HN Dahlström, Brussels

December 13, 1968

HS Bergen - St. Louis
DS Cameron - DB 41

BIPHENYL/AROCLOR PROJECT

HND/ls

WB Hicks - DB 26

I still have for comment Howard Bergen's memo of October 23rd, questioning variances between the Marketing input for the MCL overrun request 9407 R as compared with the original CAR.

It has not been easy to sort this problem out, the whole issue being clouded by UK devaluation and certain ROW situations. Also, I discovered that, to some degree, I have been comparing apples and oranges. Whilst Howard rightly questions some of the figures in the overrun summary, which are based on 1970 forecasts, I had analyzed 1969, because here we already have an agreed budget and previous correspondence had been on this basis. I discovered this too late, however, the principle is the same and should illustrate the situation.

In order to clarify the 1969 situation, I have taken the trouble of extracting the sales volumes and prices from the 2 projects in such a way that they can be compared directly on a product-by-product basis. The resulting summary is attached. The detailed worksheets are available on my files.

On the basis of this exercise, total net sales for 1969 are down by 1,079 lbs from the original project (European sales volumes and prices in the overrun request are essentially identical with our 1969 sales budget). The dollar sales value is down by 462 M, largely but not exclusively due to devaluation.

On this basis I am also puzzled how the overrun request can show an increase of £ 32,000 in total net sales for 1970 despite a continuing 800,000 lbs shortfall in volume. Something pretty dramatic would have to happen to reverse the 1969 trend. It is a pity that I have done all my work on 1969 so that we lack direct comparison, but perhaps Cyril Lakin could have a look at this again, also for years beyond 1970.

Where the 1969 figures are concerned, however, the following comments may help Howard understand variances from the original CAR forecasts:-

1. Diphenyl sales volume is up over the original CAR and unit prices in d/lb are better than anticipated. Devaluation alone pulls down the dollar value.

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DSW 200510

1. (cont'd) 1969 sales are now expected to substantially exceed the revised forecast, thanks to market developments that have taken place since budget compilation.

2. N/E Aroclor sales volumes are also up on the original CAR. So are unit prices compared with pre-devaluation forecasts, although not sufficiently to counterbalance Harold Wilson's reign. The total dollars, however, almost balance.

3. Electrical Aroclors. Here the volume is down significantly. The reasons have already been discussed on several occasions. However, one must also admit that the original estimates were intentionally tinted in the most optimistic colors to justify the project. The revised version simply reflects more sober and realistic thinking. It goes without saying that we shall strive to maximize these sales and approach the original forecasts. As we hold all the UK business, this will have to be achieved in other European markets. Unit prices are up on 1242, down on 1248 and above even pre-devaluation level on 1254. Nonetheless the overall dollar sales are significantly down.

4. Finally on Pyroclors, the volume has been substantially reduced, as has the price and this alone costs us $ 228 M in 1969. Main reason is timing and again Howard should be fully briefed. The break-through is generally expected one year later now than was originally thought. This despite our intensive promotional efforts. However, there is one development that may redeem this situation in terms of Diphenyl.

1969 Pyroclor sales of 1.7 M̄ lbs correspond to 400,000 lbs Diphenyl. Our current product is a blend 60 % Aroclor 1260 and 40 % Trichlorobenzene (ex Prodelec). Prodelec have increased their 1969 contract price for TBC by 2¢/kg. We are, therefore, reformulating to 70 % Aroclor 1254 and 30 % TCB. This will increase Diphenyl equivalent to 600,000 lbs next year. Longer term, we may be able to move to 100 % Aroclor 1242 for transformers in which case 1.7 M̄ lbs Pyroclor would represent 1.0 M̄ lbs Diphenyl. This would also improve costs some 2¢/lb.

In summary, therefore, our better raw material costs (benzene lower than forecast, in-house Chlorine shut-down), our direct and indirect increases in Diphenyl sales, our effort in N/E Aroclors . . .

DSW 200511

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. . . and our continued efforts to break through with Pyroclors should leave the overall Aroclor/Diphenyl project in pretty good shape despite devaluation. The latter has done the real harm and cannot be fully recovered in the UK by price increases.

Nonetheless, it may still be worth Cyril checking how the overrun summary arrives at a gain in net sales for 1970. This just does not look logical. We have not forecast any price increases from 1969 to 1970. On the contrary, attrition was predicted almost across the board in the input for the overrun request. Or did he convert Sterling at $ 2.80 in the overrun?

HN Dahlström

Encl.

DSW 200512