

SPECIAL Report



NATIONAL ROOFING CONTRACTORS ASSOCIATION

August 23, 1990

SPECIAL REPORT: MAJOR PRICE INCREASES FORECAST FOR ASPHALT-RELATED PRODUCTS

Dear Member:

We have received widespread reports from contractors and from manufacturers of asphalt-related products that prices are increasing dramatically as a result of the crisis in the Persian Gulf. These reports have come in from around the country, and have intensified over the last few days.

Many of you have probably already felt the price increases, whether with asphalt-related products, or with surcharges on transportation and raw materials. It appears that prices are not going to decrease in the immediate future. Roofing contractors should be attuned to the situation, and should take the appropriate steps to protect themselves in their business planning.

The information that follows comes from numerous conversations NRCA staff has had with manufacturers and key industry personnel from all over the country over the past several days.

BACKGROUND

The U.S. depends heavily on foreign imports of oil--over 8 million barrels a day. The situation in the Middle East reached a critical point when Iraqi leader Saddam Hussein invaded Kuwait and asserted control over the country.

President Bush and other nations responded to this invasion by placing an embargo on all Iraqi and Kuwait goods, including, of course, crude oil.

As a result of the situation, Americans have seen the price of oil jump drastically, from \$16.50 a barrel about four weeks ago, to over \$30 a barrel today. Now, roofing contractors are feeling the bite.

THE CURRENT SITUATION

The current situation in the Mideast remains highly volatile. Prices of asphalt-related products have risen as much as 30 percent in some parts of the country--and an increase of 40 to 60 percent above July 1990 prices is forecast by one roofing manufacturer.

Nearly all of the manufacturers we talked to are experiencing serious price increases of their own; many assert they have no choice but to raise their prices and tack surcharges onto transportation and raw materials.

THE OUTLOOK

Almost everyone we spoke to agrees that the situation will most likely get worse before it gets any better. According to one manufacturer, the pressure on asphalt prices, although closely tied to oil prices, will be even greater now because it's the height of the paving season, when asphalt demand is the greatest.

Roofing contractors are urged to work closely with their suppliers and customers, and to stay informed about the ever-changing situation in the Persian Gulf. The consensus of our sources was that contractors who bid fixed prices for jobs beyond the next 30 days are taking a big risk.

PROPOSALS, BIDS, AND CONTRACTS

One of the ways that roofing contractors can protect themselves is to insert a provision into any proposal, bid, or contract with customers that deals with the uncertain pricing of asphalt-related products.

NRCA encourages roofing contractors to consider the impact that price increases in asphalt-related products may have upon their businesses, and recommends that the contractor consult with his or her own attorney to formulate an appropriate approach. While the NRCA does not recommend the use of any specific provision, following are several examples of provisions that contractors may want to consider using or modifying as they deem appropriate, depending upon their individual circumstances.

* * * * *

"[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."

* * * * *

"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."

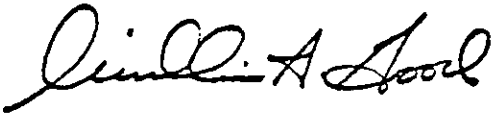
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CONCLUSION

This report was designed to warn you about an extremely volatile situation, and to help you deal with the escalating prices of asphalt-related products. We have offered some suggestions on how roofing contractors can protect themselves better in the coming weeks or months; we encourage you to study this information and consult with your attorney.

Feel free to report any of your own experiences regarding this critical Middle East situation and, as always, please call on us for any additional information you may require.

Sincerely,

A handwritten signature in cursive script that reads "William A. Good". The signature is written in black ink and is positioned above the typed name.

William A. Good, CAE
Executive Vice President