

SPECIAL Report



N A T I O N A L R O O F I N G C O N T R A C T O R S A S S O C I A T I O N

February 2003

ASPHALT AVAILABILITY

Dear Member:

We are issuing this report because we are concerned that recent disruptions in the availability of crude oil are likely to lead to disruptions in the marketplace for roofing asphalts.

A strike initiated in Venezuela on December 2, 2002 has now spread to include administrative employees of PDVSA, the Venezuelan petroleum company, as well as refinery workers, shipping employees and, most recently, the country's banking community.

Crude oil production in Venezuela has been reduced significantly – from about 3.1 million barrels a day prior to the strike to less than 500,000 barrels a day now. The refineries are generally running at very low levels of production, and there is very little inventory of either crude oil or finished asphalt in Venezuela. In fact, no asphalt or crude oil shipments have been made to the U.S. from Venezuela for more than a month.

Crude oil from Venezuela accounts for roughly ninety per cent of roofing asphalt used on the east coast of the U.S. The problem, however, is not limited just to the east coast; we expect to see disruptions at least as far west as the Rocky Mountains.

Further, we are advised that there is very little, if any, asphalt in inventory in the U.S. today – at a time of the year when inventories are typically being increased in anticipation of the paving and roofing season. Also, with gasoline prices being relatively low, refiners are expected to cut back production further until gasoline demand picks up – reducing asphalt availability even further.

Very recently, OPEC decided to produce an additional 1.5 million barrels of crude oil a day, with most coming from Saudi Arabia. Assuming the crude is ready to ship today, the transit time alone will be 35 days. And it is unclear whether any of this crude can be used to alleviate the shortage of asphalt from Venezuela, which represented 25 per cent of the U.S. supply.

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Even if the strike in Venezuela were settled today – and there is apparently very little hope for a short-term solution – the best estimate is that it would take at least eight weeks for the first shipments to reach the U.S., and another four to eight weeks for supplies to return to normal levels.

Adding to this uncertainty, of course, is the possibility of war with Iraq, and the prospect of heavy demand for paving asphalt this spring and summer.

It is very likely, then, that asphalt demand will exceed supply in the short term, and it is expected that prices will increase as a result. No one is sure of the amount of the increases, but it is possible they will be significant. We encourage members, therefore, to use caution when bidding work that is not scheduled to be completed in the near future. Members may want to consider including language in bid and contract documents to account for price increases; we have enclosed several examples of such language that may be useful. We encourage you to prepare for instability and volatility in the asphalt market and to consult with your own attorney and customers.

There is another, related concern. Different asphalts have different properties, and it will be increasingly important for you to work closely with your most trusted suppliers to be sure they are taking these changes into account. It is fair to ask roofing material manufacturers what changes, if any, you might expect in the materials you will be buying and what testing has been done to ensure the long-term performance of new and different asphalts and asphalt blends.

In summary:

- Expect asphalt prices to increase in the short term
- Work closely with suppliers whom you trust
- Communicate with your customers, and consider using bid and contract language to take into account expected market conditions

We encourage members to keep us informed of market developments in your area, so that we can provide accurate and current information to the industry. Please let us know if you experience any unusual disruptions, or have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Bill Good".

William A. Good, CAE
Executive Vice President

**POSSIBLE PROVISIONS TO INCLUDE IN
PROPOSALS TO DEAL WITH VOLATILE
PRICING OF ASPHALT PRODUCTS**

“The roofing industry is currently experiencing price volatility in asphalt-related products. Because firm prices cannot be obtained from suppliers, prices are subject to change. If there is an increase in the price of asphalt-related products charged to the contractor subsequent to making this proposal/contract, the proposal/contract shall be increased to reflect the additional cost to the contractor, upon submittal of written documentation thereof.”

“Due to extreme volatility in asphalt prices, the price set forth in this proposal/contract applies only to orders for asphalt products that are ordered and paid for within _____ days of the date of this proposal/contract. All other orders shall be subject to change based upon changes in the price of asphalt-related products charged to [roofing contractor's firm].”

“[Roofing contractor's firm] shall perform the work described herein at the price quoted. In the event, however, that the price for any of the roofing materials to be used in this work should increase by _____ percent or greater from the price at which said roofing material was available in the roofing contractor's locality at the time of submission of this proposal/contract, then the owner/general contractor agrees that said price quote shall be changed to reflect the additional cost to the roofing contractor of said roofing material.”

“Due to the extreme price volatility regarding asphalt-related products, the price quoted in this proposal is valid only for orders placed and paid for within the next _____ days. Thereafter, if there is an increase in the price paid by the roofing contractor for asphalt-related products, the amount of this proposal/contract shall be similarly increased to reflect the contractor's increased costs to obtain materials.”

“[Roofing contractor's firm] shall perform the work described herein at the price quoted. Provided, however, that in the event the price to the roofing contractor for any roofing materials to be used in this work shall increase by _____ percent or greater than the price upon which the roofing contractor relied in submitting said price quote, then the owner/general contractor agrees that said price quote shall be increased to this same extent.”