



Chevron Chemical Company

San Francisco, CA
March 30, 1982

PARAQUAT CONTRACT IMPLEMENTATION

CONFIDENTIAL

MR. R. PRIDEAUX-BRUNE:

Please refer to your questions on our attached memo describing the implementation of our renegotiated Paraquat Distributorship Agreement with ICIA. The answers to your questions are as follows:

1. Restraints on ICIA for Uneven Quarterly Liftings.

In September, ICIA submits an initial estimate of their quarterly requirements and may not, without our consent, estimate requirements for any one quarter in excess of 50% of their estimate for the year. No later than 70 days before each quarter, ICIA places a firm order for the quarter. We are not required to formulate any quantities in excess of 20% of their quarterly estimate. Thus ICIA has the flexibility to take up to 60% of their annual quantities in any given quarter without any special consent from us.

2. Use of Chevrons Poison Information Centers.

Our telephone number will remain on ICIA's labels as long as they are using our registration number. The plan is that ICIA will set up its own nationwide system for handling poison cases, including a telephone answering service that will receive calls into our number and transfer them to theirs. In the interim, we will give initial advice on ICIA problems by answering emergency questions. The cases will then be turned over to ICIA for followup. Mr. Stelzer expects that it will take ICIA a year, or more to set up a 24-hour medical and toxicological staff to handle all incoming emergency calls completely.

3. Transfer of Newly Developed Proprietary Information.

When the new Distributor Agreement was executed on November 6, 1981, an addendum was also executed to extend the April 15, 1975 License Agreement as long as the Paraquat Agreement is in force. Under the License Agreement each party is obligated to license the other party, royalty-free, patent rights and technical information pertaining to the formulation, use and sale of Paraquat. We are obligated to advise each other of all pertinent patent rights and technical information not less than twice a year. Thus we do have an obligation to continue to transfer to ICIA information on newly developed uses, formulations and inventions involving Paraquat.

4. Numbers Used in Analysis for Contract Renewal.

Our analysis for contract renewal assumed that ICIA would take their full 225,000 gallons, and we still believe they will. Our market projection was also right in line with the current estimate of just over two million gallons for 1982, although this figure was not explicit in our analysis. All the analytical work was tied to a market projection made by ICIA in June, 1980. At the then current price level of \$34.80/gallon, the 1982 "market" defining our minimum offtake was 1.6 million gallons. The current distributor price of \$36.75/gallon does not change the 1.6 million gallon basis. Our minimum offtake is 90% of this "market" less ICIA's 225,000 gallons, which is 1,215,000 gallons.

5. Our Strategy

We are currently working on next year's strategy, keeping in mind that our main competition is Monsanto's Bronco, and not ICIA's Paraquat. The strategy includes:

- a. Maintain excellent "stewardship" of Paraquat, including assisting ICIA to this end.
- b. Pursue all the Paraquat market opportunities as aggressively as our resources allow. We believe ICIA will be as aggressive as necessary to sell all the formulated product that the contract allows them to have formulated at our average costs.
- c) Raise our prices next season, considering the Bronco competition, recognizing that ICIA may again adapt a pricing strategy to make certain they sell their product.
- d) Introduce new container sizes, e.g., a 2½ gallon container, a 30 gallon drum and possibly bulk shipments.
- e) Consider the introduction of an emetic formula, although there is some question whether it is effective. Costs may also be substantial, and probably cannot be recovered. ICIA may or may not introduce an emetic in the U.S.A. for the same reasons, although ICI currently sells an emetic formula elsewhere in the world. We will be alert so that ICIA does not "scoop" us here.
- f) ICIA is selling Paraquat in all areas in which we sell Paraquat. We believe we must be competitive with ICIA's pricing programs or customers will pressure them to sell more Paraquat at our expense. Our distributors are also handling Gramoxone along with our Paraquat so that ICIA does not set up competitive distributorships. Our distributors do not want to upset their relationships with ICIA because they want to handle ICIA's new Fusilade, a post emergence soybean herbicide. As always, distributors would prefer

to buy from the primary producer. This is a further reason that we must protect our markets by meeting the general market price offered by ICIA.

E. L. STRIPLING, JR.

RHC/LRG:tmb



Chevron Chemical Company

San Francisco, CA
March 25, 1982

CHIEF OPERATING
OFFICER

MAR 25 '82

	To	Note	Handle
/	RFB	✓	
	HMC		
	DPH		
	RHM		
	PS		
	DCS		
	ELS		
✓	EMF		
	ACA		
	MSC		

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MR. R. PRIDEAUX-BRUNE:

Implementation of the new Paraquat contract has proceeded smoothly from our point of view, and all indications are that it has proceeded smoothly from ICIA's point of view as well. Our principal contact will be through the S&D operation when the implementation is complete. In the early stages we are also dealing with them through our R&D and marketing organizations. The R&D effort is required to allow ICIA to obtain their product labels, and Marketing is providing for a continued high level of product stewardship. Our implementation experience in each of these areas has been as follows.

Supply and Distribution

ICIA's right to formulated product at our average cost of formulation is 225,000 gallons this year. They have ordered 112,752 gallons for the first quarter and will receive the full amount by the end of March (85,536 gallons were shipped as of March 23). We understand that they have booked most, if not all, of their 225,000 gallon yearly total.

There have been some delays in satisfying ICIA's demand for formulated product in their containers, primarily due to ICIA's difficulty in obtaining labels and containers to their specifications. We view these as normal start-up problems which they are resolving. When the labels and containers have been supplied, we have been able to satisfy ICIA's demand on a timely basis without any problems.

R&D

Implementation of contract terms on registration and labelling appear to be going well. Mr. H. J. Aroyan sent a team to meet with ICIA to provide information on uses, labels, safe handling, and application techniques and practices. We have notified the EPA and all states that ICIA may use our data and registration number in applying for their label registration. We are assisting them in obtaining 24C registrations in some states, particularly California. The contract allows ICIA to proceed to get their own registration number, even though they will not sell under it as long as the contract is in force; this process is proceeding smoothly with our cooperation. We are still working out details for ICIA's use of our Poison Information Center. Our telephone number is on ICIA's label. Currently we first react to emergency cases from ICIA's materials within our system and then turn appropriate information and follow-up activities over to ICIA.

ICI and ICIA personnel visited Richmond on March 4 and 5 to discuss toxicological data and problems. This type of meeting has been occurring for

①
ICIA's
product
labels
are
not
being
supplied
to
them
as
fast
as
needed
for
marketing
purposes.

②
pending
contract
terms?

several years. ICIA is interested in getting registration on the emetic formulation for use in the U.S. Application for this registration has been bouncing between the EPA and the FDA for some time. Mr. Stelzer advises that registration may be approved this year, possibly in a month or so.

ICIA may have a problem in registering their Paraquat in Puerto Rico where Chevron has registered "Ortho Gramoxone". Mr. Stelzer says we will cooperate with them in getting a registration but that we do not intend to change our registration.

*Agreed
check with
Sgt. [unclear]
[unclear]*

Mr. Aroyan points to one area that may need further clarification. It is not clear what responsibilities Chevron has to transfer to ICI proprietary information on newly developed uses, formulations and inventions involving Paraquat. Currently we plan to get patents in these areas where we can.

④

*How do I like
compare to our strategy
for contract renewal*

③ Marketing

Last year we sold 2,073,000 gallons of Paraquat and this year we expect the total market to be 2,050,000 gallons. Our sales will therefore drop to 1,825,000 gallons this year, assuming ICIA sells the full 225,000 gallons mentioned above. Paraquat invoices through March 24 were 907,000 gallons, which is in line with the 1,825,000 gallon yearly goal. Our 1982 contract minimum offtake is just over 1,200,000 gallons under the current market conditions.

Last November we announced our early order program and simultaneously raised prices by 8.7%. In January, ICIA announced initial prices of 40 cents/gallon below our net, and we modified our early order program to meet theirs. We believe that their pricing policy was designed to allow them to gain early access to the market, and not to make a point of demonstrating price leadership. Nevertheless, it was effective on both points.

*same
the [unclear]*

In their sales program, ICIA has been stressing their initial development and 20-year history as worldwide marketers of Paraquat, and, in general, marketing their Gramoxone-Paraquat product aggressively.

In summary, we believe we are meeting all terms of the contract, including minimum offtake, effective promotion of the product, high level product stewardship and assistance to ICIA in obtaining label registrations.

E. L. STRIPLING, JR.

RHC/LRG:dmd

OK but what is our strategy? Are we
staying back for their demand volume, as we
committed to equal price to theirs for all product, or
what?

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