would represent a comparative aggregate value of approximately $17,100,000. The value of the leased premises, for chlorine-caustic production purposes, thus would be $17,100,000 less $11,000,000 or approximately $6,100,000.

It is recognized that the leased power plant has greater generating capacity than is required for the present 240 ton chlorine-caustic plant. However, this factor is taken into account in our suggested price which is approximately 125% of the value of the leased premises so calculated, on the basis of comparison with the cost of the most recently constructed independent chlorine-caustic plant in the United States.

Value on Basis of Present Value of Probable Twenty-Year Rentals

In an effort to arrive at a dollar figure that would represent the present cash value of the future rents which could reasonably be expected under the Lease during the full term thereof, we have necessarily made certain assumptions of conditions that would obtain with reference to plant capacity, production volume, unit price, etc.

We first assume that the plant will remain at its present capacity of 240 tons per day of chlorine throughout the lease term. True, the leased premises are of a size that would permit expansion to a 360 ton plant, but we have no present assurance that future business conditions in the area serviced by the plant will warrant such an expansion. You will recall our original plans called for an initial plant of 120 tons capacity. It may develop that our initial installation of a 240 ton plant at Lake Charles was unduly optimistic in the long run.

Our next assumption relates to production volume. While we are reasonably certain that the plant should operate at or near its rated capacity for the next year, possibly two years, it is reasonable to assume that the twenty-year lease term will embrace substantial periods of business recession or depression. At the outset, Southern predicated its decision to expand its initial plant to a capacity of 240 tons on the hope that the level of production over the twenty-year lease term would average 70% of capacity. We are willing to indulge that hope for the purpose of this analysis.

Our third assumption relates to price. As you know, chlorine and caustic soda are co-products of the electrolytic process, approximately one and one-tenth tons of caustic soda being produced with each ton of

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chlorine. This fact necessarily complicates the problem of forecasting production costs and price with respect to either or both products. This is true because the industrial demands for chlorine and for caustic soda are independent of one another and bear no fixed ratio one to another that would correspond to the technological ratio of their production. As a consequence, it is reasonable to expect that at intervals during the Lease term the demand for chlorine will far exceed the demand for caustic soda, or vice versa, during which intervals it will be necessary to waste or dump substantial quantities of one of these co-products if the industrial demand for the other is to be met.

In an effort to allow for these unavoidable uncertainties incident to the technology of our operations, we have assumed that over the entire period of the Lease term our average net realization from chlorine-caustic sales would approximate $60 per production unit of one ton of chlorine and one and one-tenth tons of caustic soda. On this assumption, production rentals under the terms of the Lease would average $9 per chlorine-caustic production unit.

It may be argued that our last assumption of average net sales realization appears unrealistic in the light of the current market prices of $45 per ton of chlorine and $43 per ton of 50% liquid caustic soda. However, it must be borne in mind that these market prices reflect the present inflationary peak in the general economy. Obviously, long-range price forecasts must reflect long-range expectations as to future business conditions. These must in turn be predicated largely on production and price experience and trends during previous years.

Within the past twenty years, the annual U.S. production of chlorine has increased in volume from approximately 83,000 tons in 1925 to a peak of more than 1,260,000 tons in 1944. Thus, in 1944 the nation's chlorine production was more than 15 times greater than in 1925. The years 1945 and 1946 showed a slight reduction in volume. During this period the market price of chlorine declined from $80 per ton in 1926 to $35 per ton during the period 1940-1946, a decline of more than 56%. Even the present market price, increased as a result of higher labor and material costs during the past fifteen months is still only 43.8% less than the 1926 market price despite the general level of wholesale prices which is approximately 160% of the 1926 normal. The growth of production volume and the corresponding decline in market price of caustic soda during the past twenty years, though less spectacular than in the case of chlorine is nonetheless indicative of definite long-term trends.

The attached charts show in tabular form the price and production trends and relationships above described.

At the present time the productive capacity of the nation is still being expanded. For example, Diamond Alkali is nearing completion of its 200 ton plant at Houston, Texas which will directly compete with

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the Lake Charles plant in the southwest market. Wyandotte Chemicals is adding approximately 100 tons to its plant capacity at Wyandotte, Michigan, and Monsanto at St. Louis, DuPont at Niagara Falls and Pittsburgh Plate Glass at Natrium are all making substantial increases in their respective plant capacities.

The obvious conclusion to be drawn from the past and present growth of the industry is that the present period of abnormally short supply will be relatively short lived and that soon there will be productive capacity ample to supply the normal demand for chlorine and caustic soda. In fact it is not improbable that there will soon be an excess of productive capacity over demand for these products. Thus, looking ahead over the next twenty years, we feel reasonably certain that the downward price trend of the past twenty years will resume and continue at a more gradual pace after the present inflation has ended. We know of no factor that would indicate a reversal of this price trend in the chlorine-caustic industry.

Based on the assumptions with respect to capacity, average annual production and net sales realization, as explained above, we expect that, over the full twenty-year period of the Lease term, Southern should be able to produce in the leased plant approximately 61,000 chlorine-caustic production units, as above described, per year. Computing rentals payable on this production volume at the rate of $9 per production unit (15% of $60) your Administration or its successor as Lessor should receive during such period an average annual rental of approximately $550,000 or a total rental over the twenty-year period of approximately $11,000,000. Such an annual rental over the twenty-year period of the Lease, figured on a 4% per annum interest basis, would represent a present cash value of $7,474,500.

Of the two approaches to the estimated present value of the leased premises hereinabove discussed, we feel that the second approach involving expected annual and aggregate rentals based on estimated average production and sales realization, is the more accurate and realistic. Our suggested purchase price more closely approximates the value determined according to this latter approach, rounded out to a figure that will include the value of the power transmission line and transformer sub-station connecting the leased power plant with Cities Service's power plant at its Tutwiler Refinery nearby.

The $7,500,000 purchase price would be payable by Southern over a period of four years, $1,500,000 in cash upon the execution of a formal purchase agreement and a like amount at the expiration of each of four twelve month periods thereafter. Southern would agree to execute a purchase money mortgage covering the entire plant, including its own installations therein, to secure payment of the unpaid portion of the purchase price and would agree to pay interest at a mutually agreed annual rate on all unpaid purchase money from the date of the purchase agreement until payment is made.

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The foregoing is a summary outline and analysis of the principal features of a proposal for the purchase of the subject property which we of Southern Alkali Corporation consider fair and reasonable. It is submitted at this time in this tentative form for the purpose of opening negotiations with your Administration.

We are ready and willing to discuss any phase of this proposal with you in detail and to give attention to any suggestions or comments you may wish to make at this time. We would appreciate receiving your reaction to this proposal at your earliest convenience.

Yours very truly,

SOUTHERN ALKALI CORPORATION

By "E. T. Asplundh"
Vice President

ETA:djg
Att.

Original signed proposal delivered in person

January 9, 1948

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Irving Grumbach
Chief Chemical Branch OR

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