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UNION CARBIDE INTERNAL CORRESPONDENCE

PLAINTIFF'S EXHIBIT UC-812

CHEMICALS AND PLASTICS

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Copy to

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Originating Dept.

Answering letter date

Subject The Asbestos Market in the Flooring Industry

The Market

The total asbestos market in VA and asphalt floor tile is approximately 150,000 tons. The asphalt market has been dwindling steadily and the VA market is growing at approximately 5% per year. As a result, total asbestos sales have been relatively constant for the last few years.

At present copolymer sales of 180 MM lbs.; we estimate asbestos sales of 85,000 tons in VA tile after estimating proportion now going to Coalinga producers. The entire VA market is available to Coalinga producers.

The asphalt tile market is not as clear cut. Asbestos contents range 20-24% normally, but Coalinga fibers are used only in formulations which contain significant percentages of polystyrene. Loss of hot strength occurs with Coalinga if sufficient styrene is not present. We do not have reliable information on present asphalt formulations at the major tile companies. Historically, Johns-Manville and Armstrong have not used styrene, Kentile was borderline and American Biltrite, GAF, Uvalde can use Coalinga asbestos.

The Products

Flooring manufacturers have become quite sophisticated in a competitive market characterized by constant style innovations and new product introduction.

Asbestos from Coalinga field has been available and used since early 1962 when Johns-Manville converted their Western plants and introduced it to the market. No new asbestos technology has been added since UCC's 1964 entrance to the market with a pelletized flooring grade.

The advantages of Coalinga asbestos are high fiber content, lighter color, and less batch to batch variation. Among the grades available, UCC excels slightly in each of these categories.

Its disadvantages are high absorptivity and greater surface activity bringing about the most common complaints of excessive water sensitivity and higher cost stabilization. UCC products are no better or worse than others, but we have devoted much more R&D effort to solving them.

As things stand today, the price and simple logistics of the situation has given Coalinga products all California and Texas producers; and they are dominant in the South along the SP right of way.

Canadian asbestos enjoys supremacy in the Chicago area and the East Coast. Coalinga asbestos usage in these areas is limited to the high TiO_2 premium grades. On sum, a price vs. volume curve would best describe the market.

The Customers

From purchases of copolymer, the asbestos sales pattern in VA tile can be guesstimated, but no similar refinement exists for asphalt tile.

Asbestos Potential VA Tile (Estimate)

Customer	Location	Asbestos Source	Quantity (tons)
American Biltrite	La Mirada	UCC	1000
	La Mirada	Calif. Minerals	600
	Trenton	UCC	1000
	Trenton	Carey	3000
Armstrong	Lancaster	Carey	4800
	Kankakee	Carey	8400
	Jackson	Carey	3000
	South Gate	Calif. Minerals	1600
Flintkote	Chicago	J-M Can.	6000
	L. A.	J-M Coal.	2400
	New Orleans	J-M Coal.	1200
GAF	Vails Gate	J-M Coal.	6500*
	Joliet	J-M Coal.	1600*
	Houston	J-M Coal.	1600
	Long Beach	J-M Coal.	2400
Kentile	Brooklyn	Calif, Minerals	1600?
	Brooklyn	Carey Can.	11000
	Chicago	UCC	2500
	Chicago	Calif. Minerals	?
	Torrance	Calif. Minerals	3700
	Chicago	Carey	3600
Johns-Manville	All	J-M	9000
Uvalde	Houston	UCC	2500
Others	---	---	3500
Uvalde		Stragari	2300
		Total	84,800

Coalinga Sales including UCC	30,200
UCC alone	7,000

* Recent changeover from Canadian source to Coalinga has been reported.

The Outlook

The industry should see growth in asphalt tile over the next five years as state and federal supported low cost housing projects profligate. This factor has not been present in the past and in 1970 we should at least see a halt in the decline of sales.

Even with total housing going to 2MM, units in the early 70's VA tile will not benefit as much as sheet vinyl and carpeting. We estimate 5% growth for VA about right.

The UCC Position

To increase market share in a slow growth commodity market, there are not many options.

1. Cut Price
2. Develop product or service superiority.

If we examine the latter approach—UCC enjoys a superior position in product form—the pellet. In the flooring industry, use of SG-100 is limited to Banbury Mixer operations. This eliminates Armstrong as a potential customer (est. 17,800 tons) in a strategy based on the pellet. Though it is not necessary to sell to everybody to achieve our own goals, we should be careful not to create a competitive imbalance for a valued UCC customer.

The pellet advantages are reduction of dust hazard, and amenability to bulk handling.

The first is probably the more saleable factor. The second does bring cost advantages for some price in capital investment. But the VA, asphalt tile plant is not a choice new investment territory, unless that investment is dictated by product marketing strategies. In fact, all new investment by the industry has been toward buying into competitive markets--vinyl sheet flooring plant, carpeting. To sell bulk handling, as a part and parcel of dust hazard reduction, is like selling air pollution control. From the manufacturers' point of view, it also carries the disadvantages of a single source of supply.

In sum, the pellet form is a positive advantage to the user, but as a sole marketing strategy, it will not be a short term factor.

This leaves us with the rather unpredictable strategy of price reduction.

In a way we are following that policy now. None of the Coalinga producers followed the recent price rise on Canadian asbestos. By so doing, there opened up a slightly larger market share to Coalinga. It is also worth noting the price rise was orderly, as far as we can tell, with each producer following suit. Though there may be and probably are concessionary price structures in contractual offerings.

In the asbestos industry price has been a laissez-faire battle ground. If we move to cut prices as we did in 1965, we can expect consternation and a move to follow. To reduce repercussions, we should try to make obvious to competitors the nature and limits of our intent.

Unless we are both cautious and sophisticated in any price recession policy, we will attain only temporary advantage and create a long term problem in maintaining a diminishing market share.

Selection may be a reasonable approach. Move prices against selected competitors or for selected customers. For example, one could avoid Johns-Manville. But this reduces the available market to slightly over 40,000 tons and we would have to get over half of it. I suspect this situation would lead to excessive price cutting and confusion as to our prupose. The same result would occur for similar moves for selected customers, along with the ancillary danger of creating a disorderly market situation.

In short, a simplistic, unilateral approach is not likely to be successful.

Recommendations

Combining the positive aspects of UCC's position as to raw material, product form, and capacity, it is suggested we review the possibility of marketing SG-100 to the asbestos producing industry.

To this end we would approach all competitors and offer to supply SG-100 pellets at, say, 40 per ton, in bulk or bags, with a total quantity of 20-25000 tons available.

All the advantages of the pellet form would then be generally available to all tile manufacturers including the captive group at prices consistent with today's schedules.

We, in turn, would maintain our current business and withdraw from further active marketing. There are advantages for UCC and to the competitive producers, and if successful it will maintain a stable market value. It is also consistent with UCC's position in the chemical industry.

I suggest we discuss this suggestion carefully and if agreed upon, we move as rapidly as possible.

N. J. Setter

NJS:jr