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Mead Forest Products Group

August 12, 1982

TO: Mr. A. D. Correll R.E.K. AUG 13 1982

CC: Messrs. D. L. Klausmeyer
R. E. Kross

FROM: W. O. Nugent

SUBJECT: SPECIALTY PAPER DIVISION
BORG-WARNER ASBESTOS FRICTION PAPER

As you know, the Specialty Paper Division has a long standing contract with the Springs Division of Borg-Warner for the exclusive manufacture of their friction paper, for joint product development efforts, and for proprietary technical information exchange. We supply not only the domestic Borg-Warner company, but also their German and Japanese affiliates under this contract. Domestic sales account for approximately 90% of our volume, with 5% each coming from Germany and Japan.

Due to Borg-Warner's 50% share of the automatic transmission friction paper market, we enjoy approximately 2,000 tons of this 4,000 ton market. This grade line, produced on No. 1 machine at the Willow Mill, has the highest margin rate of any of the division's product offerings.

Because of the environmental risks associated with asbestos, we made a corporate decision during the 1981 planning cycle to phase-out of the asbestos paper business completely by the end of 1982.

The division has done everything possible, within the confines of attempting to maintain good business relations with Borg-Warner, to achieve this plan. It extracted a commitment from the domestic Borg-Warner operation to convert totally to our newly-developed non-asbestos grade line by the end of this year. This conversion, however, has been slow due to resistance on the part of automotive manufacturers. Our year-to-date orders have been approximately 30% non-asbestos. General Motors has been the major bottleneck. In now appears, however, that a breakthrough has been made with General Motors and that they will be converted by year-end. While Borg-Warner USA is reasonably confident that they will be completely out of asbestos by year-end, they are uncomfortable with having no contingency plan for possible continued resistance by the automotive industry.

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The environmental pressure against asbestos in Germany and Japan, while clearly building, is significantly less than in this country. As a consequence, we do not have a high level of commitment from the Borg-Warner affiliates. It would be impossible to enforce the year-end non-asbestos plan with them, and still maintain their business.

Dave Klausmeyer has had frequent discussions with the top management of the Borg-Warner Springs Division on this issue. His next formal contact is scheduled for mid-September. At that time Dave has been requested to present a revised asbestos phase-out plan that addresses the contingency needs of the domestic operation and the different environmental climate of Germany and Japan. We know that Borg-Warner has had discussions with Lydall, Inc., whose mill in New Hampshire is actively seeking Borg-Warner's friction paper business, and who is willing to produce an asbestos product.

Dave and I concur on a recommended response to Borg-Warner having the following elements:

1. We will produce quantities of the asbestos grades between now and year-end that will enable all three Borg-Warner operations to build as much inventory as they desire.

2. We will schedule two, at most three, asbestos runs during 1983. These runs might be scheduled for, say, June and December. (We normally produce the grade line every 5th week).

3. We will not manufacture asbestos product beyond December 31, 1983.

It is Dave's feeling that this is the least commitment we can make that will maintain our exclusive arrangement with Borg-Warner. In discussing this program with Russ Kross, he indicated that following this plan will not significantly increase our liability.

In view of the planning commitment made last year, I request your approval to have Dave renegotiate our phase-out plan with Borg-Warner, not to exceed the guidelines above.

Wally

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