DHQ-Manville
March 31, 1971

G. C. Hagestone

ASBESTOS FIBER

Mr. Whalen advised that one of the subjects which came up during his visit to Denison last week concerned the various costs related to asbestos fiber, eg. the cost of the current Advocate charter.

At Mr. Whalen's request I am forwarding to you herewith for your information and Mr. Richards' copies of my following letters.

1. 2/15/71 (Rev'd 3/12/71) to M. Harris
   "Pipe Division - Return on Investment"
2. 3/15/71 to M. Harris
   " Pipe Division - Return on Investment"
3. 3/15/71 to D. Smyth - AFD
   "Advocate Fibre Shipments"

I am also enclosing a copy of Mr. Nowlin's letter of 3/29/71 to Mr. Whalen comparing Jeffrey vs Advocate costs at Denison for the years 1969 thru 1971.

F. T. Petersen

cc: K. J. Whalen
file
chrono

mb
attach.

DHQ-Manville
February 15, 1971
(Revised March 12, 1971)

M. Harris

PIPE DIVISION
RETURN ON INVESTMENT

At the recent Management Information Meeting held at Research, you asked me to document my comments that our projected 1971 Average Inventory Investment was badly distorted by the storage of primarily surplus Asbestos Fiber and to a much lesser extent Rubber Rings.

Based on information provided by AFD, we have projected our 1971 average fiber inventory at $8,945,000 out of a total average Division inventory of $20,815,000.

If we were buying asbestos fiber in the open market and were not taking it in to satisfy the shipping requirements of Advocate or the storage requirements of Jeffrey, we estimate we would need a 3 to 4 week supply working inventory of Jeffrey and 3 to 4 months of Blue fibers. We have operated at these levels in the past. Using these as the basis for our working fiber inventory levels, we estimate our working inventory at $1,563,000.

The difference between $8,945,000 and $1,563,000 or $7,382,000 represents the added inventory investment to the Pipe Division for the convenience of AFD and the Corporation. It would appear that the $7,382,000 or any fiber in excess of $1,563,000 should be excluded in measuring the Pipe Division's return on investment.

The $7,382,000 listed above is not the true total added investment for storage fiber. To this must be added the cost of the storage space which we estimate at $788,000 (143,000 sq. ft. at $5.50/sq. ft.). The total investment for storage fiber and space would therefore be approximately $8,170,000.

We have not tried to be as fine in our analysis of the effect of rubber rings on our inventory investment. We buy the bulk of our ring requirements from PFM and must therefore carry higher protective inventories. We currently carry an average rubber ring inventory of approximately $1,076,000. If we had four or five reliable outside suppliers, I believe the $1,076,000 inventory investment could probably be reduced safely by about 25% or $265,000. In other words, we are carrying an added $265,000 investment due to our limited in house supply.

DHQ-Manville
March 15, 1971

M. Harris

PIPE DIVISION-RETURN ON INVESTMENT
MY LETTER FEBRUARY 15, 1971
(REVISED 3/12/71)

Subject letter (attached) was revised to reflect up-to-date figures and to correct an error in the original Green Cove Springs average inventory.

In accordance with the above letter we have determined the added costs due to storing surplus fibre and rubber rings.

The added costs are:

Required facilities for fibre =	$140,564
Added inventory taxes on fibre =	112,260
Actual added fiber labor-1970 =	14,249
Required facilities for rings =	1,422
Added inventory taxes on rings =	5,076
Actual added labor - 1970	247

The attached schedules show the development of these costs.

F. T. Petersen

cc: K. J. Whalen
R. W. Sherburne
W. R. Johnson
file
chrono

mb
attach.

In recent months we have received a number of requests from PFM to take rings early to relieve a storage capacity situation at their Laurinburg Plant where they make most of the rings we buy. This may be good company-wise but adversely effects the Pipe Division's ROI.

To summarize, I estimate that our 1971 average projected inventory investment is inflated by $8,435,000 due to storage of surplus fiber and extra rubber rings to protect against our single inhouse source of supply.

It should be noted that the storage of surplus fiber and extra rubber rings also entails added direct costs to the Pipe Division over and above the effect on investment. These would include the following:

1. Maintenance of warehouses.
2. Taxes on warehouses
3. Inventory taxes
4. Cost of pallet replacement
5. Depreciation.

I am working up the above added cost figures and will send them to you for your information as quickly as possible.

FTP

F. T. Petersen

cc: K. J. Whalen
R. W. Sherburne
W. R. Johnson
file
chrono

mb

SCHEDULE "C"

Added Inventory Taxes on Surplus Fibres: (Actual 1971 Costs)

		Normal Inventory			Actual Inventory			Tax on Surplus	
	Tax Date	Tons	Valuation	Taxes	Tons	Valuation	Taxes	Surplus Tons	Taxes
Denison	1/1/71	1,158	$ 270,000	$ 6,318	7,196	$1,614,000	37,775	6,038	$ 31,457
Green Cove	1/1/71	718	165,000	2,640	1,741	393,000	6,290	1,023	3,650
Long Beach	3/1/71	1,435	349,000	7,015	7,846	1,871,000	37,603	6,411	30,588
Stockton	3/1/71	1,192	291,000	6,984	7,173	1,823,000	43,759	5,981	36,775
Waukegan	4/1/71	1,016	249,000	8,043	2,475	552,000	17,833	1,459	9,790
Manville (no tax)		1,072	239,000	-	4,412 (2)	984,000	-	3,340	-
		6,591	$1,563,000	$31,000	30,843	$7,231,000	$143,260	24,252	$112,260

(Marrero figures are not included in any of these calculations. However, as of 3/1/71 Marrero had 4,045 tons of fibre valued at $862,000).

SCHEDULE "D"

Added Costs incurred in storing surplus rubber rings:

Inventory taxes =	$5,076
Depreciation on Warehouses =	331
Maint. on Warehouses =	650
Real Estate Taxes =	441
Added Receiving Labor (1970) =	247

SCHEDULE "A"

Yearly Costs for Warehouse Space:
These costs are constant and are incurred even though surplus fibre is not available. The space is allocated to fibre storage and must be available when required for surplus fibre.

Total Fibre Space Available	179,396 sq. ft.
Space for Normal Inventory	36,088 sq. ft.
Allocated for Surplus Fibre	143,308 sq. ft.
Total Capacity of Space	46,130 tons
Normal Fibre Inventory	6,591 tons
Surplus Fibre Allocation	39,539 tons
Total Fibre Pallets Available	41,938
Pallets for Normal Fibre Inv.	6,464
Allocated for Surplus Fibre	35,474

Constant Cost Per Year:

Depreciation of Warehouses:	(143,308 sq. ft. x $5.50/sq.ft.) ÷ 40 yrs.=	$ 19,705
Maintenance of Warehouses:	143,308 sq.ft. x $0.27/sq. ft. =	38,693
Real Estate Taxes-Whses.:	(143,308 sq. ft. x $5.50 = $788,194 Value)	
(Weighted Rates):	$788,194 x $3.34/$100	26,321
Maint. of Pallets:	(35,474 x $6.55 ea.=$233,354 Value)	
(Weighted Life):	$233,354 ÷ 4.2 yrs.	55,845
TOTAL YEARLY CONSTANT COSTS		$140,564

SCHEDULE "B"

Actual labor costs to receive fibre - 1970

Total tons fibre received	=	75,194 tons
Normal tons fibre required	=	64,658 tons
Surplus tons received	=	10,536 tons

Labor costs to receive fibre = $14,249
(10,536 tons surplus x $1.35/ton (weighted)

These added labor costs occur during a given period of time whenever the Pipe Division is required to take in more fibre than it uses. When all surplus space is occupied there is no additional labor cost involved.

DHQ-Manville
March 15, 1971

D. Smyth - AFD

ADVOCATE FIBRE SHIPMENTS

The current shipment of 4400 tons of Advocate to Green Cove Springs and Denison departed Baie Verte March 13th at a charter rate of $14.10 per ton.

This vessel, "Thora Dan", is a substitute for vessel "Nigeria" which was originally chartered for $9.00 per ton. "Nigeria" then cancelled because of extreme ice conditions at Baie Verte.

Our previous shipment of Advocate was on "Astrid Schulte" in November, 1970. This vessel originally chartered at $12.00 per ton and was then revised to $14.00 per ton because the Pipe Division substituted Houston for Port of New Orleans.

Des, these fluctuations in charter rates and difficulties of winter shipments raise the following questions:

1. Why is it necessary to ship Advocate to us during the ice months or January thru June? We prefer to take in Advocate during the months July-December.
2. Aren't more competitive charters easier to obtain during July-December? Aren't they cheaper because of not requiring ice-breaking facilities? (eg. "Nigeria", a non-ice breaker at $9.00 per ton vs. "Thora Dan" an ice breaker at $14.10 per ton).
3. Aren't insurance rates lower during the months of July-December or when the ice conditions are not prevalent?
4. If the Pipe Division received its Advocate during July-December how much would the Charter be per ton? (The charter difference between "Nigeria" and "Thora Dan" amounts to $5.10 per ton, for an additional cost to the Pipe Division of more than $22,000.)

F. T. Petersen

cc: K. J. Whalen
L. Delaney
K. Patterson
W. R. Johnson
file
chrono

mb

DHQ, Manville
March 29, 1971

K. J. Whalen

ADVOCATE FIBER TO DENISON

Following is cost of Advocate and Jeffrey Fiber over the past three (3) years and shows the reason for "loading" Denison with as much Advocate as possible:

	1969		1970		1971	
	A-25	4T	A-25	4T	A-25	4T
Base Price $/Ton	175.70	175.00	177.93	180.44	189.39	190.14
Freight $/Ton	28.86	31.00	30.30	32.55	30.05	36.58
Total $/Ton	204.56	206.00	208.23	212.99	219.44	226.72
$70					211.44	225.22
$/Point Ton	2.84	2.86	2.89	2.96	3.04	3.14

Reeves Fiber is about the same as Jeffrey to Denison, maybe 1¢ per point ton higher.

D. Nowlin

D. Nowlin
DN:bc

cc: file/chrono