



July 2008

Dear Member:

During the course of the past several weeks, we've had the opportunity to meet with a number of leading roofing material manufacturers and other industry stakeholders. One theme has dominated those meetings: The staggering and unrelenting increases in raw material prices.

For most members, this isn't news; what is newsworthy is how rapidly the increases have come. There are several forces at work that contribute to the situation.

First, of course, is the steady increase in the price of oil. Asphalt is a crude oil derivative, and its price is directly affected by crude oil prices. In addition, petrochemicals are commonly used in a host of roofing materials, which include polymers used in almost all membrane roof products and board roof insulation.

Second, we have seen dramatic increases in the price of steel. Not only does this affect the price of metal roofing products, but it also affects a number of common roof accessories, such as gutters, copings and counterflashings.

Third, transportation costs have risen continuously with the price of gasoline and diesel fuel. What makes matters even worse is a shortage of over-the-road truck drivers; for many suppliers, the situation has become dire.

Based on all this, we offer the following recommendations for all roofing contractors:

1. Work closely with your material suppliers. Delivery schedules especially take on increased importance.
2. Talk to your customers. Let them know your situation and, whenever possible, encourage the use of escalation clauses. As the accompanying *Special Report* explains, incorporating escalation clauses into contracts can work in an owner's favor; the only other option is to face the likelihood of bids that attempt to account for future prices. Several sample escalation clauses developed by the National Roofing Legal Resource Center are included with this letter.
3. Another approach is to provide for an allowance in your contract for certain items that are subject to price volatility with a stipulation that the actual price may be lower or higher than the allowance. If you are able to obtain the materials for less than the allowance, the amount of your contract is reduced; if the actual cost to obtain the items that is subject to the contractual allowance exceeds the allowance, the contract would be increased.
4. Whenever possible, get price commitments from suppliers in writing and make sure you and your suppliers understand the date the price commitment will expire.

(more)

**NATIONAL ROOFING CONTRACTORS ASSOCIATION**

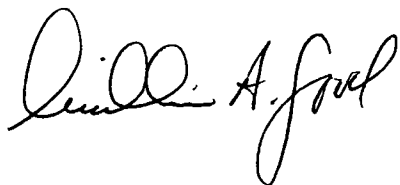
In addition, contractors who perform work for contracts from the federal government may be able to include price-adjustment clauses in some situations. The Federal Acquisition Regulation (FAR), which governs contracts for goods and services issued by most federal agencies, allows such contracts to have certain types of price-adjustment clauses. FAR Part 16, Types of Contracts, Section 16.203-1 provides that a fixed-price contract with economic price adjustment provides for upward and downward revision of the stated contract price upon the occurrence of specified contingencies. Economic price adjustments are of three general types: adjustments based on established prices; adjustments based on actual costs of labor or material; and adjustments based on cost indices of labor or material.

The same section says that a “fixed price contract with economic price adjustment may be used when (i) there is serious doubt concerning the stability of market or labor conditions that will exist during an extended period of contract performance, and (ii) contingencies that would otherwise be included in the contract price can be identified and covered separately in the contract. Price adjustments based on established prices should normally be restricted to industry-wide contingencies. Price adjustments based on labor and material costs should be limited to contingencies beyond the contractor’s control . . .”

The FAR applies to most federal agencies with some exceptions. The current FAR can be viewed at the following link: [www.amer.gov/far/current/pdf/FAR.pdf](http://www.amer.gov/far/current/pdf/FAR.pdf).

We are convinced these price increases are real. Further, we do not believe this is merely a short-term or cyclical problem; the issue will be with us indefinitely, and we encourage all contractors to act accordingly.

Sincerely,

A handwritten signature in cursive script, appearing to read "William A. Good".

William A. Good, CAE  
Executive Vice President