Explosion in Raw Material Cost Prices Hits Tapes Market Hard

2007/8 has been an extraordinary period for the manufacturing industry across Europe. New record high increases in raw material and oil prices, coupled with hugely growing energy and freight prices has led to spiralling costs. The relentless number, frequency and magnitude of these imposed increases is unprecedented in modern times. The days of once a year January price increases is unprecedented in modern times. The days of once a year January price increases is unprecedented in modern times.

Tight Supplies

Increasingly also, these record increases have been coupled with tight supply, especially for petro chemical and related feed stocks, which are intrinsically linked to many adhesive tape components. This in turn leads not only to rapidly increasing costs for manufacturers but, in some circumstances, to shortage of supply and the imposition of allocations by manufacturers of certain key raw materials.

Suppliers of raw materials are now publicly stating that these are the most difficult times that they have experienced for twenty years and the volatility of the current market is such that many suppliers are already quoting “Force Majeure” as today’s unique price increases show little resemblance to previously seen market structures and seasonal patterns.

Huge Increases

Both natural and synthetic rubber materials, as used as key ingredients for tape adhesives, are a prime example of this trend. Driven by the recent price boom in oil and all other traded commodities, a global shortage of synthetic rubber has spurred further demand for natural rubber, with consequential huge increases in price for both materials of above 50% over the last year! Likewise, polyethylene film (LDPE), also used as a major raw material component has experienced massive price pressure, with cost increases of over 30% within the year, including successive price increases of up to 20% being imposed by major manufacturers in both June and July 08.

Margin Strain

Within the adhesive tapes market, manufacturers and distributors alike are struggling to contain these unprecedented increases which are putting such a strain on already struggling margins.

HIDDEN COSTS: The Rising Costs of Freight & Energy

Most households have seen rising costs in diesel prices in Europe hit hard over the last 12 months, so it comes as no surprise to reveal that these double digit percentage increases are also leading to dramatic increases in transportation costs for businesses. On top of this, many freight companies are now implementing carriage fuel surcharges for land freight, which can be reviewed and increased monthly. The scale of these additional charges can be significant, from 5-11% across most of Europe and for air freight can actually be as high as 20%!

Additionally, manufacturers across Europe are suffering from unprecedented rises in energy costs, which can wipe out the benefits of careful cost reduction programmes overnight. Although the level and frequency of gas and electricity increases can vary substantially around Europe, some areas such as the UK who are most exposed from their need to import the majority of their energy requirements, have been subject to enormous increases of over 250% for natural gas and 300% for electricity over the past year.

Looking forward, despite some small decreases in wholesale prices, more pain is expected as both the UK and continental Europe experiences continual pressure in this area.

Adhesive Tapes: The Key Components

The structure of an adhesive tape includes a number of key components which play a crucial role in the make up of that particular tape product. Within the majority of single sided adhesive tapes, there are three key constituent parts:

Substrates: Substrates or carriers, as they are often otherwise referred to, are the main component of an adhesive. Non technical end users of the product would be likely to perceive the substrate as the actual tape itself. So for example, the substrate in an electrical tape would be PVC and for a duct tape, would be cloth. Substrates include aluminium foil, foam, cloth, PVC and film.

Adhesive: Many different types of adhesives such as rubber resin, acrylic, silicone or phenolic can be used within adhesive tapes. The choice of adhesive depends on the required tape product performance, as each adhesive type has its own different properties, such as temperature or UV resistance.

Liner: Used to separate the adhesive from the backing or another adhesive and to allow easy unwind to protect the adhesive before final assembly or for identification purposes.
FOCUS ON: Substrate Pressures

As substrates make up the majority component part of a standard adhesive tape, so the rising prices in these materials is having a proportionally higher effect on the total cost price of specialist adhesive tapes. Within the cloth tapes area, many cloth substrates have been adversely affected, from enlarged increases on cotton and polyester, to the massive increases imposed on rayon cloth.

Other substrates too are affected, with widespread rises intensifying on a range of materials as diverse as foil, foam and PVC and with no signs currently that this pressure will soften in the foreseeable future.

Price Index - Cloth, Film, Foil

2008 The Voice of the Market

The raw material situation has triggered much speculation and discussion. Here are just some of the comments made public over recent months.

The Dow Chemical Company, supplier of many oil based feedstocks, announced in June 2008 that it would raise the price of all of its products by up to 20 percent, as the company attempted to mitigate the extraordinary rises in energy and raw material costs.

Andrew N. Liveris, Dow chairman and CEO, said:

“Our first quarter feedstock and energy bill leapt a staggering 42 percent over the year, with the cost of oil and natural gas climbing ever higher. The new level of hydrocarbons and energy costs is putting a strain on the entire value chain”

Dow spent $8 billion on energy and hydrocarbon-based feedstock costs in 2002. At the current rate, the company stated that those costs would climb to $32 billion at this year’s rates!

AFERA, the trade association for adhesive tape manufacturers, has also been driven to make a statement with Marketing Committee Chairman Eric Pass stating:

“The current economic situation, with increasing costs for manufacturing and transportation, is putting a lot of pressure on the business results of AFERA members. In order to cope with this extraordinary situation, companies will need to focus on short-term measures in order to reduce variable expenses. But most likely, such measures may well not be enough and an increase in selling prices might additionally have to be considered. Companies will have to put more effort into finding innovative approaches, processes and materials, in order to reduce the impact of this unpredictable cost evolution”

PAFA, the trade association representing UK plastic film and flexible packaging suppliers, has issued a warning of substantial price increases of this size. The supply situation has been further aggravated by most major polymer producers announcing “force majeure”. PAFA Chief Executive David Tyson also pointed out that any resistance by buyers to accept the reality of the situation, and weakness by suppliers in imposing it, could result in businesses failing within weeks, due to cash flow problems.

“PAFA has been difficult enough to recover the previous monthly increases in rising polymers costs, but increases of this size give suppliers absolutely no choice. Going forward we are in for a tough ride both in terms of price and volume availability and the reality of the situation needs to be recognised by all.”

OIL UPDATE:

Oil prices continue to set new records, and the recent speculative boom has merely highlighted the fundamental problem of shrinking reserves and rising consumption. The global demand for oil and related feedstocks is growing at a faster rate than new capacity coming on-stream, with demand especially from rapidly developing countries such as China and India set to spiral ever upwards.

Although in recent weeks the price of oil has fallen, it is still 60% higher than the price 12 months ago! For the situation to improve long term, we would need to see huge and sustained oil price decreases to even get close to the levels that were anticipated in 2007.