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ASBESTOS INDUSTRY QUARTERLY REPORT - 4Q 1980

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(J. L. Myers, 2/2/81)

Asbestos sales for 1980 are compared to Budget and Forecast IV in the following table:

	Actual Sales		% of Budget		% of Fcst IV	
	Tons	$M	Tons	$	Tons	$
Domestic	21141	3872	105	100	100	99
Export	8807	3306	90	110	96	97
Total	29948	7178	100	105	98	98

Export and total dollars set new records for annual sales, although the total was only $22,000 higher than 1978, the previous record year. Domestic sales were above budget for floor tile and drilling mud, while RG products finished at 85% of budget. By contrast, export sales of RG products were 122% of budget and tile sales were below budget due to our Australian customer discontinuing the use of asbestos in the second quarter. Sales to tile customers are tabulated below:

	U.S. TILE CUSTOMER SALES, $M	
Customer	Actual	% Budget
Kentile	810	111
Uvalde	532	120
GAF	222	313
Flintkote	55	52
Winburn	5	23
Amtico	0	0
TOTAL	$1624M	116%

Sales to W. R. Grace, primarily for Europe, exceeded one million dollars for the first time; and Tomoe purchases for distribution in Japan set another record at $1.7 million. Following is a summary of export sales by country:

	1980 Sales, $M	
Country/Sales Rep.	Actual	% Budget
Japan/Tomoe	1741	103
Europe/Grace	931	116
Brazil/UC	171	116
Canada/H & C	134	104
Australia/UC	115	87
Taiwan/UC	87	105
Mexico/Grace	37	--
S. Africa/Grace	29	--
S. Africa/UC	24	267
Argentina/Grace	17	--
Europe/Mercomed	9	64
Taiwan/Grace	6	--
Colombia/Grace	4	--

As indicated by the above, Grace has increased their activity in non-European countries and is competing with Union Carbide in S. Africa and Taiwan. This competition presents some complications, such as with pricing, but it does get the attention of the UC sales offices.

Highlights for 1980 are summarized as follows:

1. March and first quarter sales established monthly and quarterly records.

2. Domestic sales personnel were reduced from four to three. Geographical responsibilities were revised and Eastern Canada was assigned to export sales.

3. Flintkote shut down floor tile plants in Chicago (March) and Los Angeles (November), leaving Toronto as their only tile production facility. We were supplying LA about 75 TPM, but nothing to Chicago or Toronto. Winburn shut down in the second quarter, a loss of about 200 TPY.

4. Atlas experienced major operating difficulties in the first quarter and "officially" discontinued production in the second quarter.

5. Calaveras discontinued production of Grade 7 products in November, but this will have little effect on our sales in 1981.

6. We have obtained continuing business from GAF in Long Beach and Vails Gate because of the Atlas shutdown. This should continue in 1981, although GAF tile plants are now up for sale.

7. Auto maker policies on asbestos use and low auto production caused a significant loss of RG sales.

8. Drilling mud sales were strong all year and were 165% of budget at year end. This is due to the record number of rigs operating, but our market share continued to drop due to the marketing efforts on Flosal, a wetted and prilled product from J-M. We decided not to offer a wetted product but did supply about 100 tons of UNIVIS (1/8" SSG pellets) for field evaluation of dust generation and down-hole performance. Tests will continue in 1981 and improved packaging will be considered.

9. During the first half, Great Gulf Chemicals purchased about 500 tons of CSV from Montello to make silane-treated asbestos (SMF) under contract from Dresser Industries. Dresser blends SMF with other materials to make a product for use in oil-base drilling fluids. Great Gulf began experiencing severe production problems in the last quarter and singled out CSV as the cause for off-spec SMF. Although we are sure CSV was not at fault, they tested HPO from a regular distributor (D&F-Houston) and, by the end of the year, had essentially switched from CSV to HPO. Although we have an exclusive arrangement with Montello, the Law Dept. advised that we should not "get involved." The situation has been discussed with Montello and no significant problems are anticipated.

10. Although Canadian asbestos producers had some labor problems, all contracts were settled before there was any impact on our business. There is a considerable excess of Grade 7 fiber and by the end of the year it was becoming evident that we could expect unusual pricing pressures in 1981, especially in Japan and the Eastern U.S.

11. Although there was a constant threat of new regulations, none were promulgated which would have a serious effect on our business. The main threat to the asbestos industry was the continuing use of the media by the agencies to instill an unfounded fear of asbestos. We anticipate reduced regulatory pressures for the next four years.

12. Although sales were at a record level, financial performance was poorer than prior years because of unexpectedly high production costs, especially energy-related. Following is a summary of the last three years:

	NIFS		Gross Margin		Net Income		
	$M	% Budg.	$M	% Sales	$M	% Sales	%ROA
1978	7156	126	2944	41	1190	17	25.4
1979	6360	97	2439	38	1041	16	19.8
1980	7178	105	2139	30	827	12	16.6
1981 Budget	9356	--	2824	30	1255	13	21.8

13. The improved performance budgeted for 1981 can only be achieved by implementing large price increases to offset production and other cost increases. One distributor agreement was terminated at the end of 1980 which will result in a $46,000 savings in commissions in 1981.

14. Customer technical service activities for the year are summarized in the attachment.