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01/14/2010

Dear R&E Supply Customer:

Global market dynamics for key fluorochemical products have changed significantly over the past 6-12 months.

Demand for HFCs has grown dramatically in all regions of the world – in Europe due to the complete phaseout of virgin R-22 for both new equipment and servicing of existing equipment, in Asia due to economic growth (most significantly in China where there is a fast growing middle class) and in the U.S. due to the phaseout of HCFCs for use in manufacturing new air-conditioning equipment and insulating foams.

At the same time, the industry has experienced raw material supply constraints accompanied by significant cost increases for many key raw materials including fluorspar, hydrofluoric acid (HF), sulfur and chlorocarbons. These cost increases have significantly impacted the production costs of all fluorochemical products – HCFCs (e.g. R-22) and HFCs (e.g. 404A, 410A, 134a, etc.).

In addition to the above dynamics, global capacity to produce key HFC products (HFC-134a and HFC-125 in particular) has not adequately tracked growth in global demand. The result is that the industry is currently operating at very high S/C (sales to capacity) ratios. In fact, due to the current supply/demand imbalance for HFC-125, a key component in most refrigerant blends, the purchase cost for China-produced HFC-125 has more than doubled over the past several months and is approaching tripling. And, even when more HFC-125 capacity is added in the second half of 2011, it is unlikely that sufficient raw materials will be available to adequately supply these new facilities.

Compounding the HFC-125 supply challenge is the fact that global demand for HFC-134a has also increased significantly over the past year due to economic growth and the transition of the U.S. polystyrene insulating foam market from HCFC-142b to HFC-134a. Several of the world's HFC-125 production facilities can also produce HFC-134a - but swinging a production facility from one product to the other requires "down-time", resulting in lost capacity overall. Most manufacturers appear unwilling to lose this production time given the current very high S/C ratios.

The above dynamics have already resulted in a series of price increase announcements over the past several months affecting all HCFC and HFC products. These increases are very real and reflective of current industry dynamics.

What to expect for 2011? More of the same – i.e. tight raw material supplies, higher raw material costs, and very high S/C ratios for fluorochemical facilities. As always, R&E will keep you informed of changing market conditions and will do its best to meet the product needs of its loyal customers.

If you have any questions, please do not hesitate to contact your local R&E sales representative or me. Thank you for your business.

Sincerely,

Don Chmura

Don Chmura
Vice President
R&E Supply Company

resupplyco.com