



**Diamond Shamrock**

James F. Kelley  
Vice President and  
General Counsel

April 4, 1986

Dr. Ray Irani  
President  
Occidental Petroleum Corp.  
10889 Wilshire Blvd.  
Los Angeles, California 90024

Dear Ray:

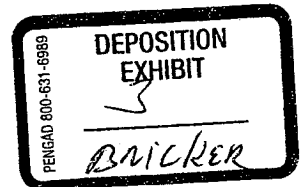
When we were in California we discussed several issues relating to the environmental and legal liabilities of Diamond Shamrock Chemicals and how they might be handled in a transaction with Oxy. Subsequently we have had discussions with other potential purchasers which have raised many of these same issues.

Recognizing that the disposition of these issues will have a significant effect on the overall value of the transaction to a purchaser, we have thought it appropriate to clarify and expand Diamond Shamrock's position with respect to these issues. I enclose for your information a copy of the terms and conditions relating to these issues, which we are also providing to other purchasers, and would ask that you include these in your continuing consideration of this possible transaction.

Needless to say I'd be happy to clarify any of these points or answer any related questions you or your staff may have.

Sincerely yours,

James F. Kelley



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enc.

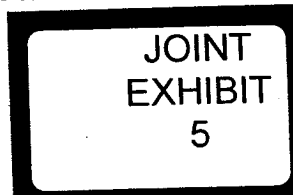
cc: W. H. Bricker  
P. A. Hesse  
C. E. Stewart

RECEIVED

APR 8 1986

RAY R. IRANI

Diamond Shamrock Corporation  
World Headquarters, 717 North Harwood Street, Dallas, Texas 75201 Phone 214 922-2715



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### SALE OF DIAMOND SHAMROCK CHEMICALS

In considering the acquisition of Diamond Shamrock Chemicals Company (DSCC), the following terms and conditions relating to liabilities will apply:

1. The closing of the sale of the DSCC shares will pass to the purchaser all liabilities of DSCC, whether fixed, accrued, contingent, unknown or otherwise, including pending litigation, potential environmental claims and cleanup costs, except those arising from operations of DSCC which have previously been sold or discontinued or products no longer manufactured or sold, as more fully described below.

2. Liabilities for cleanup costs mandated by any environmental protection law or regulation are excluded to the extent they arise out of or relate to (a) any site now owned by Diamond Shamrock or DSCC at which manufacturing operations have been permanently abandoned and (b) any site not now owned by Diamond Shamrock or DSCC which has been or may within three years from the date of closing be designated a Superfund site as a result of activities of DSCC while owned by Diamond Shamrock, in each case only to the extent Diamond Shamrock or DSCC may be legally responsible for cleanup costs at such site.

3. Also excluded are damages, judgments and costs, including attorneys fees, which arise out of the following litigation against Diamond Shamrock or DSCC (whether now pending or filed in the future):

(a) All litigation arising out of or relating to the manufacture and sale by Diamond Shamrock of Agent Orange and similar herbicides to the U. S. Government for use in Vietnam.

(b) All litigation arising out of DSCC's manufacturing operations at 80 Lister Avenue, Newark, New Jersey, and other sites where manufacturing operations have been permanently abandoned, including claims for property damage and personal injury arising from the cleanup of such sites.

(c) Litigation relating to products or operations of DSCC which had been permanently discontinued or sold to third parties on or before April 1, 1986, including but not limited to agricultural chemicals, functional polymers, PVC/VCM and polyester resins.

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4. Excluded from the transaction are all damages, judgments and recoveries which Diamond Shamrock or DSCC may secure as a result of any litigation, whether now pending or subsequently filed, brought by them against Aetna Insurance Company or any of their other insurers to recover for any liability retained by them pursuant to paragraphs 1, 2 and 3 above.

5. Immediately upon the execution by the purchaser and Diamond Shamrock of a letter of intent with respect to the transaction, the purchaser will be afforded full access to DSCC's plants, records and personnel for the purpose of carrying out a "due diligence" examination of the health, safety, environmental and legal liabilities of DSCC. Diamond Shamrock will provide the purchaser with estimates of the amount of such liabilities. The purchaser will use its best efforts to complete this examination within 30 days of the execution of such letter of intent. Not later than such 30th day the purchaser will provide Diamond Shamrock a written list of issues arising from such examination which the purchaser proposes to negotiate in the definitive purchase agreement. Diamond Shamrock in its sole discretion will have the right to terminate negotiations with the purchaser if it considers such issues unduly burdensome.

6. All liabilities and expenditures resulting from compliance with environmental protection laws or regulations with respect to the business of DSCC which become payable at any time during the three-year period immediately following closing of the transaction, except for liabilities retained by Diamond Shamrock pursuant to paragraph 2 above, will be shared by Diamond Shamrock and the purchaser (after application of available insurance proceeds) in accordance with the following formula:

Date Liability Becomes Payable	% Paid by Purchaser	% Paid by Diamond Shamrock
Up to 1 year after closing	25	75
During 2nd year after closing	50	50
During 3rd year after closing	75	25
After 3 years from the date of closing	100	0

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All liabilities described in this paragraph 6 will be deemed a liability for the purpose of such formula on the date they become payable, regardless of when they arose or came into existence and regardless of whether they were due to the acts of DSCC or a third party, and will be shared by Diamond Shamrock and the purchaser according to the foregoing formula.

7. In order to monitor expenditures which may be liabilities under the above formula, at the closing the purchaser and Diamond Shamrock will establish an environmental review committee consisting of not less than two qualified environmental personnel from each company. Such committee shall meet at least quarterly to review all DSCC's environmental compliance programs, cleanup programs and expenditures and liabilities which may be subject to the foregoing formula. For this purpose Diamond Shamrock representatives will have access to all documents, facilities and personnel of DSCC as they may request. All liabilities and expenditures approved by such committee shall automatically be included in such formula. In the event of disagreement among the members of such committee as to the necessity of making such payments, the purchaser will have the right to include in such formula up to \$1,000,000 of disputed liabilities in each of the three years immediately following the closing.

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