

Brussels, 15 December 2020

This note was corrected on 16 December 2020 to reflect the fact that the TDI producers are not anymore under force majeure and that prices for polymeric MDI are significantly higher than in November / December last year. The rest of the document remains unamended.

SUPPLY OF RAW MATERIALS IN PARTS OF FLEXIBLE POLYURETHANE FOAM SUPPLY CHAIN REMAINS CRITICAL

Following an earlier note shared on 19 October on disruptions in the flexible polyurethane foam supply chain caused by a combination of closures for maintenance and force majeure at chemical raw material suppliers, bad weather in the Gulf of Mexico and unexpectedly high demand for foam, we wish to provide a new update on the situation.

Generally, major supply issues have continued to affect the industry through November and the situation is only slowly improving in December. However as the situation is not the same for all chemical raw materials, different parts of the industry may not be affected in the same way.

Producers of TDI-based foams (notably for the mattress and furniture market and to a certain degree for the automotive market) experienced a very difficult month of November and the situation is hardly improving in December. The two European producers that had experienced production outages in October have now restarted production and the force majeure's have been lifted but supply to foam producers still remains difficult. The price instability that comes with such supply issues continues to very much affect the industry. According to Plastics Information Europe, the average price of TDI for example increased from 2,300 EUR / tonne in June to 3,300 EUR per tonne in mid-November, with some transactions reported at 5,000 EUR / tonne during that month. The trend is said to continue in December¹ and is confirmed by foam producers that we contacted.

Producers of MDI-based foams (mostly in the automotive market) are in a somewhat better position as far as supply and price instability of diisocyanates is concerned. Prices are reaching the same levels as November / December 2019 for monomeric MDI. For polymeric MDI prices are significantly higher than last year.

Generally, market tensions for polyol supplies have been easing through November, even though a major supplier remains under force majeure in Europe. Prices remain much higher than the average levels of recent years. The supply of some specialty polyols for the automotive sector does remain an issue, meaning that the producers affected have to juggle with diisocyanates and polyols supplies to make foam.

¹ Source (paywall): <https://piweb.plasteurope.com/Default.aspx?pageid=299&docid=245531>

Despite all this, demand for foam remains strong in Europe, especially in the furniture and bedding sectors. Speaking about the situation, Bart ten Brink, President of EUROPUR, said: “2020 has really been a rollercoaster year for the foam industry. Overall, we can be glad – compared to many industries out there – that demand is still strong, especially in the comfort sector. However, in my several decades in the foam industry, I have never seen such a scramble for raw materials in terms of availability and ensuing price instability. As I said back in October, I really encourage the supply chain to think and act about security of supply. The situation seen in the last months is really endangering the credibility of our PU materials as such, in many (end-consumer) market-segments. The holiday period is traditionally a period where less foam is produced. I sincerely hope that buffers of raw materials can be built during that period so that we can start 2021 in a better, more stable supply position, and more appeased pricing, than we end up with for 2020”.

Brexit – Deal or no deal?

Will Brexit add another layer of disruption to the many supply issues that the flexible PU foam industry has been going through in the past months? That’s the question. Irrelevant of whether there is a trade agreement between the EU and the UK, transport of mattresses, furniture, car parts and foam will experience the same logistical issues at borders as any other goods. This is not to be underestimated, especially in case of just-in-time production supply chains. With additional new paperwork to be completed, government sources on both sides of the Channel have warned of longer delays at borders, with the situation likely to become serious in case of no deal.

Besides these logistical issues that will affect all transports of goods, we trust that suppliers of chemicals have carried out all administrative steps to comply with chemical legislation in both the EU and UK on time.

Over the long term, setting aside logistical challenges, the difference for our industry in case of no deal are the tariffs that would need to be paid on cross-border trade. The table below summarizes these tariffs. For a number of items considered critical for UK manufacturing, the UK government will waive tariffs at an initial stage. Generally announced UK tariffs will be a bit lower than the EU’s external tariff.

EU to UK²	Tariff on 01/01/2021	External Tariff
Mattresses of Cellular Plastics <i>Custom Code 94042190</i>	2%	2%
Upholstered Furniture <i>Custom Code 94016100</i> <i>Custom Code 94017100</i>	0%	0%
Seats for Motor Vehicles <i>Custom Code 94012000</i>	2%	2%
PU foam Blocks, Sheets, Plates (unworked) <i>Custom Code 39211310</i>	6%	6%
Sheets of polyurethane foam <i>Custom Code 3921131010</i>	0% ³	6%
Rolls of open-cell foam <i>Custom Code 3921131020</i>	0% ³	6%

UK to EU⁴	External Tariff
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² Source: UK Government, <https://www.check-future-uk-trade-tariffs.service.gov.uk/tariff?q=&n=25&p=1>

³ Autonomous Tariff Suspensions (=0% rate to apply from 1 January 2021 until further notice by UK government)

⁴ Source: European Commission, https://ec.europa.eu/taxation_customs/dds2/taric/taric_consultation.jsp?Lang=en

Mattresses of Cellular Plastics <i>Custom Code 94042190</i>	3.7%
Upholstered Furniture <i>Custom Code 94016100</i> <i>Custom Code 94017100</i>	0%
Seats for Motor Vehicles <i>Custom Code 94012000</i>	2%
PU foam Blocks, Sheets, Plates (unworked) <i>Custom Code 39211310</i>	6.5%
Sheets of polyurethane foam <i>Custom Code 3921131010</i>	6.5%
Rolls of open-cell foam <i>Custom Code 3921131020</i>	6.5%

EUROPUR is the European Association of Flexible Polyurethane Foam Blocks Manufacturers, representing slabstock foam producers from 28 countries in Europe. **EURO-MOULDERS** is the European Association of Producers of Moulded Polyurethane Parts for the Automotive Industry.

For more information on our associations, please visit:

www.europur.org

www.euromoulders.org

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