FOUNDATIONS
FOR ARIZONA

# Staying Positive in a Crude Market

## Oil Prices and Your Parking Lot

*by Jon Baggett, Director of Marketing*

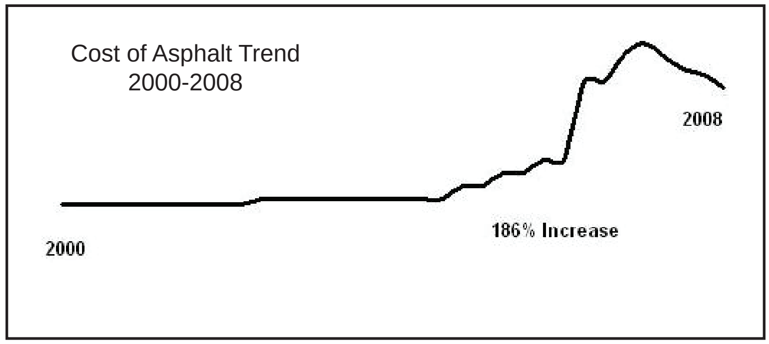
Oil prices broke the $100 per barrel mark in early January, sparking a concern on the international, domestic, and consumer-interest levels. According to BusinessWeek, a variety of factors – including the inventory report, new violence in oil-exporter Nigeria, a further slide in the dollar, and weak U.S. manufacturing data – have all contributed to the recent price volatility.

So how does this increase in oil prices affect the cost of asphalt? It makes it go up in price, right? In actuality, while the price of asphalt has risen in recent years, the “strong” link between it and the crude price rally of late turn out to be less than a forgone conclusion.

### A Crude Awakening:

The $100 per barrel price refers to light crude oil (or petroleum). There are a number of different crudes in the market. The lighter crude oils contain a higher amount of hydrocarbons, which by volume are easily converted into energy-rich fuels such as gasoline, diesel, jet, and other fuel oils. Liquid asphalt is actually a residue from the refining or cleansing process of selected heavier crude oils lower in these hydrocarbons. Its sticky, black and viscous properties make it a critical binding ingredient in the production of asphalt pavements, such as parking lots. The drivers of supply and demand for liquid asphalt vs. sweet light crude are as varied as their uses.

As an example, liquid asphalt has an additional use other than for use in asphalt surfaces. The maritime shipping industry can use liquid asphalt for fuel. Patrick Weaver, Regional Sales Manager for Vulcan Materials in Arizona commented, “The more liquid asphalt that is used as fuel during the winter months means that there will be less supply available for the cold weather market paving season. For example, at the Port Area of Houston, the four main bunker fuel grades used for shipping range in cost from $449 to $781 per metric ton. The Arizona Department of Transportation’s (ADOT) pricing for bituminous material in January 2008 was $395 per metric ton. Therefore, liquid asphalt is a much more viable solution financially compared to bunker fuel.”




Coking refineries can also have an adverse effect on the asphalt paving industry. New refineries being constructed or that have recently come online across the country can upset the supply of domestic asphalt. At these coking refineries, asphalt is heated to 900 to 1000º F in large drums. During the heating process – typically 16 to 24 hours – the asphalt is converted into a synthetic crude oil which is separated into different fractions and broken down further into gasoline and diesel fuel, leaving a coal-like residue called petroleum coke. This coke is used similarly to coal as a fuel in power generation plants, primarily to produce electricity. The end result is that all asphalt used in this process is removed from the paving market.

Another factor negatively impacting the industry is the asphalt-producing refineries and gasoline refineries that are reducing or ceasing their crude feed because of negative margins. This has been seen recently in California.

### More Than Just Oil:

Regardless of what drives prices to be volatile, the impact on the final price charged to property owners or managers is relatively small because of the small percentage of it required for use in the finished hot mix product used on streets, parking lots, and running tracks. In a typical ½ inch aggregate mixture of asphalt, about 5% is liquid asphalt – debunking the myth that the make-up of asphalt surfaces is “mostly oil”. Construction aggregates, chemical additives, and other modifiers make up the remaining 95%. This is not to say that the markets for these other materials have not had their share of volatility. In 2006, the cost of asphalt increased an average of 60% over 2005 (a 109% increase since 2000). Much of this increase has been attributed to additional demand placed on materials through the rapid growth in building and construction in recent years in AZ. After another 4% increase in early 2007, the cost of asphalt flattened and ended the year down just over 6% from its peak in 2006. If you are a property manager or owner, a price correction might afford you an opportunity to take care of that repair project you may be thinking about at a bargain price.

### A “Lot” to Think About:

So, where does this leave you and your parking lot? Regardless of what is happening in the markets, the truth is that time and weather will not be letting up on your parking lot any time soon. And since deferring your maintenance proves time and time again to be the more costly choice, the best you can do is to play the market over time. Your best move to accomplish this is to follow a professionally prepared maintenance plan. Repairs and preventive maintenance jobs done every year or so allow you to realize different prices over the life of your pavement, lowering your risk and extending the life of your initial investment at the same time.

### About Us


In 1966, a company called Parking Stripes Inc. was started in Butler, Wisconsin. With growing sales and opportunities, John Drexler brought his company to Arizona and in 1981, Ace Asphalt of Arizona, Inc. was formed. Today, Ace Asphalt is setting the standard in our industry for quality customer service through our reliability, responsiveness, and results. As the largest private grading, paving, and paving maintenance company in the state, we pave or resurface over 180 million square feet per year.

*A Member Of The* Inc. 5000

Lic. #ROC090990-A, ROC166913-C13