PLAINTIFF'S EXHIBIT

UC-3910

HBB - Investor - Gen

FUTURE IMPACT OF LEGISLATION AND REGULATION ON THE ASBESTOS SPU

During our last meeting a series of key external assumptions were made, of which about one fourth were directed toward the impact of future legislative and regulatory actions on the Asbestos SPU. There actions can have an overwhelming impact on the business and will undoubtedly raise questions when the Management Committee reviews our proposal. Although a number of potential actions were touched upon briefly in the earlier presentation to the group, I have been asked to provide this more specific information.

(Figure 1)

LEGISLATIVE ACTIVITY

Let us first look at legislative activity. Although third party liability will be addressed specifically by John Sibley, it is relevant to mention that a model bill has been prepared by the Department of Commerce for use by the individual states. Although the model leaves something to be desired, it is a start and there is some progress in some of the States.

The Asbestos Compensation Bill written by Johns-Manville and sponsored by Representative Fenwick would set up a workmen's compensation system for asbestos-related diseases traded for a ban against product liability suits. Payments would be financed by the government, the asbestos industry, and the tobacco industry. The asbestos and tobacco industry payments would be based on retroactive use starting in 1965. This bill recently went through a very hostile committee hearing and appears to be dead.

The Miller Bill calls for an industry financed ($30,000,000) fund to evaluate the problem of sprayed-on ceilings in schools. The rationale for the

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retroactive, broad-based industry payment is general industry "guilt." The industry payment portion has been deleted from the bill as a result of very strong industry objections and questions as to its constitutionality. The bill is moving slowly ahead with payments by the government or by import duty under consideration. It may or may not succeed.

The Williams-Javitts Workmen's Compensation Bill is the leader among several bills in this area now under consideration. This bill would set minimum standards for State compensation programs. As might be expected, it is strongly supported by labor and opposed by industry, including Union Carbide. There is no provision to prevent 3rd party liability and comments have been made about mandatory substitution but have not yet been written into any bill. Emotions run high on both sides of this bill and while it may pass, this is by no means sure.

The Rubicoff Bill on regulatory procedures seeks to incorporate the regulatory analysis requirements of Executive Order 12044 into law. It would impact particularly on the independent agencies not now subject to the Executive Order. This is an administration bill and its passage would have a broad moderating effect on over-regulation. There is no strong concensus pushing it, however, and the prospects for passage are fair to doubtful. The alternative of congressional veto power over regulations is also in the picture.

(Figure 2)

There is relatively little significant state activity at this time. California has a bill that would provide workmen's compensation payments from a state fund for asbestos-related diseases where the employer was unknown or could not be found. The state would then go after the employer or insurance carrier. There is broad industry opposition to this bill and it appears to be dead, at least for this year.

There is a final important point relative to potential UCC liability for retroactive payments, i.e. for past asbestos uses, that should be made. Union Carbide was a late-comer to the asbestos business and has only a relatively

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minor share of the overall market. We would at the worst expect to be responsible for only a small proportion of any retroactive "fines" that might occur.

Based on this information the following key assumptions concerning legislative impacts are suggested:

1. No significant UCC impact from legislation with retroactive payment provisions.
2. No significant UCC impact from mandatory substitution legislation.

REGULATORY ACTIVITY

(Figure 3)

Let us now look at regulatory activities. Asbestos was covered by the first OSHA health standard promulgated in June of 1972. Among other things this standard set a permissible exposure level of 2 fibers/cc for an 8-hour time-weighted average and 10 fibers/cc for short-term ceiling exposure.

On October 9, 1975, a proposal was made, on the basis of "new information" that asbestos was a carcinogen, to lower these exposure levels to 0.5 fiber/cc for the TWA and 5 fibers/cc for the ceiling. In December 1976, NIOSH volunteered a recommendation that the levels should be 0.1 and 0.5 respectively.

The British, upon whose data the original standard was based, have had a parlimentary and a medical commission reviewing the occupational exposure data for about the past two years. We have reliable information that they will recommend a 1 fiber/cc standard for chrysotile. Specific, scheduled mandatory substitution requirements that were originally proposed have been replaced with a more flexible cost-effective criteria. Publication of these reports has been imminent for the past nine months. Apparently it will actually happen in the next several months.

The combination of this British information with the current cost-effectiveness restraints placed on OSHA by Executive Order 12044 and the benzene

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standard court decision leads to the conclusion that the new standard will not be higher than 1 fiber/cc or less than 0.5 fiber/cc TWA. A 1 fiber/cc standard with a 0.5 fiber/cc "action level" is also a distinct possibility. For SPU purposes it suggested that a 1 fiber/cc standard be assumed and a variation at 50% probability for 0.5 fiber/cc also be examined.

OSHA also has a massive rulemaking in progress which proposes a generic approach for the regulation of carcinogens. Although it is their stated intention not to "recycle" existing health standards, such as asbestos, through the generic procedure, it seems hard to believe that any substantial differences would be allowed to remain indefinitely. The generic proposal contains mandatory substitution requirements where the government deems a suitable substitute is available. This provision has been strongly opposed by industry and there is a serious question as to whether OSHA has the statutory authority to do this. Our best judgement at the present is mandatory substitution will not occur in the final regulation. It may be appropriate to look at a mandatory substitution case for the viscosity control portion of the business because the implementation of such substitution is much more clear cut in this product line.

EPA administers a variety of laws which impact on asbestos. Emissions to the general environment are controlled under NESHAPS, i.e. National Emission Standards for Hazardous Air Pollutants. Currently a "no visible emissions containing asbestos to the outside air" type standard is in effect for a number of specified industries. It seems very likely that this will be replaced in the next several years with a numerical standard. The delay is caused by the lack of a suitable analytical procedure. It is our judgement that the numerical level chosen will not result in a significant additional impact.

The Clean Water Act has had little impact on our own plant or upon our customers. No changes are anticipated.

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The disposal of asbestos-containing waste so far has not been covered under RECRA, but has been left intact under NESHAPS. This was done at the urging of the asbestos industry and was acceptable to EPA because a stringent regulation was already in existence and because of the tremendous complexity of deciding what minerals and what mineral forms are to be regulated as asbestos. Considering the very large potential impact on the entire mining industry and the fact that commercial asbestos is already regulated, the EPA is expected to move slowly on making changes in this area.

(Figure 4)

The main EPA asbestos regulatory activity today is under TOSCA. They are conducting a detailed review on asbestos use and the need for further regulations. The present concensus seems to be that a substantial amount of further information is needed. We are meeting with EPA to assist them in obtaining facts. With continued effort it is believed that we can keep the impacts within reasonable bounds.

EPA is also very active in a voluntary program to assess, and where appropriate, correct unreasonable hazards from sprayed-on acoustical ceilings in schools and public buildings. This only impacts on us indirectly via bad publicity and possible legislative action that can result.

The Consumer Product Safety Commission moved into the asbestos picture about two years ago with a ban on asbestos in tape joint compounds and fireplace logs. The Commission can present a serious problem because they have broad powers including banning, have a supporting technical staff of limited size and capabilities, and tend to react emotionally rather than objectively to activist pressures. The current hair dryer campaign is an excellent illustration of this.

Their interest in asbestos had about been concluded on the basis that no customer products with a significant hazard were still around, when the hair dryer business broke. In spite of this, it would appear that our asbestos, which is

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principally bound permanently into the final products will not be impacted significantly by future CPSC actions.

The Department of Transportation recently classified asbestos as an ORM-C material and promulgated packaging and shipping requirements. These regulations, although we can comply marginally in most areas, point up the urgent need for significant improvements in much of our packaging. These changes are now under consideration and when effected should take care of the problems in this area for a considerable time in the future.

State regulatory actions of potential serious impact with little or no gain in safety and health occur periodically. Through the efforts of Union Carbide and others there have generally been dept to realistic levels but continued UCC involvement is absolutely necessary. State activities in implementing RECRA, particularly, need careful surveillance.

(Figure 5)

SUGGESTED KEY ASSUMPTIONS RE LEGISLATIVE AND REGULATORY IMPACTS

Based on the foregoing information on both potential legislative and regulatory actions, the following four key assumptions regarding impacts on the Asbestos SPU are suggested. It is important to remember that these assumptions include a further implicit assumption that our governmental relations activities relative to asbestos continue at the same level as in the past 3 years.

1. No widespread bans or mandatory substitutions.
2. No significant impact due to "retroactive" legislation.
3. OSHA TLV no more restrictive than 1 fiber/cc TWA.
4. Other regulations (EPA, CPSC, DOT, etc.) not significantly more stringent than now.

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LEGISLATIVE ACTIONS

FEDERAL

1. THIRD PARTY LIABILITY LEGISLATION

   A. MODEL BILL PREPARED FOR STATE-BY-STATE ADOPTION. SOME PROGRESS IN STATES.

2. ASBESTOS COMPENSATION BILL (FENWICK/J-M)

   A. PAYMENTS BY GOVERNMENT, ASBESTOS PRODUCT MANUFACTURERS, TOBACCO INDUSTRY IN RETURN FOR NO 3RD PARTY LIABILITY. RETROACTIVE BASIS - BELIEVFD DEAD.

3. MILLER BILL - SCHOOL CEILINGS

   A. RETROACTIVE BASIS - INDUSTRY PAYMENTS TO EVALUATE PROBLEM. INDUSTRY PAYMENT SECTION NOW DELETED. BILL PROSPECTS?

4. WILLIAMS-JAVITTS COMPENSATION BILL

   A. PROVIDES FOR FEDERAL MINIMUM STANDARDS FOR WORKMEN'S COMPENSATION.

      LOTS OF INDUSTRY OPPOSITION (INCLUDING UCC).
      STRONG LABOR SUPPORT.
      MENTION OF MANDATORY SUBSTITUTION.

5. RUBICOFF BILL RE REGULATORY PROCEDURES (5-7551)

   A. INCORPORATES EXECUTIVE ORDER 12044 INTO LAW.

      LOTS OF INTEREST PLUS ADMINISTRATION SUPPORT.
      NO CONCENSUS. FAIR TO DOUBTFUL.

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UCC 014167

FIGURE 1

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STATES

CALIFORNIA

A. MARK'S BILL FOR STATE TO PROVIDE WORKMEN'S COMPENSATION BENEFITS FOR ASBESTOS WHERE EMPLOYER CANNOT BE IDENTIFIED OR LOCATED. HEAVY INDUSTRY OPPOSITION. PASSAGE DOUBTFUL.

CONCLUSIONS

1. NO SIGNIFICANT UCC IMPACT FROM LEGISLATION WITH RETROACTIVE PAYMENT PROVISIONS.

2. NO SIGNIFICANT UCC IMPACT FROM MANDATORY SUBSTITUTION VIA LEGISLATION.

   (ASSUMES CONTINUED UCC LEGISLATIVE ACTIVITY AT THE SAME LEVEL AS IN THE PAST.)

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UCC 014168

FIGURE 2

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STATUS OF STATE AND FEDERAL REGULATORY ACTIONS IMPACTING ON ASBESTOS
(PART 1)

OSHA

I. ASBESTOS STANDARD

1. PERMANENT STANDARD IN EFFECT SINCE JUNE 1972.
   A.) 2 FIBER/CC TWA; 10 FIBER/CC CEILING.
2. REVISED PROPOSAL MADE ON OCTOBER 9, 1975.
   ACTION STILL PENDING.
   A) 0.5 FIBER/CC TWA: 5 FIBER/CC CEILING.
   B) ACTION IN LATE SUMMER 1979 AT THE EARLIEST.
   C) BEST GUESS - 0.5-1.0 FIBER/CC TWA; 5 FIBER/CC CEILING.

II. PROPOSED GENERIC STANDARD FOR CARCINOGENS

1. COULD IMPACT VIA MANDATORY SUBSTITUTION AND REGISTRATION PROVISIONS.
2. BEST GUESS - NO MANDATORY SUBSTITUTION. (NO STATUTORY AUTHORITY

EPA

I. NESHAPS

1. STANDARD FOR AMBIENT AIR DISCHARGE AND WASTE DISPOSAL PROMULGATED IN 1973-1976.
   A. PRESENTLY A "NO VISIBLE EMISSIONS" CONTAINING ASBESTOS STANDARD.
   B. WILL BE REPLACED WITH A REASONABLE NUMERICAL STANDARD. SEVERAL YEARS AWAY.

II. CLEAN WATER ACT

1. CONTROLS PLANT EMISSIONS. NO MAJOR CHANGES OR NEW IMPACT ANTICIPATED.

III. RECRA

1. ASBESTOS WASTE DISPOSAL HAS SO FAR BEEN EXEMPTED DUE TO COVERAGE BY NESHAPS. COULD CHANGE AND BE A PROBLEM.

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FIGURE 3

UCC 014169

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STATUS OF STATE AND FEDERAL REGULATORY ACTIONS IMPACTING ON ASBESTOS
(PART 2)

IV. TOSCA

1. WHOLE QUESTION OF THE NEED FOR FURTHER REGULATIONS IS UNDER STUDY. TENDING TO MOVE SLOWLY.
2. ASBESTOS INCLUDED IN GENERIC LABELLING DELIBERATIONS.

OVERALL ASSESSMENT - WITH CONTINUED EFFORT WE CAN KEEP THE IMPACTS WITHIN REASONABLE BOUNDS.

CPSC

I. BANNED ASBESTOS IN TAPE JOINT COMPOUNDS AND FIREPLACE LOGS.

II. LEFT SCHOOL CEILINGS TO EPA.

III. ABOUT TO CONCLUDE THAT CONSUMERS WERE OKAY WHEN HAIR DRYER PUBLICITY OCCURRED.

OVERALL ASSESSMENT - OUR BOUND PRODUCTS WILL NOT BE SERIOUSLY IMPACTED.

DOT

I. RECENTLY ISSUED SHIPPING REGULATIONS.
   A. BETTER PACKAGING NEEDED - COST?
   B. SAME PROBLEMS IN SPECIAL CUSTOMER AREAS.

OVERALL ASSESSMENT - SUBSTANTIAL NEAR FUTURE COSTS. SHOULD TAKE CARE OF PROBLEMS FOR CONSIDERABLE TIME.

STATES

OVERALL ASSESSMENT - STATE ACTIVITIES PARTICULARLY IN IMPLEMENTING RECRA COULD PRESENT SERIOUS PROBLEM IF NOT HANDLED AS THEY OCCUR. ASSUME THAT THIS WILL BE DONE.

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FIGURE 4

UCC 014170

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KEY ASSUMPTIONS - LEGISLATIVE AND REGULATORY IMPACTS ON THE ASBESTOS SPU

1. NO WIDESPREAD BANS OR MANDATORY SUBSTITUTIONS.

2. NO SIGNIFICANT IMPACT DUE TO "RETROACTIVE" LEGISLATION.

3. OSHA TLV NO MORE RESTRICTIVE THAN 1 FIBER/CC TWA.

4. OTHER REGULATIONS (EPA, CPSC, DOT, ETC.) NOT SIGNIFICANTLY MORE STRINGENT THAN NOW.

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FIGURE 5

UCC 014171

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