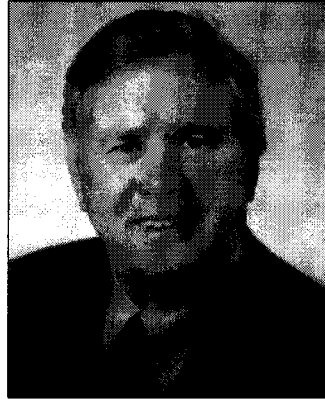


Predictions of major changes in the cost of asphalt

William W. Lampton is president of Ergon Asphalt & Emulsions, Inc., part of the Ergon, Inc. group of companies. The parent firm is widely diversified, dealing in a number of products and services that range from oil-and-gas refining, transportation, and terminals to commercial, industrial, and residential real estate to special industrial applications of information technology. Ergon Asphalt & Emulsions maintains headquarters in Jackson, Mississippi, but the company has branch offices and subsidiaries in numerous locations across the country. Because of the company's continued involvement in asphalt-related activities, we asked Lampton for his views on where the prices of asphalt might be headed in the future.

An Exclusive Hot-Mix Magazine Interview



William W. Lampton

President of Ergon Asphalt & Emulsions, Inc.

HOT-MIX: The fuel costs for cars, trucks, and home heating have been at elevated levels for some time now. But asphalt has been relatively stable. What is going to happen down the road?

LAMPTON: Diesel fuels and most heating oils are fungible products that are traded on the New York Mercantile Exchange. That simply means that they are more responsive to what the market might be at any point in time. As a result, they immediately go to whatever the market value happens to be for that day, week, or month. Of all the industrial fuels, diesel fuel is probably the most fungible. As a result, it is probably the only product that really reflects what the future has in store for some of the other products used in the construction industry. Why? Because it is the one where the industry doesn't really control supply and demand.

HOT-MIX: What about fuel oil?

LAMPTON: Fuel oil is probably a little more fungible than asphalt, even though you can't put it in a pipeline for distribution. You have to truck it, rail it, or barge it. But it is an industrial fuel and for that

reason, it is probably more of a fungible product than asphalt. Fuel oil might move up or down, but it can also be a direct competitor to asphalt as far as being an alternative to refineries.

HOT-MIX: An alternative?

LAMPTON: It's all about crude oil and cost. Historically, refiners were getting anywhere from 70 to 80 percent—up to 100 percent—of the crude-oil cost for their asphalt. But today, they are lucky to get 50 percent of the crude cost at the most. So that tells us that the market price of asphalt has not gone up nearly as much as the cost of gasoline and diesel fuel.

HOT-MIX: Why is that?

LAMPTON: Well, there are a lot of reasons why the market price of asphalt hasn't gone up. The Number One reason is that the refineries have not yet been upgraded in terms of sophisticated technology. They have been running their refineries very hard recently—at the highest possible levels. And the spread between the light, sweet crude and the heavy, sour crude has been wide enough to where they could still sell their bottoms—the asphalt—at a much lower price. In the refinery business models, they used to tell us to just take the bottoms and do whatever you want to with them. What it meant

was that you could almost give away the bottoms because the gasoline and diesel fuel would just about carry the whole barrel. But today, they are saying, "Look what we could do if we would put all of that stuff in cokers. We could take this barrel that is yielding only 50 percent of the crude cost and we could get up to 100 percent of the crude cost."

HOT-MIX: "Cokers"? What exactly are "cokers"?

LAMPTON: Probably one of the most threatening things that we have in the future for our industry—not just for fuel oil, but for asphalt—would be the cokers. It is a refinery process that represents very advanced oil-refinery technology. Cokers are also very expensive, but the investment in this technology makes sense when you take into consideration the market-price difference between the heavy fuels—like asphalt and fuel oil—and the diesel fuel and gasoline. Basically, what they will do is charge those products to the coker and make gasoline and diesel fuel out of the material that used to end up on the market as asphalt and fuel oil.

HOT-MIX: So they intend to use these cokers to increase the supply of gasoline, which will reduce the supply of asphalt...?

LAMPTON: When a refinery builds a coker, they are going to charge it and they are going to use it. And the only time they'll have bottoms available is when there is some type of problem or interruption in normal production. But once they build one of these cokers and put it into use, it is very difficult to back a product out and go to asphalt. Like I said: The biggest and most threatening thing for the asphalt industry is the construction of more

"Probably one of the most threatening things that we have in our industry for the future—not just for fuel oil, but for asphalt—would be the cokers. Basically, what they will do is ...make gasoline and diesel fuel out of the material that used to end up on the market as asphalt and fuel oil."
