



To: T.J. Desanti

Subject: Giant Crude Arsenic Trioxide Sales to Koppers.

Date: February 18, 1981

INTER-OFFICE MEMORANDUM

From: D.N. Zeraldo

Copies to: DJE, File.

J. Hite's request for changes to the Giant/Koppers contract consist essentially of the following points:

1. The "Metals Week" published price is currently the Asarco "in drums" price which is not the lower "in bulk price" published at the time the contract was negotiated. Hite wants the "Metals Week" price corrected or I presume our agreement to use the price Asarco charges Koppers for crude Arsenic trioxide delivered in bulk.
2. Because Giant was on strike July 10 - October 26 and because regular production was not restored until January, Koppers could not make its initial shipment until February. As a result the truck freight rate escalated from 14.9 ¢ US/lb in September to the current 19.8¢ US/lb in February 1981 (both rates provided by Hite).

With respect to item (1) above, Alice Agoos at "Metals Week" was contacted on February 17, 1981. The confusion concerning their published "Trioxide/Tacoma" price was explained to her and she agreed that in the next issue an article would be included to clarify the situation and advise that the "Metals Week" Tacoma price will in the future represent Asarco's price for crude Arsenic Trioxide grading minimum 95% and delivered in bulk in carload lots.

The resolution of item (1) leaves only a decision to be made regarding J. Hite's proposal to: (a) use the September/80 rate of 14.9¢ US/lb as the base transportation rate and (b) begin paying Giant an escalated price of 10.75¢/lb immediately. The table on the attached page provides a comparison of the price Giant will receive according to:

- (1) The current contract terms, and
- (2) J. Hite's proposal

The comparison assumes that Koppers' trucking cost escalates

*Discussed with Zeraldo
on Feb 19th & agreed
to the compromise
that he proposed*
✓
Feb 23/81

at 15% per year and that the Asarco price increases during 1981 to the level of the Mexican price.

The comparison shows that Hite wants to establish as low a 'base freight rate as possible' in order to provide himself with as much "transportation allowance" as possible to offset any additional price increases above the current 31.75¢/lb.

The strike at Giant did create some hardship for Koppers in terms of having to pay a higher initial freight rate. Advice provided B. Harry at Trimac on Feb. 18/81 regarding these rates is summarized in the following points.

(a) Up until the fall of 1980 rates provided to Koppers and Falconbridge by Trimac were always "estimated rates".

(b) Trimac's first firm submission of a rate was made to Trimac in early Nov/80 and covered continuous movement of the entire annual tonnage using dedicated equipment. The rate provided was \$CDN 414/ST firm for 1981 with escalation for fuel as follows:

\$ 414/ST + 0.3%/1¢ increase in the price of fuel.

(c) Koppers then asked for a rate on an "odd load basis" (no doubt because Koppers intends to use mainly its own trucks). Trimac indicated that an additional \$CDN 92/ST would be required for the cost of cleaning trailers taken in and out of service etc. It seems clear from the information provided by Trimac that the 14.8¢/lb rate claimed by Hite to be the rate he could have shipped for in September is probably the estimated rate provided to him by Trimac in February/80, therefore the following proposal is suggested for presentation to Hite:

(1) The "Metals Week" price will be corrected by the editors of the publication to represent the Asarco "in bulk" price for minimum 95% As_2O_3 .

(2) The base price for Giant material will remain 7¢ US/lb contained.

(3) The base price of 7¢/lb shall be increased commencing with the first shipment by the amount the "Metals Week" price exceeds 24.25¢ US/lb.

(4) Koppers' initial transportation rate will be deemed to be 16.05¢ US/lb from which Koppers' "transportation allowances" will be computed commencing with the first shipment.

(5) Other terms remain unchanged.

The above proposal represents what is felt to be a fair basis for both parties in that it probably closely approximates the actual freight rate Koppers would have gotten if it had been able to make its first shipment in September/80 and hence produces results very close to what the current contract was originally intended to do.

In order to substantiate this counter proposal to Koppers a present value calculation has been done and is attached in Table 2 which shows that the cost to Giant in making the counter proposal could amount to \$US 65,100 whereas Kopper's proposal would cost Giant \$US 128,100 over the life of the contract. Please note that these costs are for negotiating purposes. From the practical standpoint of Giant, if the strike had not occurred, Koppers would have made a shipment in September or October and have established a lower base freight rate and as a result of which Giant's current contract prices would have been lower than shown in our calculations.



D.N. Zeraldo

DNZ:ac

Table I: Comparison:

	<u>Contract</u>						<u>Hite Proposal</u>					
	<u>Giant Base Price</u>	<u>Base Transp. Rate</u>	<u>Actual¹ Transp. Rate</u>	<u>Asarco² Bulk Price</u>	<u>Giant Net Price</u>	<u>Koppers Net Cost</u>	<u>Giant Base Price</u>	<u>Base Transp. Rate</u>	<u>Actual Transp. Rate</u>	<u>Asarco Bulk Price</u>	<u>Giant Net Price</u>	<u>Koppers Net Cost</u>
Feb/81 - Aug/81	7.0	19.8	19.8	31.75	7.0	26.8	7.0	14.9	19.8	31.75	10.75	30.6
Sept/81 - Aug/82	7.0	19.8	22.8	40.75	20.5	43.3	7.0	14.9	22.8	40.75	15.6	38.4
Sept/82 - Aug/83	7.0	19.8	26.2	40.75	17.1	43.3	7.0	14.9	26.2	40.75	15.6	41.8
Aug/83 - Sept/84	7.0	19.8	30.1	40.75	15.3	45.4	7.0	14.9	30.1	40.75	15.6	45.7
					14.9	39.7					14.4	39.1

1. Assume 15% rate increases

2. Assume increase in Asarco price in 1981 to the level of the Mexican price.

Recommended Terms

Feb/81 - Aug/81	7.0	16.1	19.8	31.75	10.8	30.6
Sept/81 - Aug/82	7.0	16.1	22.8	40.75	16.8	39.6
Sept/82 - Aug/83	7.0	16.1	26.2	40.75	15.2	41.4
Aug/83 - Sept/84	7.0	16.1	30.1	40.75	15.2	45.3
					14.5	39.2

Table II: Present Value of Cost to Giant: in

(a) accepting Hite proposal

(b) Hite accepting our proposal.

Giant Revenues (¢US/lb)

(A)	Period				<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	
1) Current Contract	7.0	20.5	17.1	15.3	
2) <u>Hite proposal</u>	<u>10.75</u>	<u>15.6</u>	<u>15.6</u>	<u>15.6</u>	
(¢US/lb)	3.75	(4.9)	(1.5)	(.3)	(2.95)
PV (@ 15% i) on 3500 T/YR =	3.75	(4.26)	(1.13)	(.19)	(1.83)
				\$US	128,100

(3)					
1) Current Contract	7.0	20.5	17.1	15.3	
2) <u>Giant proposal</u>	<u>10.8</u>	<u>16.8</u>	<u>15.2</u>	<u>15.2</u>	
(¢US/lb)	3.8	(3.7)	(1.9)	(.1)	(1.90)
PV (@ 15% i) on 3500 T/YR =	3.8	(3.22)	(1.44)	(.07)	(0.93)
				\$US	65,100