

RG-1668

June 25, 1986

Rapifax to: D. J. Emery/K. Blower - Giant Yellowknife

cc: P. J. Raleigh - FL

Subject: Giant As₂O₃

Further to my rapifax today regarding the visit to Giant of Robson/Drinkard/Gallagher. A short discussion was held here prior to their departure. Comments below:

1. Blythe/Applied Research have acquired property on which to build a plant to produce CA in Hickory Grove, South Carolina located about 30 miles southwest of Charlotte, North Carolina. Hickory Grove, a small community looking for industry, has good highway and rail access. A decision to build this plant must be made shortly in order for it to be operational in the spring of 1987. According to Blythe/Applied Research, the current Applied Research plant producing CCA in Charlotte is operating at capacity and they need to expand to meet projected sales levels. This statement appears realistic based upon comments by Don Marion of Koppers (in a telephone conversation with Marion today) that Koppers had (i) an excellent second quarter this year to date and (ii) an encouraging forecast for the third quarter despite very competitive prices for CCA; i.e. prices in the mid-US 80 c/lb range for CCA.
2. Robson referred to the Hickory Grove plant in Phase 1. This plant will commence operations using refined As₂O₃ and high purity copper. However, it will be engineered so that it will be able to accept unrefined Giant crude As₂O₃ and unrefined copper (PJR provided samples of low grade Kidd Creek copper residue and cement copper from U.S. sources). Gallagher suggested Blythe/Applied Research could locate unrefined copper in the USA themselves and could not offer any advantage to Giant for finding copper material they can ultimately locate themselves. Consequently, the only benefit provided by Giant/FL on copper would be low priced Kidd Creek copper. This material could have a discount of US 15 - 20 cents per pound (probably closer to US 15 cents) depending upon the return now achieved by Kidd Creek in selling this product. Blythe will test Kidd material to determine whether it is acceptable.

3. Phase 1 of the Blythe/Applied Research plan will not require any input from Giant unless it moves forward to utilize crude As_2O_3 as feed. Phase 1 is therefore the base case. Phase 2 would require more capital and higher operating costs to treat Giant crude. The incremental capital and operating costs would then be compared with the incremental revenue achieved from an effective plant expansion (or increase in capacity) and a decision reached on whether to move to a crude As_2O_3 supply. This would of course depend on the price charged by Giant. The US 25 c/lb As_2O_3 price in my rapifax earlier today could be too high in today's market to provide enough profit potential to move to Giant crude As_2O_3 compared to using higher purity El Indio or Lepanto material in the high 20 cents - low 30 cents/lb range. I am not aware what the breakeven price would be. If Giant's crude As_2O_3 price is low enough the move is profitable and Giant can then become a small partner in the venture and share in the incremental profits from the expansion only. If there is not sufficient additional profit in moving to Giant crude, then, Blythe/Applied Research would not want Giant as a partner. This is my understanding of what Robson said today.
4. Applied asked about the cost of transporting Giant crude in bulk by rail to Charlotte and were told US 11 - 12 c/lb. Gallagher had a price of US 8 c/lb from Equity Silver to Charlotte which is similar to the mileage from Hay River. Gallagher was advised the truck rate from Giant to Hay River was US 3 - 4 c/lb (total 11 - 12 cents) plus the cost of an environmentally sound loading station at Hay River. Consequently, Blythe/Applied Research will undoubtedly be looking for a delivered price for Giant crude of US 15 - 20 c/lb.
5. Residue will be returned dry in bulk and loaded into empty rail cars as a back haul. No discussion was held on the residue but it is assumed any revenue would be wholly for Giant's account.

Regards,
T. J. Desanti

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