



D.J.E. APR - 6 1981

To: D.J. Emery

Subject: Giant Baghouse Dust Sales to Koppers

Date: April 2, 1981

INTER-OFFICE MEMORANDUM

From: D.N. Zeraldo

Copies to: TJD, JOK, W.A. Moore, K. Morton, PJR.

A meeting was held on March 31, 1981 at FNM Toronto offices to discuss the captioned subject. The meeting was attended by:

Don F. Marion - Manager of Raw Material
Purchases

- Koppers

D.N. Zeraldo - Marketing

- Falconbridge

D.F. Marion was recently selected to work directly for John Hite and be responsible for raw material purchases including the coordination and administration of Koppers' contract with Giant.

Marion provided the following information with respect to the initial shipments of Giant baghouse dust received at Conley during February and March, 1981.

1. Two trucks arrived during February and three trucks arrived during March making a total of 5 trucks to-date.
2. Trimac currently has 4 trucks in (dedicated) service but Koppers have requested that 2 more trucks be added so that there will be a total of 6 in service.
3. Marion said that there is a 12 day turnaround time for the haul between Yellowknife and Conley. Allowing 3 months for freeze-up and break-up, the contract tonnage of 3500 tons must be transported over 9 months. Since the capacity of each truck is about 20 tons, Koppers calculate that they will ultimately require 8 trucks in continuous service.
4. The 6th and 7th truckloads recently departed Giant and are expected to arrive at Conley shortly.
5. Koppers has purchased 2 tanker type trailers to allow investigation of possible methods of bottom discharging.

6. Koppers has been filling its storage silos but this week is expected to start-up its purification plant on a full scale basis. The Conley plant apparently has over 1000 tons of silo storage capacity.

7. It was explained to Marion that Koppers has not yet provided to Giant any information pertaining to the analysis and moisture of the residual sludge. Dion agreed to supply a sample and complete specification of the sludge produced in Koppers pilot plant.

8. Marion provided the following current cost comparison for Giant material versus Asarco's product:

	<u>Asarco</u>	<u>Giant</u>	
		<u>Current Terms</u>	<u>Revised Terms</u>
Grade As ₂ O ₃	96%	90%	
Price F.O.B. - Tacoma	33¢ US/lb contained		
- Yellowknife		7¢ US/lb contained	10.8¢
Transportation to Conley	4¢ US/lb contained	20¢ US/lb contained	20¢
Upgrading Cost	NIL	10¢ US/lb As ₂ O ₃	10¢
Net Cost to Koppers	37¢ US/lb contained.	37¢ US/lb contained.	40.8¢ US/lb contained.

Marion pointed out that if the revised pricing arrangement (as outlined in DNZ's Feb. 20/81 letter to J.D. Hite) is accepted by Koppers (a discussion of which is covered under points 9 and 10 below), then the F.O.B. Yellowknife price is 10.8¢ US/lb contained and the net cost to Koppers becomes 40.8¢ US/lb contained which exceeds the cost of material from Tacoma by 3.8¢ US/lb As₂O₃. The upgrading cost of 10¢ US/lb was questioned by the writer and Marion did not try to defend it. P.J. Raleigh may be in a position to comment on the validity of this figure.

It seems clear however that Koppers is becoming concerned about the size of the transportation cost and the prospect of its rapid escalation.

9. During J. Hite's February visit to Toronto he made a request for a change to the pricing clause in the original contract negotiated in March of 1980.

He claimed hardship in terms of not being able

to ship Giant material as of Sept 1/80 due to the strike and thereby establish a low initial freight rate (purported to be around 14¢ US/lb by Hite). This low freight rate of course would have allowed Koppers under the contract to recoup 50% of the increase (as of Sept 1/81) in the Asarco price which went from 24.25¢ at the time the contract was negotiated to 31.75¢ US/lb by February/81-an increase of 7.5¢ US/lb. Koppers did establish its initial freight rate in February/81 at 20¢ US/lb.

The failure to ship in Sept/80 allowed the price escalator and the transportation cost compensator to get somewhat out of phase and would have resulted in Giant receiving a windfall increase in its price. That is, if Koppers' transportation cost remains at 20¢ US/lb As_2O_3 then Giant would soon be receiving 14.5¢ US/lb As_2O_3 f.o.b. Yellowknife. Such a price would be equivalent to the following cost to Koppers:

Price f.o.b. Giant	14.5¢ US/lb contained
Transportation to Conley	20¢
Upgrading	<u>10¢</u>

44.5¢ US/lb contained

which is significantly above the Asarco price.

Our response in February to Hite's request was that we would review the entire subject and try to make a proposal on price which would reflect the spirit behind the pricing clause in our original contract.

In a Feb. 20/81 letter from DNZ to J.D. Hite a proposal was made to split the price increase of 7.5¢/lb in half. Giant would get 3.8¢/lb on top of the original base price of 7¢/lb and Koppers would be able to deduct 3.7¢ /lb from the freight rate of 20¢/lb and thereby establish a base freight rate of 16.1¢ US/lb. Furthermore, Giant would be allowed to immediately begin pricing its product at 10.8¢/lb and the fixed price of 7¢ US/lb on the initial 12 months of production would be eliminated. This we thought to be fair and reasonable (although more reasonable to Giant than to Koppers as shown by the calculations in Tables 1 and 2 attached).

10. Marion and the writer had a lengthy discussion regarding DNZ's letter proposal of Feb. 20/81 to J. Hite as summarized under point 9 above. Marion made numerous attempts and requests for a further concession from the pricing terms offered in the letter on the basis that if Koppers accepts the revised pricing terms then (a) Giant's product will be higher cost than Asarco material and (b) the expected

rate of escalation in the transportation cost component will make the cost of Giant's product completely uncompetitive with Asarco's product.

Marion's requests were turned down by simply stating that:

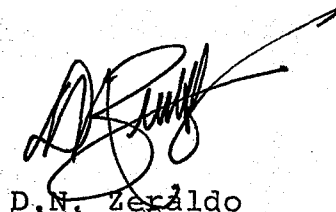
- (a) the revised pricing terms proposed by Giant were fair and reasonable to both Giant and Koppers;
- (b) there is no reason today for Giant to accept a reduction in the size of any of its future price increases simply on Koppers' expectation that its transportation costs will become overly burdensome; and,
- (c) if the transportation cost does in the future become so high that the purchase of Giant baghouse dust by Koppers is uneconomic, then Giant at that time would be prepared to sit down and discuss this situation in light of the prevailing arsenic trioxide market conditions with the object of always arriving at a solution that is fair and reasonable to both parties.

11. Marion finally accepted the revised pricing terms as provided in the writer's Feb. 20/81 letter. One small concession was made. The writer agreed to make the new pricing terms effective as of April 1, 1981 rather than as of the first shipment made under the contract (i.e.: 5 shipments will be priced at 7¢ US/lb whereas all material received after March 31, 1981 will be priced according to the new terms (10.8¢ US/lb).

12. Marion was advised to make sure that Koppers keeps Giant's silo empty before break-up starts in order to ensure that Giant minimizes the quantity of material it will have to put underground during the break-up period after its silo is full.

Marion said he was going to meet with the Trimac people in Calgary on his trip back from Yellowknife and that his objective is to get Trimac to haul the maximum amount of material as fast as possible.

13. A contract amendment will be drawn up and sent to Koppers within the next 2 weeks.



D.N. Zeraldo

DNZ:ac

TABLE I: COMPARISON OF PROJECTED PRICES TO BE RECEIVED BY GIANT FOR BAGHOUSE DUST.

Original Contract Terms - If No Strike Had Occured

(¢US/LB)	Giant Base Price	Base Transp. Rate	Actual ¹ Transp. Rate	Asarco ² Bulk Price	Giant Net Price	Koppers Delv'd Cost
Sept/80-Aug/81	7.0	14.9	19.8	31.75	7.0	26.8
Sept/81-Aug/82	7.0	14.9	22.8	40.75	15.6	38.4
Sept/82-Aug/83	7.0	14.9	26.2	40.75	15.2	41.4
Sept/83-Aug/84	7.0	14.9	30.1	40.75	15.2	45.3
					13.3	38.0

Original Contract Terms - with Strike

	Giant Base Price	Base Transp. Rate	Actual ¹ Transp. Rate	Asarco ² Bulk Price	Giant Net Price	Koppers Delv'd Cost
Feb/81-Aug/81	7.0	19.8	19.8	31.75	7.0	26.8
Sept/81-Aug/82	7.0	19.8	22.8	40.75	20.5	43.3
Sept/82-Aug/83	7.0	19.8	26.2	40.75	17.1	43.3
Aug/83-Sept/84	7.0	19.8	30.1	40.75	15.3	45.4
					14.9	39.7

Hite Proposal - with strike

	Giant Base Price	Base Transp. Rate	Actual ¹ Transp. Rate	Asarco ² Bulk Price	Giant Net Price	Koppers Net Cost
	7.0	14.9	19.8	31.75	10.00	29.8
	7.0	14.9	22.8	40.75	15.6	38.4
	7.0	14.9	26.2	40.75	15.6	41.8
	7.0	14.9	30.1	40.75	15.6	45.7
					14.2	38.9

Proposed Terms - With Strike

	Giant Base Price	Base Transp. Rate	Actual ¹ Transp. Rate	Asarco ² Bulk Price	Giant Net Price	Koppers Net Cost
	7.0	16.1	19.8	31.75	10.8	30.6
	7.0	16.1	22.8	40.75	16.8	39.6
	7.0	16.1	26.2	40.75	15.2	41.4
	7.0	16.1	30.1	40.75	15.2	45.3
					14.5	39.2

1. Assume 15% rate increases

2. Assume increase in Asarco price in 1981 to the level of 40.75¢ US/lb.

TABLE 2 - Summary and Analysis of Table IA

Giant Avg Price Received:	US¢/lb contained <u>As₂O₃</u>	Giant <u>Gain</u>	Giant Total ¹ <u>Gain over Contract Life</u>
1. Original Contract - no strike	13.3	-	
2. Original Contract - with strike	14.9	1.6	\$ US 403,200
3. Hite Proposal - with strike	14.2	0.9	\$ US 226,800
4. Giant Proposal - with strike	14.5	1.2	\$ US 302,400

1. Assume 3500 T/YR Baghouse dust @ 90% As₂O₃.

Conclusion

Koppers acceptance of the Giant Proposal for revised pricing means that Giant stands to gain \$ US 302,400 additional revenue over the contract life provided the Tacoma price rises to at least 40.75¢/lb.