MINUTES OF MEETING

of the

BOARD OF DIRECTORS

Tuesday, March 11, 1986

at

Sheraton Inn at LaGuardia, New York, NY

DIRECTORS PRESENT

Robert E. Nelson	Abex Corporation Friction Products Group
Francis E. Messier	Allied Automotive Bendix Aftermarket Brake Division
Arthur V. Moore	Carlisle Corporation Motion Control Industries
Larry Mintman	Certified Brakes Division Lear-Siegler Company
W. Max Sleeth, Treasurer	Virginia Friction Products, Inc.

DIRECTORS ABSENT

Norman Morse	Guardian McGraw-Edison Company
Robert H. Nelson	Nuturn Corporation

OTHERS PRESENT

Stuart Comins, President	P.T. Brake Lining Company
F. William Barton, Vice President	Reddaway Manufacturing Co.
Edward W. Drislane, Secretary	Friction Materials Standards Institute
Martha Brougham, Counsel	Harwood, Lloyd
Jack Carney	Friction Division Products, Inc.
John Riopelle	Allied Automotive Bendix Friction Materials Division
Christopher Robinson	Frank B. Hall & Co. (Insurance)
William R. Andrus	The Wyatt Company (Actuaries)
Bruce Allen	Kamp Associates (Consultants)
Lee Penman	Kamp Associates (Consultants)

Because of air and traffic delays, all attendees were not present at 9:30 AM. Mr. Barton was asked to serve as acting Chairman of the Meeting. Mr. Barton called the Meeting to order at 9:30 AM. Due to the absentee problem the formal agenda could not be followed. The Secretary noted that four Directors were present at 9:30 AM, and that constituted the necessary quorum.

MINUTES OF PREVIOUS MEETINGS

The minutes of the Meetings of the Board of Directors on June 18, 1985 and June 20, 1985 had been distributed. The Directors reviewed copies of the minutes distributed at this Meeting. The Secretary noted an error on Page 7 of the June 18, 1986 minutes, where the basic fee formula was shown as $1,050. The correct basic amount was $1,150. This amount was shown correctly in the June 20, 1986 minutes, page 4.

Upon motion duly made, seconded and unanimously passed, it was:

RESOLVED: To accept the minutes of the Board of Directors Meetings of June 18, 1985 and June 20, 1985, as written, with exception of the basic fee formula amount in the June 18 minutes, which is corrected to read $1,150.

TERMINATION OF CERTAIN ACTIVE MEMBERS

The Secretary advised that the Board of Directors had voted unanimously, by mail ballot, to terminate the Memberships of BMC Corporation (formerly Brass-bestos) and Cougar Brake Products Industries because of their failure to pay the Annual Membership Fee. Both companies are seeking protection under Chapter 11 of the Bankruptcy Laws. As the balloting had been completed by mail, no action was necessary at this meeting.

SAE BRAKE EFFECTIVENESS TASK FORCE DRAFT PROCEDURE - BRAKE BLOCKS

(Because of the earlier noted tardiness at the meeting, the Board began with consideration of the Product Liability Question. This agenda item was recessed in favor of the SAE Brake Effectiveness Task Force item)

Mr. Stuart Comins assumed the Chairmanship of the meeting. Mr. Robert E. Nelson, who sits on the SAE Brake Effectiveness Task Force (chaired by Mr. Arne Anderson of Ford Motor Company) is familiar with the work of that SAE Task Force. He noted that the SAE cannot adopt a regulation but it can prepare "Recommended Practices." Further, those sitting on SAE Committees or Task Forces, do so as individuals, and not as representatives of their respective companies. While regulations cannot be specifically drawn by the SAE, it is possible that a group such as the American Trucking Associations (ATA) could demand that their suppliers provide materials which conform to an SAE recommended practice.

The Truck/Trailer Brake Research Group (TTBRG) consists of three automotive trade groups: the earlier mentioned ATA, the Motor Vehicle Manufacturers Association (MVMA) and the Truck Trailer Manufacturers Association (TTMA). At its inception, the National Highway Traffic Safety Administration (NHTSA) was a member of the Group, but terminated formal participation because of questions on the legality of its participation. The TTBRG and particularly the ATA have been pressing for improved permanent identification of brake blocks along with a more valid rating test. It has generally been agreed that the 1 square inch sample friction machine test as prescribed in Vehicle Equipment Safety Commission Regulation V-3 (patterned after SAE J661) is not satisfactory as a rating means for brake linings and particularly for brake blocks.

Members of SAE are aware that SAE J661 is not a satisfactory procedure for brake lining evaluation. The first draft procedure from the Brake Effectiveness Task Force addressed two principal objectives stated by the TTBRG: (1) A meaningful test procedure; (2) permanent identification. Mr. Nelson stated that the draft procedure is workable and that the procedure is aimed at aftermarket blocks. A full brake test on an inertia dynamometer patterned after the requirements of Federal Motor Vehicle Safety Standard 121 (DOT 121) is a start as regards developing a meaningful test procedure.

A question was raised as to how the Institute or its Members can participate in the work of developing a new procedure. This can be done through the Institute's Brake Performance Study Committee. This Committee has representation from most of the block manufacturers: Abex, Bendix, Brake Systems, Carlisle, Nuturn and P.T. Brake. There are representatives of several of these same companies on the SAE Brake Effectiveness Task Force (Abex, Bendix, Brake Systems and Carlisle). In addition, Mr. Drislane is a Member of the SAE Task Force. The Institute has been requested to comment on Task Force recommendations. The Brake Performance Study Committee has been sent copies of all Task Force work to date and while it has met on earlier TTBRG correspondence, it has not commented to the Institute on the Task Force work. The individuals who serve on the Task Force are not the same as those who sit on the Institute's Brake Performance Study Committee. The Task Force representatives have commented in detail to the Task Force during its meetings.

The Brake Performance Study Committee will be asked directly to comment to the Institute so that these comments can be relayed to the SAE Task Force. Also, the Secretary was asked to advise the full Membership concerning SAE Task Force activities and these draft recommendations.

PRODUCT LIABILITY INSURANCE

Mr. Christopher Robinson, of Leslie & Godwin in London, and of Frank B. Hall in the United States, was invited to attend this Board Meeting to advise on the feasibility of setting up a captive insurer for interested Members and advise on the availability of reinsurance from Britain or Europe. Mr. Robinson invited Mr. William Andrus of the Wyatt Company (Actuaries) to attend and explain the organization and funding of either a captive or other group insurance. It was also pointed out that the Asbestos Information Association (AIA) was referring the question of a captive to a consulting group, Tillinghast, Nelson and Warren of New York City. The AIA initiative was seeking product liability insurance with asbestos coverage. Institute Members have found that no insurance company is interested in writing product liability insurance with brake lining manufacturers even with an asbestos exclusion. Insurers have found that the courts in the United States have been rather liberal in their interpretations on asbestos exclusions, and the insurers have generally been strongly negative where a manufacturer has had any association with asbestos.

A Director cited general minimum need for twelve interested Members to form a captive. The basic requirement was no less than 10 participants, but to have the organization viable, a few more than the absolute minimum would be needed because of questions of subsequent withdrawal, etc. The need for full disclosure before forming a captive was noted. This means that the organizers would have to disclose their losses and a committee or organizing group would have access to this information. Any insurance coverage would have to be for occurrences coming after organization of the captive - coverage would not be for injury suffered before its organization.

It was suggested that to be truly an effective insurance program, it would be necessary to go beyond 12 or so Members. The insurance should be made available to distributors, rebuilders, and other customers. In that way a larger premium base would be established along with a greater spreading of the risk.

Mr. Andrus led off the discussion. The first question asked was "How many Members are prepared to purchase product liability insurance with an asbestos exclusion?" No such answer could be developed at this Meeting, as only two or three of the Directors/Officers attending this meeting are responsible for liability insurance at the Member firms. Mr. Andrus emphasized the need to share information such as premiums and losses. Also, he reiterated the need for committtment by the organizers along with self discipline. Mr. Andrus also suggested that it would be desirable if the larger Members who now either self-insure or have coverage would participate.

Certain locations for the captive insurance residence were noted, including Canada, Vermont, Bermuda. All have different laws governing capital requirements and participation for establishing a captive. Before any such decision, those organizing a captive would need to know the expected level of participation.

There are two insurance levels: (1) Primary insurance (excluding asbestos) which would be based on known losses; (2) Excess liability insurance which would have to be accessed from the Reinsurance market. Currently, the European reinsurers are not interested in the North American market because of substantial underwriting losses.

Mr. Andrus illustrated a plan for captive insurance with $1,000,000 primary insurance. By means of sharing the risk, anticipating losses over a period of time, using the present value of estimated future losses, and factoring in investment income, a level of premiums was indicated that would be manageable. . It was noted that with the dollar values, there would be a lower expense ratio if the insurer were located in Canada. Group insurance could prove advantageous to some of the larger firms who are now essentially self-insured. They would be able to take a tax deduction for the premiums.

At this point in the discussion, Mr. Carney arrived with Mr. Lee Penman and Bruce Allen, from the Kamp Associates Firm (Insurance Consultants). They indicated that with the latest questionnaire (Summer of 1985) there were eight or ten Members who indicated an interest in the captive insurance concept. This was up from the 1984 questionnaire, but it was agreed that more were needed.

Mr. Carney noted that he had talked with an Agent who had sold group insurance to Members of the Automotive Parts Rebuilders Association (APRA). Apparently, the insurance carrier discontinued certain APRA Members associated with brake rebuilding, because of the asbestos exposure. It is possible that this group, which could number up to 200, would be interested in joining the Institute in a captive insurance approach.

A Member noted that if, for example, a captive came up with $150,000 in administration fees, where the premium income was only $300,000, the captive would not be viable. There must be a sufficient number of participants so that front end handling costs will not be excessive.

It was noted that there were really two approaches: (1) The captive which when set-up is truly an insurance company, and could market its coverage to others outside the Institute if that were desirable, and (2) the "reciprocal" which is in effect a "tight mutual" with coverage available only to the Members.

The Kamp Associates representatives noted that in their responses in both 1984 and 1985 that there were no significant losses reported by any respondent outside the asbestos area. There is apparently no actuarially sound basis for a carrier avoiding liability insurance with a legitimate asbestos exclusion. There is no loss data available for brake rebuilders, and brake distributors as they are all grouped under automotive parts suppliers.

One of the difficulties with the captive arrangement or even reciprocal or group insurance, is where the company must make a capital call. This would occur where a large claim is settled and the capital is reduced below statutory requirements. In other words, there is risk for the participant beyond original capitalization and premium levels.

It was again stated that representatives at this Board Meeting, with a few exceptions, were not the parties in their companies responsible for insurance. If the Institute is to do anything on this insurance question, through its Members, a presentation would have to be made to those responsible for insurance. Mr. Robinson was asked if he could have a proposal prepared which could be presented to the Membership. Mr. Robinson will ask the Wyatt Company (Actuaries) to work up some numbers. The primary insurance levels would be assumed and the costs of organizing a captive along with assumed premium levels would be illustrated. It was suggested that the ultimate exposure for a participant be illustrated.

Mr. Robinson will coordinate a proposal of what should be done to form a captive along with illustrative costs. This will then be the basis for a possible meeting of Institute Members concerned with the liability insurance problem. The meeting would be for those at Member firms with insurance responsibilities. The Membership would be circulated with a general outline for a meeting to determine if the Institute would go forward on the captive question, and if so, what action should be taken.

With the proposal in hand, the Secretary was asked to schedule a meeting for the Membership. It was suggested that it would be desirable to have any such meeting before the Institute's regular June meeting.

The insurance discussion then centered on possibilities outside the captive or reciprocal area. It was suggested that if Institute Members could ride on someone else's captive, that would be worthwhile. Something akin to the APRA approach would be desirable if Members could participate. With the termination of brake rebuilders by the insurer, this is unlikely. One Member stated that if a Member could get the insurance in the regular market, it should go right ahead. The only reason for considering the captive is because of the lack of insurance in the regular market. The Members discussed pending State and possible Federal regulation. There was interest in the allowance of deductions for self-insurance where the purpose was for risk transfer rather than for tax evasion. This could permit the putting aside of reserves for contingent liabilities and permitting an income tax deduction for additions to that reserve.

The Secretary will await a proposal from Mr. Robinson/Mr. Andrus and will then solicit participation in a possible meeting of interested Members to consider possible further action on the product liability question.

ENVIRONMENTAL PROTECTION AGENCY (EPA) PROPOSALS TO BAN CERTAIN ASBESTOS PRODUCTS AND PHASE OUT OTHER USES

The Secretary advised that copies of the EPA proposals of January 29, 1986 had been distributed to Members and the Directors. With the distribution, the Secretary enclosed a copy of the EPA "Fact Sheet" that accompanied their release to the press. This attachment summarized the EPA proposals which took the form of a general proposal along with three options. The question of a response to EPA was to be discussed and Mr. Riopelle, as Chairman of the Institute's Health and Environmental Affairs Committee, was asked to explain the proposals and to provide the technical background which would be required if a response was prepared.

Mr. Riopelle distributed a one-page summary of the EPA proposals to clarify the differences. A condensation of Mr. Riopelle's summary follows:

Proposed Rule:	Ban 5 asbestos product types (not friction products) Require Permit for asbestos use Reduce asbestos consumption over 10 year period Label all asbestos-containing products
Option 1:	Ban construction products and clothing immediately Ban asbestos friction products about 5 years later Gather additional information on other products Label all asbestos-containing products
Option 2:	Ban construction products and clothing immediately Ban asbestos friction products about 5 years later Ban remaining asbestos products about 10 years later Label all asbestos-containing products.
Option 3:	Ban construction products and clothing immediately Cover all other products under the phase-down Label all asbestos-containing products Require Permit for asbestos use

Mr. Riopelle continued, noting that comments were requested by April 29, 1986; Public hearings start May 14, 1986; Expect the EPA Proposed Final Rule to OMB in 1987; Noted that the earliest effective date for new rules would be January 1, 1988. Mr. Riopelle's summary sheet formed the basis for discussion.

The proposed regulations and one option called for a permit system to have the right to use asbestos. The permit requirement would be one of the most objectionable features of the proposals, creating an administrative nightmare for the user. It would create another bureaucratic layer for manufacturing products with asbestos.

Mr. Riopelle alerted the Directors to the labeling proposals as shown on Page 3750 of the FEDERAL REGISTER Notice of January 29, 1986. The EPA was asking for input as regards labeling for those asbestos products which would not be subject to an immediate ban.

In reviewing the proposal, it was suggested that Options 1 and 2 calling for a ban on asbestos friction products in about 5 years might be the lesser evils as those options did not bring the permit requirement into effect. As Mr. Riopelle pointed out, the EPA is aware of certain difficulties in aftermarket replacement of friction materials where the original equipment brake took asbestos brake linings. EPA has indicated that it is aware of difficulties in this area should a ban on asbestos friction products be scheduled five years in the future.

A Director noted that the EPA plans were not the only problems facing our industry, as OSHA is scheduled to make its final rules on asbestos in the workplace. It is widely believed that OSHA will go to the 0.2 fiber in the workplace, but would permit respirator usage in controlling the level. The problem here is the considerable cost for the industry in complying with the OSHA regulations when EPA is calling for a complete ban a few years down the road. If a ban is actually to be enforced, the costs for interim OSHA compliance cannot be justified. This was pointed out to the EPA in our letter of November 13, 1984 when commenting on the Natural Resources Defense Council petition to prohibit the use of asbestos in automotive brake linings.

It was noted that the Institute should be consistent with the comments it sent to OSHA in May 1984 as well as with the comments sent to EPA in November 1984. There has been no discovery or new information which goes counter to what was said in those comments.

A suggestion was made that perhaps certain friction product lines were sufficiently advanced at this time in development of non-asbestos linings (the semi-metallic disc brake line for example) that a position might be adopted accepting a ban thereon. As certain producers are working on non-metallic asbestos substitutes, acceptance of a ban on asbestos disc pads might interfere with an orderly development of substitutes. The firm not working in the semi-metallic area might be forced to take the semi-metallic route as the only option. It was not felt that the Institute should advocate a ban on any product line. The free market is a more sensible approach than the artificial ban, with all producers aware of the need to develop asbestos substitutes. Demands of the user and the specter of litigation provide other incentives to develop substitute materials and arbitrary regulations will not help in effecting an orderly transition.

The earlier responses to EPA and OSHA were well thought out, and the main points made in both sets of comments should provide the foundation for an Institute response to these EPA proposals. In addition, we should point out the difficulties with the permit system. We should discriminate between original equipment and aftermarket viewpoints, concentrating the Institute comments on the aftermarket, but point out the performance questions where non-asbestos organics are being used to replace asbestos original equipment. Comments should be made to the effect that the replacement of asbestos original equipment materials with non-asbestos product demands, in certain instances, in-depth technical evaluation as well as considerable product development and testing.

With non-asbestos disc brake linings considerably more advanced than drum brake non-asbestos, the question of replacing rear drums with rear discs could be addressed. The main difficulty with the rear disc is the parking or emergency brake. In general, the disc design does not give the same holding power of the drum without size and weight disadvantages; the disc is more costly; the disc adds weight to the car which counters energy conservation objectives.

Certain points raised in the earlier comments which could be reiterated or restated would be that existing and possibly strengthened occupational standards might be sufficient to protect against unreasonable risk; the question of OSHA versus EPA responsibility; the question on substitutes and the actual progress made in developing substitutes capable of meeting today's safety demands on the highway.

The Secretary was asked to work with Mr. Riopelle to coordinate a response. It would be the intention of the Board that the reply be sent to EPA before the April 29 deadline. When a draft is prepared it will be circulated to the Board and to Legal Counsel before mailing.

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There being no other business brought to the attention of the Board of Directors, upon motion duly made, seconded and unanimously passed, it was:

RESOLVED: To adjourn

Adjourned at 1:15 PM.

E. W. Drislane
Secretary