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UNION CARBIDE INTERNAL CORRESPONDENCE

OCT 7 1980

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Date September 29, 1980

Originating Dept. "Calidria" Asbestos

Answering letter date

Subject Enclosed Summary of the Asbestos Business

PLAINTIFF'S EXHIBIT UC-772

Enclosed is a copy of a summary of our asbestos business for 1980 and 1981 which I recently prepared for George Adams.

John L. Myers

JLM:dal
Enclosure

THE ASBESTOS BUSINESS - 1980 & 1981

(JLM, 9/19/80)

Through August, asbestos sales were at an all-time record high for this period of $5.0MM, 10% ahead of budget. Sales volume was almost 21,000 tons, or 104% of budget.

The quality of the asbestos business continues very good with earnings at 14% of sales and ROA at about 20% through August. 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 may 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 an oil-wetted product made by a third party. We are also evaluating the use of mini-pellets with regard to down-hole performance and reduction in dust generation.

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 July were 124% of budget but will drop during the last five months due to the sliding Japanese economy and inventory reductions. We expect to end the year at 113% of budgeted dollars, but only 94% of budgeted tons. Japan, who accounts for over 50% of our export, entered no orders for August and anticipate decreased requirements for the balance of this year. We have also just been notified that our Australian floor tile customer (400-500 TPY) has discontinued the use of asbestos. Sales performance in terms of dollars will be ahead of budget because of RG products, which will end the year at over 120% of budget, and increased prices. Sylodex-24 (RG-244) sales to Grace in Europe are going well and RG-244 sales to Taiwan, 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 mill, being a wet beneficiation process to produce a bone-dry product, is very energy

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. Overall plant costs are expected to be over 30% higher than 1980 and it is highly unlikely that off-setting price increases can be implemented.

The 1981 sales budget calls for 32,000 tons (1500 tons higher than 1980-Forecast IV, about 94% of plant capacity) and $8.5MM, which is $1.2MM higher than Forecast IV for 1980. The budget includes price increases of 7 to 17%, for an average of 11.5%. Since competition won't be faced with the California energy situation, some of the price increases may be very difficult to implement. Even with these price increases, gross margin will probably go down by over 30%. Final 1981 financial numbers are not yet available.

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").

As of today (9/19/80) we have been named in 276 liability suits and have been dismissed from 180 of them. Of the pending 96 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 will meet with local counsel from Texas in October to discuss probable testimony, etc.

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.