

CAL-SIERRA PIPE, LLC.

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To: Valued Customers
Re: Price fluctuation and shortages
Date: March 15, 2021

Dear Valued Customers,

Our industry and those that we serve are experiencing unprecedented volatility, not only because of disruptions caused by COVID-19, but also because of global economic factors affecting supply and demand across a wide range of product categories. In recent months, you have likely experienced pricing fluctuations and inventory shortages for even some of your most common items. There are a wide variety of root causes that contribute to these issues. A few if these are described below:

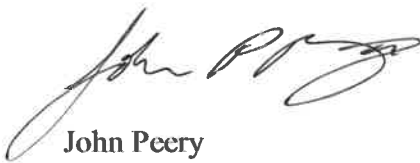
- **Hot Rolled Coil Prices** – Most steel pipe, even domestic comes from HRC which is produced in Asia. This is a pure commodity and moves entirely based on global supply and demand. Supply is low because of COVID-19 disruptions to production, as well as mills producing less, expecting reduced demand. Demand is stronger than forecast, which has caused global shortages. At the start of 2020 HRC sold for around \$600/ton and fell to as low as \$435/ton by June. It ended the year at around \$1000/ton, a 12-year high. HRC continues to go up, setting new records every week, and was at \$1200 on March 1. The cost of this most basic input of pipe has doubled since January of 2020.
- **Container Pricing** – Most Grade A pipe and thin wall Grade B pipe, comes to the US in containers. The cost of a container from Asia to the US in recent years, has been around \$2000. Currently, due to a wide range of economic factors, including manipulation of supply by container companies, there is a global shortage. This is causing delays in shipment of all imported goods and an increase in the price. Containers this month are priced at an average of around \$6000, or triple the expected rate. This equates to about .08 cents per lb in additional cost.
- **Dumping Duties** – Korean mills produce a large portion of the global steel supply and are not subject to the 25% global Section 232 steel tariff imposed by President Trump in 2018. Instead, they have a quota, which has allowed them to undercut competitors and depress the global steel cost. In response, the US imposed an anti-dumping duty on pipe of between 5.9% and 21.9% depending on the manufacturer. This is applied to all steel pipe from Korea going forward and effectively wipes out their tariff advantage. This increases the global price for steel pipe.
- **Port Congestion** – Vessels have been delayed for up to 6 weeks due to excessive congestion at the ports. Late vessels and vessels delayed in harbors have made shortages even worse, particularly on the West Coast.

- Domestic mill price increases and delays – Due to the market situation for import pipe described above, domestic mills have become overwhelmed with demand. This has caused them to run short on key raw materials and labor, delaying production. Our leading domestic carbon steel mill has increased pricing by 45% since November. Our CMP manufacturer has increased pricing by 28% since December. Our PVC vendor has increased pricing 35% since January. Lead times on all of these have stretched as the mills work with reduced staff to meet COVID-19 restrictions or struggle with staffing issues as they grapple with COVID-19 outbreaks in their facilities.

Due to this combination of market conditions, Cal-Sierra Pipe has had to increase pricing accordingly. We will work to find the best cost available so that we can keep our pricing down, but as we face shortages, we are committed to reaching out further to find the product that you need. That may mean that we pay higher freight costs or buy from less favorable sources. We believe that it is better to give you the choice to pay a higher number if you want the material, rather than to be out of the material and give you no choice. Please recognize that we are doing everything we can to find and purchase pipe to meet your needs, but that there is simply not enough pipe in the US to meet the market demand.

We expect that price increases and supply shortages will persist at least until the fourth quarter of 2021. In this environment quote validity is often very short, and everything is subject to prior sale. Because lead times and prices are rapidly changing, we recommend that you bid carefully to avoid getting upside down on your bids and that you secure your material early to ensure you have what you need to complete your projects. Our sales team is well aware of the issues with each particular product category, and they will be happy to share their observations with you so that you can make the best possible decisions. Wherever possible we are here to help and welcome the opportunity to discuss your specific needs.

Sincerely,



John Peery
President
Cal Sierra Pipe, LLC
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