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## Pricier future in plastics

### Key petrochemical floats up with crude, but consumers not feeling it immediately

By **TOM FOWLER**  
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Rising electric bills and gasoline prices aren't the only way energy costs can take a bite out of your wallet — come this fall, prices for everything from plastic lawn chairs to sneakers could creep up.

The price of ethylene, a petrochemical that's a key building block in everything from plastics to antifreeze, has jumped 29 percent in the past two weeks. At 44.5 cents per pound, it's just pennies below a five-year high hit last December, according to Bloomberg News data.

Higher plastics prices don't directly translate to more expensive products on store shelves, at least not immediately. But Peter Huntsman, president of The Woodlands-based chemical maker Huntsman Corp., said this month's jump in ethylene prices will affect producers of finished plastic products by November or December.

"Just in time for Christmas," Huntsman said.

### Dog toothbrushes?

The last two years have seen big price swings for chemicals used in plastics, but the general direction has been up, said Jeff Applegate, president of Houston-based Blackwell Plastics.

For more than 60 years the firm has used plastics like polyethylene and polypropylene to make thousands of items, from the first plastic liners in Igloo coolers to oil industry equipment to dog toothbrushes.

"We've seen prices for our supplies increase eight to 10 times in a 12-month period," Applegate said.

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Combined with other rising costs, including health care, salaries and new equipment, it can be difficult for manufacturers like Blackwell to protect their profit margins, Applegate said.

### **Other factors in spikes**

While rising prices for natural gas and oil, which are used to make ethylene, have been behind much of the chemical price increase, other factors can create price spikes.

Last fall, prices for ABS, a petrochemical product that goes into computer and television cases, rose by 29 percent in one month because of a shortage of two elements of ABS, butadiene and benzene, Applegate said.

But since then, some ABS suppliers have had to drop their prices because of oversupply as more electronics manufacturers produced flat-screen televisions and monitors that require less plastic.

And a fire that crippled a key ethylene production unit at a plant run by BP subsidiary Innovene near Alvin on Aug. 11 may have contributed to the recent price jump.

The Olefin 2 unit at the plant damaged in the incident had a capacity of nearly 2 billion pounds per year, which roughly equals 2.5 percent of the U.S. ethylene output. The company declared a "*force majeure* event," a legal term for circumstances beyond a company's control that releases it from an obligation to deliver goods to customers on time.

Eric Paulsen, vice president of commodity markets at online marketplace ChemConnect, said spot prices for ethylene jumped 6 to 8 cents per pound, or nearly 20 percent, shortly after the fire.

"That's a little more than normal," Paulsen said.

While Paulsen wouldn't say there was a direct link between the fire and the price jump, he noted that trading activity for ethylene and other chemicals has become much more active in the past two years.

"The business has changed a bit in that ethylene has gotten more attention from financial houses and equity analysts," Paulsen said. "They're keenly aware that the price movements of ethylene can have significant impact on certain finished products."

### **Eating the costs**

How much of a change is difficult to track.

Applegate said that even if his costs go up several times, he'll increase the prices he charges customers for finished goods as infrequently as possible. That means he'll end up eating much of those rising costs at least part of the time.

"If the price increase is under 10 percent it won't hurt us too much, but when they get over 15, 20 percent, it starts to add up," Applegate said.

But in some instances raising a customer's price just isn't possible. At least one Blackwell customer is a U.S. manufacturer fighting tooth and nail with Asian and Mexican manufacturers with lower labor and material costs.

"A customer will tell me if I raise their costs they will lose their business to Asia, and then we both lose," Applegate said.

### **Change depends on size**

For a big item with a relatively large profit margin, like a car, the increase in plastic prices may be small relative to the overall price, so an automaker may be less likely to add that cost to the sticker price.

But for smaller items, such as toys or plastic plumbing valves, price increases may track more closely.

The shutdown of the BP unit won't likely raise ethylene prices globally, said Huntsman, as there are many other manufacturers overseas and one to two months of stockpiles held by many end-users.

"It's a global marketplace," Applegate said. "Even for BP or others to raise prices takes a few weeks to hit us."

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