

Red-hot steel marketplace sends tank prices surging



Costs of storage vessels unsettle propane marketers as winter approaches

By James E. Guyette

Customers routinely expect their propane tanks to have an attractive finish and be functionally up-to-date. Yet setting new tanks can be most unsettling as surging raw material costs amid a red-hot worldwide steel market are pumping up the prices you pay for storage vessels of all sizes.

Suppliers report that each element of a tank is more expensive – steel, brass, copper, aluminum and plastic.

A 500-gallon, above-ground tank that sold for \$600 a year ago now has a price tag approaching \$900 as temporary surcharges are being dropped in favor of across-the-board price increases that are likely to rise even higher.

“The propane dealers feel that they’re getting beaten up, but we’re getting beaten up as well,” says a tank manufacturing executive who requests anonymity. Another reports his company’s raw material costs shot up 115 percent within a six-month period.

The main culprit is a shortage of North American steel driven by rocketing demand in China and other burgeoning Asian economies. Steel mills can make more money by selling their wares overseas. When domestic demand increases, so do the prices being charged.

From June of last year to February of 2004, the cost of hot-rolled steel in the United States rose 66 percent as steel makers captured record profits. In June of this year, steel was up 57 percent to \$617 a ton, compared to \$350 per ton in January.

Transportation costs are higher as well, pushed by gushing oil prices plus a shortage of critical railcars needed move material from mill to tank maker.

“It’s a chain reaction; I can go on and on about this for hours,” says Jess Collins, president of Trinity Industries’ LPG Division. He likens the situation to a roller coaster ride with unending twists and turns.

“It’s probably very hard for the smaller gas dealer to understand what’s going on,” Collins notes.

“It’s very difficult to get steel. It’s cheaper to get steel on a railcar than by truck, but we’ve been forced to buy a lot of our steel by truck. And there’s a shortage of trucks in the United States, too.”

According to Collins, “the hardest pill to swallow” is the higher prices charged by steel providers despite previous agreements that set a lower rate. Trinity is one of the largest steel buyers in the country. Yet even their volume purchases are subject to surcharges because of the vast overseas demand.

Prices to the end-user – the propane industry – are up as much as 50 percent over last year, and “there will be another increase forthcoming,” Collins says. “Where it’s going in the future is anybody’s guess.”

Gobbling up scrap

If there is a silver lining in all this, it comes with record prices being paid for scrap metal. A yard stacked high with obsolete tanks and fittings (brass and copper) can be readily converted into cash.

“Scrap has gone through the roof, too,” says Rick Simp-

son, vice president of sales and marketing at Manchester Tank. “If you have scrap tanks that you can’t use, now is the time to sell them.”

Consult several scrap dealers before making a deal, Simpson suggests. “You’ll get top dollar, but shop around. Some of them may try to low-ball you.”

In some instances the prices paid for scrap metals of all types have been doubling and tripling. “China and India are gobbling up all the scrap they can,” notes Lynn Hardin, national sales manager at Quality Steel Corp.

Propane marketers feeling squeezed by rising tank costs are taking a closer look at unused inventory that can be refurbished and returned to service. “They’re blasting and repainting or whatever they have to do,” Hardin reports.

Propane’s residential and commercial accounts are likewise being asked to pay more for services rendered.

“We’ve seen customers raise their prices,” Hardin observes. “It’s a very real issue and you have to cover your costs and make a profit,” he points out.

Dusty McClintock, vice president of sales at Worthington Cylinders, says propane retailers need to account for the uncertainty of volatile steel prices.

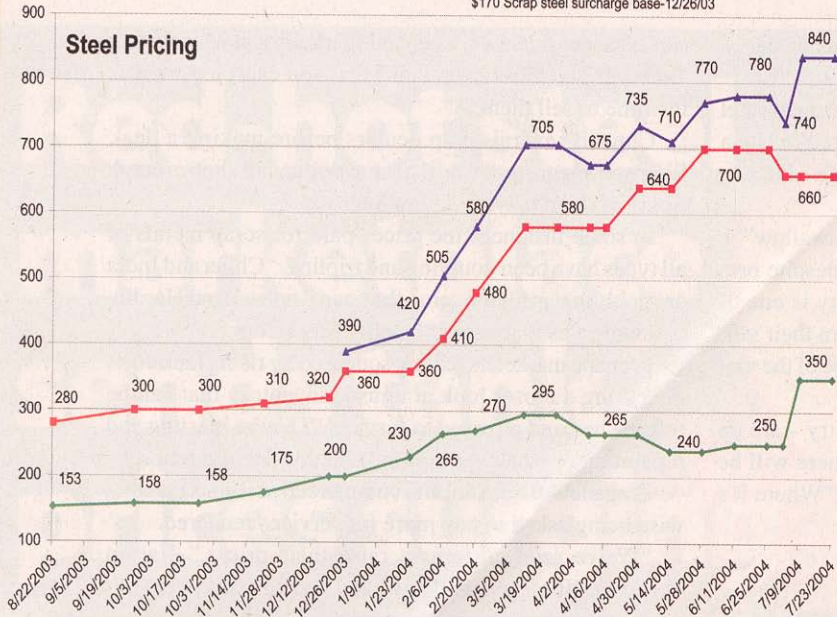
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\$ Per Ton

Scrap Steel Steel Price With Surcharge

\$170 Scrap steel surcharge base-12/26/03

Steel Pricing



The price of steel nationwide has been surging for nine months. Manufacturers who have been forced to pass along surcharges to their propane retail customers say the trend isn't about to fade any time soon.

Steel prices

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“This is a global steel issue, not just a North American steel issue. Aluminum prices have gone up as well, and so has brass for our valves,” he explains.

“Prices will stabilize someday, but who knows when? We’ll never see prices like we did a year ago.”

Ultimately, this upswing in demand could be good for the American economy – especially when compared the domestic steel industry’s struggles over the past decade or so.

“The mills were not healthy,” notes McClintock. A strong steel industry creates jobs throughout all sectors. People with jobs buy homes, and hopefully they’ll heat them with propane.

Because steel industry analysts do not see prices falling anytime soon, those in the tank business are advising marketers

to order now at today's prices rather than later at tomorrow's uncertain rates.

"This will probably get worse before it gets better," McClintock warns. "Don't wait 30 days for the price to go down, because it won't."

Skip the blip

"The steel industry is not like the propane industry where the price goes up and down. It's not going to be a blip for 30 days," concurs Don Fabricy, vice president of sales and marketing at American Welding and Tank.

"We have seen a tendency of the propane dealers to put off purchasing decisions anticipating that the steel pricing will go down," Fabricy says.

A better strategy this year is to assess your tank needs and plan your purchases as early as possible. Production planning is more effective with advance notice, particularly with uncertainty in the market-

place that could threaten supply levels.

"Normally we see demand pick up in the fall. The fall season is busy, and inven-

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tory can diminish quickly," Fabricy says.

"Many times in the United States we take things for granted. Before, the supply of steel was always taken for granted. Now, managing our steel supply has become a major issue in managing our business. We track steel pricing weekly to remain aware of market conditions," he notes. (See chart on Page 34.)

Thompson Tanks pre-bought a hefty supply of steel based on anticipations of higher demand levels.

"We inventoried more this year because it didn't look like it would take a downward turn for us. Right now buying steel is not a problem, but the price is changing daily," says Jeffrey Schipani, national sales and marketing manager.

"We're working a lot harder for sales because there are quite a few folks who say, 'I'm going to wait until the busy season and see if we get better pricing.'"

That attitude has certainly reduced the opportunities for sales, agrees Gary James, president of the Midwest and Eastern regions for Liberty Tanks and Vessels.

Those who wait too long are likely to be bitterly disappointed, James cautions.

"If you're trying to delay buying tanks for as long as possible waiting the price to go down, that's not going to happen anytime in the near future," he says. □