ADHESIVES Raw Materials FACTS
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THE ADHESIVES SUPPLY CHAIN IN 2025

President-elect Trump rode to victory on a mix of pro-business promises that could reshape policies ranging from the environment to technology and corporate taxes. They also could reconfigure large swaths of the adhesives raw materials supply chain.

Trump's stated goals are to freeze new climate regulations, introduce protectionist measures for American-made products and streamline the bureaucracy and cost of the federal government, among others.

While many of these goals are viewed favorably by the chemicals industry, a focus on tariffs and energy could renew inflation and have unexpected effects on the adhesives raw materials supply chain.

"Trump has signaled a more aggressive tariff strategy, which could significantly disrupt supply chains and impact company margins," Bindiya Vakil, CEO at supply chain risk management company Resilinc told *Logistics Management*. "Industries with complex cross-border logistics, such as chemicals and automotive, may face increased costs, particularly if tariffs are imposed on Mexico. This approach could reshape global supply chains and force companies to reevaluate their sourcing strategies, potentially accelerating the trend of near-shoring or reshoring production."

Tariff Trouble

A complex supply chain and reliance on China for many intermediates has the chemical industry closely watching how far the new administration will push plans for sweeping new tariffs. Trade wars are "especially disruptive and expensive," *Chemical Week* said in November.

Trump is a big fan of tariffs. In his first administration, he imposed hefty duties on steel and aluminum. His Section 301 tariffs, first implemented in 2018, now affect almost 75% of chemical industry imports, according to the American Chemistry Council.

This time, the President-elect says he will go much further. During the campaign trail, he talked of implementing levies of 10% to 20% on everything that America imports and of 60% on all Chinese goods.

It could be merely campaign talk but even a fraction of the levels discussed would immediately affect the adhesives raw materials supply chain. Most manufacturing companies, along with their suppliers and customers, produce in North America to sell in the region.

"Greater than 75% of all products that we sell in the U.S. are assembled here in the U.S.," Deere & Co. CEO John May told investors recently.

The problem is that even companies that manufacture domestically go abroad for some materials. For feedstocks, like benzene, to more specialized inputs, including SIS and hot melt tackifiers, the U.S. does not produce enough to meet the demands of the adhesive industry. Imports are necessary.

"In the case of benzene, companies will not build new refineries or naphtha crackers to produce more benzene," *ICIS Chemical Business* reported in November. "Buyers will face higher benzene costs, and those costs will trickle down to chemicals made from benzene."

Those higher input costs will flow throughout the economy. "Tariffs are a tax on imports, and they will raise prices for households and, crucially, for businesses that rely on imported inputs to make their products," say economists at The Peterson Institute for International Economics, a nonpartisan research group. And businesses usually pass on the bulk of the cost to consumers by raising prices.

Donald Allan, CEO of Stanley Black & Decker, told analysts in an October earnings call that the company had been evaluating "a variety of different scenarios" to plan for new tariffs.

"And obviously, coming out of the gate, there would be price increases associated with tariffs that we put into the market," Allan said

Aggressive tariffs could also trigger retaliatory duties that can significantly impact exports, Vakil said. "When we say sweeping tariffs on everything we import, it essentially pits us against just about every country in the world."

That would erode the U.S. chemical industry's cost advantage. Beginning in the 2010s, the industry capitalized on the American shale gas boom by expanding capacity to serve export markets. The region now exports significant volumes of plastics, methanol, glycols, acetic acid, VAM and more, according to Census Bureau trade statistics.

"The challenge becomes, if there's a tit for tat," Minneapolis Federal Reserve President Neel Kashkari told CBS *Face the Nation* on November 10. "And it's one country imposing tariffs and then responses, and it's escalating, that's where it becomes more concerning, and, frankly, a lot more uncertain. We will have to wait and see what gets implemented and then how other countries might respond. Right now we are just all guessing."

Energy Interdependence

President-elect Trump also promised to "unleash" the U.S. oil industry by rolling back environmental regulations and increasing opportunities to explore on public lands. While the industry generally welcomes his energy policies; these are unlikely to move the needle significantly on production.

That's because U.S. Energy Information Administration data shows that U.S. oil production has continued to set new records during the Biden Administration. But "drill, baby, drill" is no longer a compelling call to action. American energy producers are more fiscally responsible now—prioritizing profitability and shareholder returns—than they were during the fracking boom.

During the third-quarter earnings season, many oil and gas producers said they would likely maintain 2025 production at the same level as 2024.

"As we move towards the one million barrel-a-day mark next year, we will begin to shape our profile there a little bit towards a plateau. And we'll really begin to focus on free cash flow. And so, growth will become less the driver and free cash flow will become more of the driver," Chevron CEO Mike Wirth said on November 1.

Tariffs come into play here as well. While on paper the U.S. produces more oil than it needs, domestic refineries aren't set up to use all the light, sweet crude flowing from the shale basins. As a result, imports of heavier, sour grades are indispensable to keep the country running and optimize production at downstream units.

Refineries already set up to import foreign crude would likely continue to do so, rather than undergo prohibitively costly facilities overhauls, William Reinsch, senior advisor at the Center for Strategic and International Studies told S&P Global *Commodity Insights* at the end of October. Likewise, while some companies could shift supply chain sourcing, others would continue current practices at the higher tariff-imposed cost.

"Changing would be expensive, so they'll probably just shut up and pay the tariffs," Reinsch said. "But it's going to make their input more expensive, which means their output, which is gasoline, for the most part, is going to be more expensive. So gas prices are going to go up because they'll pass costs through. Every part of the industry is going to get hurt in one way or another, but I don't think they're going to make a huge complaint about it."

Outlook

Manufacturers crave predictability but CEOs acknowledge that they really have no idea how a second Trump presidency is going to play out. The lead-up to the election was like a "Mad Hatter's tea party," Nicholas Pinchuk, CEO of toolmaker Snap-on Inc., said on an October 17 earnings call. "Nobody knows what's going to happen. We can project, but the projection isn't so comforting."

The investment community can't agree either. In a note, Wells Fargo economists told clients to "take the president-elect's threats of tariffs seriously if not literally." Whereas, Phillip Nelson, head of asset allocation at NEPC, an investment consultant, told *Bloomberg* there's good reason to believe that many of Trump's comments are bluster.

The big numbers are likely a negotiating tactic, not the final policy, and companies are confident they'll be able to pass any extra costs on to customers, Katie Nixon, chief investment officer of Northern Trust Wealth Management, told *Bloomberg*. "There's going to be a lot of bargaining going on right now as Trump does turn up the temperature."

For the moment, the uncertainty makes for a much messier and less predictable future for America's manufacturers. ■

LOGISTICS FORECAST: TURBULANCE

Between the possibility of another port strike and the uncertain policies of the incoming administration, the logistics industry is facing a volatile landscape through the end of the year and into 2025. This will require careful planning to ensure the smooth flow of materials within the adhesives supply chain.

The possibility of a repeat strike on January 15 by the International Longshoremen's Association (ILA) at ports from New England to Texas is complicating logistics planning.

The port workers went on strike on October 1 and were out for three days before the United States Maritime Alliance (USMX) proposed a 62% wage increase spread over six years. The ILA tentatively accepted the deal and returned to work, starting a 90-day countdown to arrive at a formal agreement.

"A three-day strike doesn't sound like much but that doesn't mean it's over," Lars Jensen, CEO of Vespucci Maritime told *The Journal of Commerce* in October. Because shipments were cancelled or diverted, everything gets slowed down. "These are simply dominoes that have fallen. Every time we have a problem somewhere in the world, this percolates through the system for months."

Talks broke down on November 12 because of employer plans to expand the use of semi-automated machinery at ports, the ILA said in a statement to members. "Automation, whether full or semi, replaces jobs and erodes the historical work functions we've fought hard to protect."

"Given the short duration of the extended deadline [to negotiate a new contract] and the contestation of the automation issue, it is most likely that [a strike] will play out again in January," Corey Rhodes, CEO of Everstream Analytics, told CNBC in mid-November. "The question then becomes how long the USMX will hold out on conceding to ILA's demands this time around."

The timing isn't great. "With the Chinese New Year falling on January 29th, 2025, the typical seasonality would normally result in significant volumes of cargo being shipped from China to the U.S. starting in late December and continuing through January," management consultants Alix Partners advised clients in a recent report. "This raises concerns about further supply chain disruptions if the remaining negotiations are not resolved before the holiday shipping surge."

The heightened uncertainty "has retailers spending extra to bring in cargo early or continue shifting it to the West Coast to avoid any potential disruptions, much like they did earlier this year," National Retail Federation (NRF) Vice President for Supply Chain and Customs Policy Jonathan Gold said in a November press release. "And we're hearing that some merchants will also move up shipments to avoid the costly tariff increases expected after Donald Trump returns to the White House. Neither of these developments is good for retailers, their customers or the economy."

In the latest Global Port Tracker, the NRF expects November imports to be up 13.6% year-over-year with December goods up 6.1%. Once landed this cargo must be loaded on rail and trucks to ship to its final destination.

As if tariffs and work stoppages weren't enough of a challenge, Trump's promise to reform tax policies, including lowering the corporate tax rate from 21% to 15% for companies that produce in America, could also boost the economy in 2025, increasing demand and freight volumes.

Loren Smith, president of the strategic advisory firm Skyline Policy Risk Group, told *FreightWaves* that these tax cuts could have a positive impact on the trucking industry.

"That would be helpful for trucking in particular, because the more tax policy favors U.S. domestic products, the more immediate downstream effect on freight haulage from manufacturing plants like automobiles and household goods," Smith said.

All of this is playing into higher freight rates for 2025. In its November *Freight Market Update*, C.H. Robinson forecasts a 9% year-over-year increase in North American truckload and 7% in refrigerated shipping rates next year.

And in recent weeks, large LTL carriers, including Old Dominion Freight Line, FedEx Freight and TForce Freight, the former UPS Freight, have released average general rate increases for 2025 ranging from the mid- to upper single digits. These will set expectations for contract pricing in the coming year, leading to higher freight costs for the entire adhesives supply chain. ■

PERSPECTIVE: CHEMICAL COMPANY EXECUTIVES ON EU RATIONALIZATION

BACKGROUND: Uncompetitive high energy costs, a weak manufacturing landscape, intense competition from Chinese overcapacity and growing pressure to decarbonize existing operations have eroded margins and led to a structural crisis in Europe's petrochemical sector. Local producers are restructuring their business models, shutting down older, less efficient plants and selling non-core assets.

WHAT EXECUTIVES SAY:

"It has been a very difficult decision [to close the Gravenchon naphtha cracker] but we cannot continue to operate at such a loss."

Charles Amyot, President of ExxonMobil's companies in France
April 2024 press release

"The ongoing absence of clear, consistent and competitive regulatory policy in Europe has resulted in many challenges for our industry. And while the demand recovery in other parts of the world is expected to provide swift upside across the markets we serve, this alone is unlikely to be enough in Europe. Given these dynamics, we've begun a strategic review of select European assets, primarily those in our Polyurethanes business. This review includes all value-creating options for these assets, and currently consists of approximately 20% of our sales in the EMEAI region."

Jim Fitterling, CEO Dow Chemical
October 2024 earnings call

"To mitigate the impact of European energy policies and regulatory environment that are unfavorable to industrial companies, we continually look to reduce costs to remain competitive in the region. Before the end of the year, we will be initiating a further $50 million cost reduction program in our global Polyurethanes business. Most of that is going to be in Europe."

"We may well see a number of facilities [throughout the chemicals industry] close due to a combination of regulatory and high cost structures. Longer term, I think there will be a much needed consolidation in a number of chemical products in Europe."

Peter Huntsman, CEO Huntsman
November 2024 earnings call

IMPLICATIONS: Rationalization could have far-reaching ramifications for the global adhesives raw materials supply chain. "The impact of these closures are expected to reverberate through trade flows, with exports from the United States or the Middle East likely serving increased European demand in the future," Deloitte wrote in a November report.

Changes in trade dynamics could lead to increased market volatility. While the shuttering of European production would reduce the overall global supply of some chemicals, setting the stage for higher prices once demand rebounds. ■

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