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Location 38th Floor
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Copy to Mr. F. C. Kroft, Jr.

Answering letter date

Subject ASBESTOS SPU ACTION PLAN

INTRODUCTION

Union Carbide's asbestos business (product trademark Calidria) is based upon a vast, short fibert crysotile deposit located in the Diablo Mountains of central California and a 34,000 ton per year mill located about 50 miles away in the Salinas Valley at King City. The Asbestos SPU will have sales of \$4.5MM in 1975 and achieve a 4.3% ROS.

The Calidria ore deposit is geologically extraordinary with the only known similar ore body being the Stragari deposit in Yugoslavia. Unlike the ore bodies in Eastern Canada, which are the major source of asbestos fiber for the U.S., the Calidria deposit contains no long fiber. This precludes its use in many of the classic commodity markets including friction materials, gaskets, and asbestos cement pipe and building products. However, the Calidria ore contains 50-60% fiber as compared to 5-10% from a typical Canadian deposit.

Ore reserves on 197 unpatented lode and placer claims are so large that it has never been necessary to make an accurate assessment. However, we conservatively estimate that, even with an eight-fold mill capacity expansion, the reserves on only 48 of these claims would last for more than 100 years. Furthermore, Union Carbide has developed a novel wet milling process for beneficiating the ore which provides a very pure, highly-liberated fiber, with excellent recovery of fiber from the ore. Thus, the essence of building a successful asbestos business has been the development of custom markets for this special type of fiber. Consonant with this marketing philosophy, we have built a small but highly profitable market for a specially treated fiber called RG-244 sold primarily as a viscosity agent for polyester and other resins and have recently introduced a new treated fiber called RG-600 which is an effective reinforcement agent for thermoplastics.

It is the purpose of this communication to outline our action plan to use these specialty products as the vehicle for expanding the earnings and improving the earnings quality of the Asbestos SPU.

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MARKETS SERVED AND SALES HISTORY

Calidria asbestos products serve a broad spectrum of short fiber markets ranging from vinyl asbestos floor tile where the asbestos filler sells for \$74 per ton (41% direct margin) to the polyester resin market where the specially-treated RG-244 asbestos sells for \$1520 per ton (51% direct margin). Intermediate grades of asbestos fiber, selling anywhere from \$90 to \$500 per ton, are used in such applications as oil well drilling muds, tape joint compounds for dry wall construction, caulks and sealants, paints, and roofing compounds.

As the business has grown, the sales strategy has been to achieve capacity operation with the most favorable product mix possible. To date, this has required committing a significant fraction of capacity to lower margin grades of product. Freight costs vis-a-vis Canadian fiber, limit our participation in the floor tile and other markets east of the Mississippi and we have not yet developed sufficient volume in higher margin fiber products to remove ourselves from the floor tile business. However, the thrust of marketing and technology has been to continue to upgrade the product mix.

Since the mill was first put into operation in late 1963 sales have grown steadily reaching \$1 million in 1966, and a breakeven level of \$2.4 million in 1971. Capacity operation was achieved in 1973 and the plant remained sold out through mid-1974 when it was hit early and hard by the recent recession fostered mainly by the severe retrenchments in Japan and in the U.S. construction and automotive industries. The recessionary effects continued well into 1975 until abetted by a strike at the plants of 5 asbestos producers in Quebec. This situation resulted in a return to capacity operations for the second half of 1975 and slight improvement over 1974 performance. Resumption of the growth trend is expected in 1976. As summarized below, the Asbestos SPU enjoyed a 11.5% ROA and 9.1% ROS in 1973 and experienced earnings ^{of} ~~at~~ even better quality in 1974 prior to the onset of the recession.

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Net Sales (\$M)	2376	2630	3802	3791	4342
Net Income (\$M)	2	56	346	87	132
ROS (%)	--	2.1	9.1	2.3	3.0
ROA (%)	--	4.0	11.5	2.6	2.9

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