UNION CARBIDE

INTERNAL CORRESPONDENCE

PLAINTIFF'S EXHIBIT
Union Carbide 573

METALS DIVISION

P. O. BOX 579 • 4625 ROYAL AVE., NIAGARA FALLS, NEW YORK 14

To (Name) Mr. R. W. Rebholz
Division UCC-Metals Division
Location 38th Floor
270 Park Avenue
New York, NY 10017

Copy to G. R. Adams
G. M. Lincoln
File

Date October 28, 1980

Originating Dept. "Calidria" Asbestos

Answering letter date

Subject ABB Narrative

As you requested, enclosed is a revised version of "The Asbestos Business - 1980 & 1981" which I originally prepared on 9/19/80 for Mr. Adams. The major revision concerns the 1981 sales program and this report should provide you with enough information to develop the 1981 budget narrative.

John L. Myers

JLM:dal
Enclosure

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UNION CARBIDE INTERNAL CORRESPONDENCE

ETALS DIVISION • P. O. BOX 579 · 4625 ROYAL AVE., NIAGARA FALLS, NEW YORK 14

To (Name) Messrs.
R. E. Byrne, Jr.
Division G. L. Dickson
Location B. L. Ingalls
T. P. Norris
J. E. Walsh

Copy to W. B. DeAtley
H. B. Rhodes
J. J. Sibley
File

Date October 28, 1980

Originating Dept. "Calidria" Asbestos

Answering letter date

Subject Revision of Asbestos Business Review

Enclosed is a revised version of "The Asbestos Business - 1980 & 1981", which I originally sent to you on 9/29/80.

It has been updated with regard to our projected 1981 sales performance and will be used as a basis for the Annual Business Budget Narrative.

John L. Myers

JLM:dal
Enclosure

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THE ASBESTOS BUSINESS - 1980 & 1981

(JLM, 10/28/80)

Through September, asbestos sales were at an all-time record high for this period of $5.5MM, 8% ahead of budget. Sales volume was 23,000 tons, or 102% of budget.

The quality of the asbestos business continues very good with earnings at 13.6% of sales and ROA at about 20% through September. Based on Forecast III this performance should continue through the end of 1980, and total sales should be a new annual high of $7.3MM, or 107% of budget.

Domestic sales have been held up by the floor tile and drilling mud industries, while the sagging auto industry has adversely affected sales of Resin Grade products.

The floor tile companies we supply are primarily involved with tile for commercial and public buildings so the drop in single family housing starts has not affected our business as much as it has Canadian asbestos companies. Our two major tile customers use asbestos pellets in bulk, which now accounts for 74% of our tile grade asbestos sales. The apparent permanent shutdown of Atlas Asbestos Company, our only domestic competitor, will give us increased sales at GAF's plant in Long Beach, California, in 1980 and 1981. Oversupply of short fiber in Canada will prompt some serious competitive price problems at our tile customers in the East. Our price is higher than Canadian and the extra freight worsens the situation. We sell on performance, service and reliable supply.

Our share of the drilling mud business has declined to about 35-40% in the last few years when J-M introduced a water-wetted product. We have decided not to invest the necessary capital to produce an oil-wetted product, but sales are currently about 190% of budget because the number of rigs operating is at an all-time high. Montello, our distributor for this application, is investigating the possibility of having mini-pellets packaged by a third party. The mini-pellets (UNIVIS) are currently being evaluated with regard to down-hole performance and reduction in dust generation.

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Domestic sales of Resin Grade products to the auto and auto supply industries have naturally fallen with the decline in auto production; however, sales personnel have done a good job of developing new customers, and the use of RG in appliance and other sealants has held up. Combined RG products are forecast to be 86% of budget in 1980.

Export sales through September were 115% of budget but will drop slightly d the last three months due to the sliding Japanese economy and inventory reducti expect to end the year at 113% of budgeted dollars, but only 94% of budgeted t ts Japan, who accounts for over 50% of our export, entered no orders for August a cipate decreased requirements for the balance of this year. We have recently notified that our Australian floor tile customer (400-500 TPY) has discontin use of asbestos. Sales performance in terms of dollars will be ahead of bud of RG products, which will end the year at over 120% of budget, and increas 244) Sylodex-24 (RG-244) sales to Grace in Europe are going well and RG-244 sal Canada and Brazil are also well ahead of budget.

In 1980, export sales will account for 30% of total tons and 46% of total dollars. This is a considerable change from prior years, such as 1978 when tons were 26% and dollars were 36%. We have made a concentrated effort to develop export markets because of the more negative effect in the U.S. of asbestos & health adverse publicity and regulatory activity.

Because of declining inventories, the asbestos mill in King City went to seven-day operation (20 shifts/week) in April after operating on five days (15 shifts per week) for seven months. It was planned to return to five days in the 4th quarter, but the increased business from GAF has precluded this. We currently have less than a 40-day inventory so seven-day operation should continue well into 1981.

Although 1981 should be another record sales year, the financial quality of the business will not be as attractive due to a sharp increase in plant costs. The asbestos ill, being a wet beneficiation process to produce a bone-dry product, is very energy

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intensive. Electricity and natural gas account for over 30% of production costs and these items are forecast to increase by 122% and 74% respectively in 1981 compared to the 1980 budget. Overall plant costs are expected to be over 30% higher than 1980 budget.

A final 1981 sales budget was prepared and submitted on 10/27/80. The original budget, based on field salesmen input and realistic price increases, was altered considerably by "top-down" adjustments to achieve the continued good financial performance of the asbestos business. The adjustments include an additional 2000 tons of product and price increases to add $896,000 in NIFS. Following is a summary of the 1981 sales budget:

	1980 Fcst IV		1981	NIFS, $M		
	Tons	$M	Tons	@ '80 Prices	@ '81 Prices	% Increase
Domestic	21,250	3923	25,490	4755	5530	16.3
Export	9,224	3394	8,910	3211	3826	19.2
TOTAL	30,474	7317	34,400	7966	9356	17.4

Price increases on individual products range from about 11% for floor tile grades to 25-40% for resin grade products, to give the overall 17.4% increase. Although the 11% may sound modest, we have been advised that Canadian prices for short fiber will be increased only 5%. It will be very difficult to maintain sales at Kentile-Brooklyn and to achieve new sales at GAF-Vails Gate (part of the top-down adjustment). Both of these locations would like to use our products, but Canadian fiber is available to them at a considerable cost savings. Another tonnage adjustment is 500 tons of UNIVIS for Montello. This is a developmental program and would not normally be a budget item until a field success had been clearly demonstrated.

The significant price increases for resin grade products will be implemented during a low sales volume period, and we are not aware of similar increases for competitive products. Fumed silica is produced by Cabot in Illinois and Degussa in Alabama and these states do not have the California energy cost situation. We expect considerable

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resistance to high price increases from our distributors in Japan and Europe. The European inflation rate is extremely low compared to ours (and our increases are double the U.S. rate); and, in Japan, we face a flat, at best, economy and highly active Canadian competition.

RG-244 prices, both domestic and export, will probably be increased in stages to avoid the immediate "shock" effect and potential immediate loss of sales. Delaying a second increase until 7/1/81 will also give us six months' experience of the actual energy cost effect on plant operations.

The asbestos health issue has obviously had a major impact on the asbestos industry. Although we are running at near-capacity, this is not true of Canadian firms, especially those who depend heavily on short fiber sales. The problems of Atlas in Coalinga have certainly been related to the health/regulatory climate.

A thorough discussion of the health & regulatory factors is beyond the scope of this presentation. Suffice it to say that more customers and markets are being lost due to adverse publicity than to problems with regulatory compliance. It seems that the agencies are using the media to accomplish their goal of "banning" asbestos since they are being thwarted in their attempts to regulate it out of existence. The Supreme Court ruling in the OSHA/Benzene case is expected to, at the least, slow down the rule-making process. There is also some indication, not pronounced or widespread, that regulators may give more attention to cost/benefit evaluations to avoid ultimate legal confrontations.

Another major source of adverse publicity has developed during the past year or so from media coverage of asbestos litigation proceedings, court decisions, and settlements. J-M's lawsuits have now passed the 4000 mark and the rate of cases filed will probably continue on an upswing for several more years. We will continue to be named as a co-defendant in many of these even though most plaintiffs have never been exposed to our asbestos (we have "deep pockets").

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We have been named in almost 300 liability suits and have been dismissed from about 200 of them. Of the pending suits, there are only 5 or 6 which may involve plaintiff exposure to our asbestos. In two of these, we and our distributor are the only defendants. We have made no settlements to date and have made no court appearances, although we may present testimony later this year in Texas; and a Portland, Oregon case may come to trial in early 1981. We met with local counsel from Texas earlier this month to discuss probable testimony, etc. (JLM "coaching").

The basic philosophy of the strategic plan for asbestos is to continue what we have been doing (same production/same markets) unless regulatory action and/or potential adverse publicity for the Corporation prompt withdrawal considerations. Sales efforts will be directed at selling out the plant capacity to either domestic or export markets - at prices which will maintain good financial performance. Plant costs will be kept as low as possible and no capital will be invested, except that necessary to maintain the well-being of employees, produce the products required by sales, and to effect continued compliance with reasonable regulations.

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