Dow Chemical announces massive price increase

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Dow Chemical announced it would charge up to 20 percent more for its products on May 28, citing spiraling price increases for oil and other petrochemical inputs. This decision by Dow—a behemoth with $54 billion in 2007 sales spread throughout numerous consumer industries—is expected to substantially increase inflation, which is already increasing rapidly in the US and throughout the world, cutting into workers' purchasing power.

Dow's action will affect a huge array of basic materials and consumer items, including: plastics used in automobile components and shopping bags; propylene glycols used in antifreeze, coolants, solvents, cosmetics and pharmaceuticals; and acrylic acid-based products used in detergents, wastewater-treatment and disposable diapers.

The *Wall Street Journal* commented: "Over the past months, Dow and other chemical companies have been raising product prices to pass on higher raw-material costs to their customers, but the increases have been usually confined to one product or one region. The company's decision to increase prices for all its products world-wide is nearly unprecedented."

Dow's price increase comes on the heels of announcements of planned price increases of 4-8 percent on a variety of consumer goods produced by companies such as Procter & Gamble and Kimberly-Clark, which are among Dow's main clients. It appears that Dow is trying to position itself to claim a significant portion of the new revenue that will be generated by retailers and consumer goods makers as they jack up their prices.

Other major chemical firms announced that they would also increase prices. Dutch firm LyondellBasell's CEO Volker Trautz said, "This kind of volatile environment is not sustainable. We absolutely have to pass along price increases." US firm DuPont also confirmed press inquiries that it would raise prices, but declined to make a more detailed comment.

The chemical industry relies on oil, natural gas, and various derivatives of petrochemicals as raw materials for the more complex chemical compounds it produces. It has had to substantially reorganize its operations as the price of a barrel of crude oil has risen from an average of approximately $24 in 2002 to $65 in mid-2007 and $130 per barrel this month.

Dow CEO Andrew Liveris issued a statement declaring, "Our first-quarter feedstock and energy bills leapt a staggering 42 percent year over year, and that trajectory has continued, with the cost of oil and natural gas climbing ever higher." Dow paid $8 billion for hydrocarbon raw materials in 2002 and expects to pay $32 billion for these raw materials in 2008. According to figures provided by Dow to the *Wall Street Journal*, Dow's hydrocarbon costs have jumped from under 30 percent of its total costs in 2002 to just under 50 percent in 2007.

Liveris continued with an attack on the Bush administration's energy policy and a warning about the impact of the oil crisis on the slowing US economy: "For years, Washington has failed to address the issue of rising energy costs and, as a result, the country now faces a true energy crisis, one that is causing serious harm to America's manufacturing sector and all consumers of energy. The government's failure to develop a comprehensive energy policy is causing US industry to lose ground when it comes to global competitiveness, and our own domestic markets are now starting to see demand destruction throughout the US."

The statement on "demand destruction" was widely interpreted in the financial press as referring to the fact that, as gas prices rise, consumers are cutting back on purchases of consumer goods produced by Dow's clients. Dow's profit margin has fallen from 9.8 percent in 2005 to 7.6 in 2006 and 5.4 percent last year.

Liveris's press release is an indication of powerful forces building up inside the US bourgeoisie that view current US policy as a massive debacle. In this respect it is worth noting that Dow is hardly friendly to environmental or left-wing causes. It was a major manufacturer of Agent Orange and napalm for the US military during the Vietnam War. It also acquired Union Carbide, whose operations poisoned thousands in the 1984 Bhopal chemical disaster in India. Dow has since refused to accept any liability for the incident. Liveris has posted his criticisms of US policy on the far-right *National Review* web site.

Dow's price increase comes on the heels of the company's May 15 annual meeting with shareholders, at which Livernis read a prepared statement which was posted on Dow's corporate web site. He discussed the pressures bearing down on US manufacturers, caught between surging input prices and cash-strapped consumers shopping at large, powerful discount retailers like Wal-Mart. His comments underline the combination of attacks on the workforce and political muscle abroad upon which US manufacturers rely today, in order to continue to deliver high profits to investors.

Describing the situation at the beginning of the decade, Liveris said: "Misguided energy policy here in the US was making natural gas—one of our key raw materials—even more expensive by the month. At the same time, we witnessed the rising power of the US retailer. Big box stores like Home Depot and Wal-Mart set new, low prices for high-quality goods. With their size and buying power, they began dictating pricing levels to their suppliers, who passed those dictates on to their supplies: companies like us. Caught between these two powerful forces, we lost $9 billion in pricing power between 1995 and 2002."

The response was to embark on a large-scale attack on Dow's workforce and productive capacity. Livernis boasted: "Many of the cost-control measures implemented as part of our survival in 2003 and 2004 are now institutionalized in our company. Financial discipline is a key strength at Dow and will remain so far into the future.... Since 2003, we have announced 92 plant shutdowns, 42 site exits, and 38 business divestitures."

Despite falling profits, earnings per share have risen because of a massive stock buy-back program, in which Dow bought up much of its stock in order to prop up its stock price and reduce the number of shares over which Dow's profits had to be distributed. Livernis noted: "The last chemical industry trough was in 2002 and our earnings at that time were 34 cents a share. When we look to the next expected trough sometime around 2010 ... we expect that number to be close to $3.50 per share, a ten-fold increase!"

Livernis noted that Dow's dividend payments to stockholders had increased by 25 percent since January 2006.

One of the major factors underlying Livernis's optimism on future earnings is his confidence that Dow will be able to use US imperialism's substantial influence in the Middle East to boost revenues. Dow recently signed a joint venture agreement with Petrochemical Industries Company of Kuwait. It expects to receive below-market oil costs and $9.5 billion in cash from the Kuwaiti company.