

Materials firms work to fortify supply chains despite coronavirus

FRANK ESPOSITO

Plastics News Staff

TWEET

SHARE

SHARE

EMAIL



Materials firms throughout the plastics markets are reacting to the coronavirus outbreak.

In the last week, North American firms have shifted their attention from how shutdowns in China might affect their businesses to dealing with potential economic impacts within their own region.

Most plants making resins, compounds and concentrates in North America are expected to remain open. Although many of these plants are large in size, their employee totals aren't very high by comparison.

Even with the U.S. stock market down more than 30 percent in the past month, Dow Inc. CEO Jim Fitterling said in a March 16 TV appearance that he's optimistic about the U.S. economy's ability to recover because of positive signs from the Chinese market. Midland, Mich.-based Dow is one of the world's largest producers of polyethylene and several specialty plastics.

"In the last two weeks, we've seen our demand in China bounce back," Fitterling said on CNBC's *Mad Money* show. "I think that tells us that we can see the same thing wash through the economy here."

The impact of the coronavirus on global oil demand and pricing could lead to cuts at ExxonMobil Corp. ExxonMobil's chemical unit is a major global supplier of PE, polypropylene and specialty plastics.

The global oil market also has been affected by price competition between Saudi Arabia and Russia. Crude oil prices are down more than 50 percent in the last month.

Officials with ExxonMobil in Houston have said that the firm is looking to reduce spending significantly as a result of market conditions.

"Based on this unprecedented environment, we are evaluating all appropriate steps to significantly reduce capital and operating expenses in the near term," said Darren Woods, ExxonMobil chairman and CEO. "We will outline plans when they are finalized."

Like many North American PE makers, Dow and ExxonMobil have added large amounts of capacity in recent years because of regional supplies of low-cost shale-based natural gas.

The coronavirus impact and lower oil and feedstock costs could have some unusual effects on resin demand, according to Blue Clover Polymer Solutions, a resin supplier and consulting firm in Princeton, N.J. Potential virus impact could drive up demand and prices for some materials while drastically reducing demand for others, officials with the firm said in a recent market update.

Along with crude, prices for naphtha feedstock are significantly lower. Blue Clover officials said this is important for resin makers and consumers because most of Asia and Europe still produce their PE and PP from naphtha-based crackers.

"Export markets out of the U.S. for PE (and even PP) will need pricing to move significantly lower to compete with cheaper Asian and European cost of production," they said.

Polymer-grade propylene (PGP) prices also are trending down, although Blue Clover said that PP supplies had tightened in February and early March. "It's possible that for the spot [PP] product that does become available in March and April, pricing may move lower slightly on the heels of lower PGP pricing," they said.

An example of a demand surge can be seen in PP used in fibers to make surgical masks, which now are in extremely high demand at medical centers around the world.

"Converters than can increase supply of nonwoven PP for masks will certainly do so," Blue Clover said. "Others may be able to retrofit machinery to help with the supply. Producers of nonwoven PP will clearly attempt to run their reactors to maximize this product.

"So when someone looks at the macro markets of the recession that is either already here or closely at bay and assumes significantly lower PP prices across the board, there are these huge pockets of demand," the researchers added. "That's what makes this supply/demand situation unique.

"The lower demand isn't simply across the board because a financial bubble in housing or student loans popped. There are actual products that have seen incredible demand as a result of this outbreak and that will increase the price for the specific resin needed to make them."



Dow Inc.

Jim Fitterling

Social distancing

In the compounding market, Shuman Plastics Inc. has maintained normal operating hours even with the state of New York implementing strong safety measures. Shuman is based in Depew, N.Y.

"We have abided by local government requests to improve social distancing for our associates by shifting as many as possible to a work from home arrangement," President Ken Shuman said in an email.

"We continue to monitor the evolving situation and adjust our work practices to ensure the health and welfare of our team, our community

and our business.

"It's a delicate balancing act," he added. "It's imperative that we participate and contribute our share to this nationwide, and global, effort for humanity."

Like many compounders, Star Plastics of Ravenswood, W.Va., has put safety procedures in place. Those steps include limiting nonessential business travel and face-to-face meetings, restricting facility access to company personnel only and implementing remote work among its sales and customer service teams.

"As COVID-19 is changing the world around us, we believe as long as we all pull together, we will get through and come out stronger," president and CEO Doug Ritchie said in an online statement. "We are committed to the health and wellness of our employees, their families and the local community."

He added that Star hasn't identified any disruptions within its supply chain and it is working closely with vendors to ensure production of its products.

At the resin distribution level, firms also are monitoring coronavirus impact. Officials with M. Holland Co. of Northbrook, Ill., "are meeting frequently to assess and respond to COVID-19 with the twin goals of protecting our employees and ensuring a functioning supply chain for clients and suppliers," they said on LinkedIn.

Most M. Holland employees are now working from home. The firm also has canceled all international travel, and domestic travel has been greatly reduced.

M. Holland also has put a commercial mobilization team in place to assess changing market dynamics, both at the market segment level and at the account level.

"Sales, market and product managers are providing daily updates, which will be used to ensure we have the right products in the right places at the right time," officials said.

They added that there's some uncertainty in PE and PP resin markets because of both COVID-19 and the collapse of crude prices. Domestic order rates for PE and PP "remain healthy" as of the week beginning March 9.

Further up the supply chain, M. Holland officials said that container shortages and space availability continue to cause ocean shipping delivery delays. Rates on some routes have doubled from pre-COVID-19 levels, but the collapse of oil prices has provided an immediate rate relief of 5-10 percent because of lower fuel surcharges.

At Chase Plastic Services Inc. in Clarkston, Mich., officials on March 16 implemented a plan to allow its employees to work remotely for at least the next two weeks. "This decision was made to ensure the health and safety of our team, as well as to do our part as a private business to help thwart the advance of this virus," Operations Vice President Adam Paulson said in a statement on the firm's website.

"Chase Plastics' business continuity team has been planning for this situation, or an unexpected event, for decades," he added. "We are prepared."

Chase has been in contact with its supply base to ensure that there has not been a disruption in supply, Paulson said. To date, none of the materials it distributes are affected by the coronavirus outbreak.

Paulson added that Chase has recently experienced some extensions of up to two weeks on lead times from suppliers with manufacturing locations in Asia-Pacific and Europe because of logistical limitations. As a stocking distributor, Chase is making the necessary adjustments to its stocking levels.