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Metal, Chemical Firms Hiking Prices to Cover Costs

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By *Steve James*

NEW YORK, June 30 (Reuters) -- Kaiser Aluminum Corp and Airgas Inc on Monday joined a growing list of manufacturers levying surcharges or raising prices in order to pass along higher energy and raw material costs to customers.

The moves, following two recent price hikes by Dow Chemical Co and huge increases in surcharges by AK Steel Holding Corp, has prompted debate on whether asking customers to cover extra production costs will hurt demand.

U.S. Steel Corp Chief Executive Officer John Surma even raised the specter of some customers balking and turning to alternatives, rather than pay more.

"At what point does the price of steel affect the demand for our product?" Surma asked at a steel conference last week.

"If the market decides that the price of steel is prohibitive, a shift to plastic, aluminum, concrete, wood or other alternative materials will surely follow, and demand for our product will fall," he warned.

His comments came as steel prices are soaring, driven in part by demand from China and other emerging economies. But along with the price hikes, the cost of energy and raw materials, such as iron ore and coking coal, have added to the expenses of the steelmakers.

"U.S. (steel) manufacturers have been able to push cost increases, while their margins are also expanding dramatically," said Sam Halpert, a steel industry analyst at Van Eck Global, a money management company.

"They are generally lower-cost producers and can say: 'Pay the cost increase or go elsewhere for your steel.'

"Higher prices would at some point have an impact on demand, but steel is not generally a major part of the cost of a product," Halpert said.

Michelle Applebaum, an independent steel industry analyst in Chicago, said surcharges were dependent on two factors -- the cost of the steel in a product relative to the cost of the goods sold, and whether there is a viable substitute.

She said the average amount of steel used to build a car had risen from about $800 to $1,400 since 1981, while the average car price has gone from $5,000 to $30,000.

"This is the silliest thing I've heard, the auto industry whining about the cost of steel," she said. "Car prices have risen sixfold since 1981 and steel has still not doubled!"

NO SUBSTITUTE FOR STEEL

Michael Locker, who runs steel industry consulting firm Locker Associates, said despite talk of switching to alternatives if prices get too high, "People will pay what they have to for steel as there is no real substitute.

"There is some elasticity, but you're talking about years, not months, to change production design for cars or appliances from steel."

Locker said he believed steel prices would go even higher -- with hot-rolled coil going to about $1,500 per ton from the current $1,100 to $1,200.

"If they stay high, people will look for alternatives, but it will take time. The real problem is the squeeze on supply and this was not anticipated well by the steel manufacturers."

On Monday, Kaiser Aluminum said it would add energy surcharges to new orders starting on July 1 to reduce exposure to rising natural gas, electricity and diesel fuel costs.

CEO Jack Hockema said the company had absorbed those costs for years, but a 60 percent rise in natural gas and diesel prices in May pushed it "to introduce a surcharge as the most transparent method to recover these costs."

AK Steel advised customers that an $820-per-ton surcharge will be added to invoices for electrical steel products shipped in July to cover prices for raw materials and energy. In January, that surcharge was only $265 per ton.

Gas distributor Airgas said it would increase prices for bulk and cylinder gases by up to 20 percent. That was in response to increases by suppliers and rising operating costs driven by pricier raw materials, energy, electricity and labor. Rising metal prices are also driving up costs for cylinders, bulk tanks, gas handling plants and equipment, it said.

(Editing by Braden Reddall)