



# Pipeline

Closer relations with those associations which are allied to our industry is one of the main objectives of chairman of the board **Lucien Cornez** and president **Larry Ecroyd**. Naturally, the association which represents some of the largest customers of our members, the Mechanical Contractors Association of Canada, is of great interest to us in this endeavour.

Mr. Cornez was a guest speaker at the MCA — Canada convention in Quebec City and, since then, several meetings have been held to discuss supply problems and other items of mutual interest. **John Stevens**, chairman of the CIPH Allied Industries Committee, the chairman of the board and the president met with the president, general manager and members of MCA to discuss in a general way current industry problems. This was followed by a meeting at which the supply situation was dealt with in detail.

The following is, in substance, a report which MCA-Canada made to its members. It is reported here for the information of CIPH members and additional copies are available, at nominal cost, from **R. R. Taylor** at the CIPH office in Montreal.

## THE MATERIAL SHORTAGE SITUATION

A recent meeting of industry representatives in Montreal discussed at length the current serious problems affecting both the supply and contracting sectors of the mechanical industry. Representatives included people from companies supplying the basic needs of steel, copper and plastics; people from the wholesale distribution sector; and contractors in the industrial, commercial and residential fields; as well as representatives of the Canadian Institute of Plumbing & Heating and the Mechanical Contractors Association of Canada.

Of prime concern was the availability of products for the construction process and the escalating costs of materials. The contractor representatives outlined their concerns in the matters of

- (a) their inability to obtain firm price quotations from suppliers at the time of bidding
- (b) the escalating cost of materials
- (c) the availability for delivery of materials, after contract commitments to supply had been made.

The mechanical contractors asked the meeting to consider the provision of material delivery forecasts on a regular basis for certain specified products, and representatives from the steel, copper and plastics supply industries were asked to comment on the supply of these basic materials.

It became clear from these reports that the supply of raw materials and the capacity of these industries to process them was a vital factor in the supply chain.

Other pressures on this capacity had been created by

- (a) the devaluation of the U.S. dollar last spring (1973)
- (b) the lack of imports from offshore sources—supplies either dried up because of demand by emerging nations or prices rose too high to be competitive in Canada.)
- (c) world market pressures on prices of commodities i.e. copper and other raw materials.

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The outlook for supply in 1974 was towards presently-improving supplies of copper tubing but for a shortfall in the latter quarter, with U.S. producers going on strike.

Demand pressure would be placed on tube and fittings, as the plastics industry becomes more drastically affected by raw material (resin) shortages.

The Canadian producers had imported materials in 1973 to maintain Canadian supply and meet industry demand. This had been done at a cost to the producers since prices higher than "market" had been paid to support their responsibility as Canadian companies supplying to our needs.

## PLASTICS

The supply picture for plastics is fairly drastic. The demand, quite simply, cannot be supplied.

Plastics manufacturers are able only to get supplies of resins on monthly allocation. The price of the raw material is completely volatile, but must be paid if plants are to keep operating. Over 1000 plants in the plastics industries have been near to closing down in recent months due to lack of raw materials.

The situation points up the desperate need for a petrochemical industry in Canada. The raw materials supply is, of necessity, augmented by imports and the industry is completely exposed to the vagaries of world prices and supplies.

Material shortages will continue in 1974. ABS will be the worst off. Prognostications are for ABS sewer pipe to become non-existent, as this and other lower priced plastics products will not be made. Available resin supplies will go into higher DWV products. It was forecasted that there would be an overall 15-20% deficit of supply on 1973.

Resin supply is drastically affected by the oil crisis. More crude is going into fuel production with lower production of resins and other by products.

It was estimated that unavailability of ABS products could increase the demand for similar copper products by 400% and double the demand for cast iron soil pipe, as well as substantially increasing the demand for steel pipe. This example was given to show the "wheels within wheels" effect of one shortage area on another. The price of plastic fittings have increased drastically.

Demand pressures, unstable world prices, uncertain supply capability, all contribute to a highly volatile pricing and supply condition. Rapid changes in world economic conditions, rapidly changing needs of hitherto-exporting nations such as Japan, Germany, (in order to retain dwindling supplies of raw materials for their home consumption), have brought unusual new conditions to doing business.

The complexity of the factors is such that forecasting the availability of products becomes impractical. It was pointed out that any information that might be compiled on paper would be obsolescent, out dated and useless before it reached the user, such being the conditions of rapidly accelerating change to which not only this industry, but all others are currently exposed.

The meeting concluded that

- (a) Contractors must work more closely than ever with wholesalers in these market conditions.
- (b) Delivery of products should be taken just as quickly as possible to take advantage of availability and price, but it was recognised that hoarding or unnecessary stockpiling would only compound the shortage problem in the long haul.
- (c) Contractors must endeavour to "pass on" the increased cost of materials through the bidding process, by building into the price, controllable contingency factors or providing a method of controlled price adjustments to contract prices.

The evils of open-ended escalation clauses were discussed but in these uncertain market conditions, it behooves contractors to protect their businesses and their profits in a responsible way. Those who do not, simply will not survive.

In summary, the consensus of the supply industry was that the shortages problems in most areas would moderate and become controllable but products would, inevitably, be selling at much higher price levels. It was felt that the supply industry had, generally speaking, been able to supply the industry's needs in 1973, that prudent contractors would be able to cope with conditions in 1974 now that there is a greater awareness of current business conditions and that those who act irresponsibly, either in the supply or contracting area, would meet tougher and ever tightening credit restrictions and subsequent elimination.