

A Primer on the Paint and Coatings Industry: Making Real Contributions to the U.S. Economy

The paint and coatings industry is an important and dynamic part of our nation's economy, and plays a key role in creating products that help preserve and protect everything, from everyday objects to our most important infrastructure. Aside from providing aesthetic appeal, paints and coatings act as a protective barrier to extend the useful life of the surfaces and substrates to which they are applied.

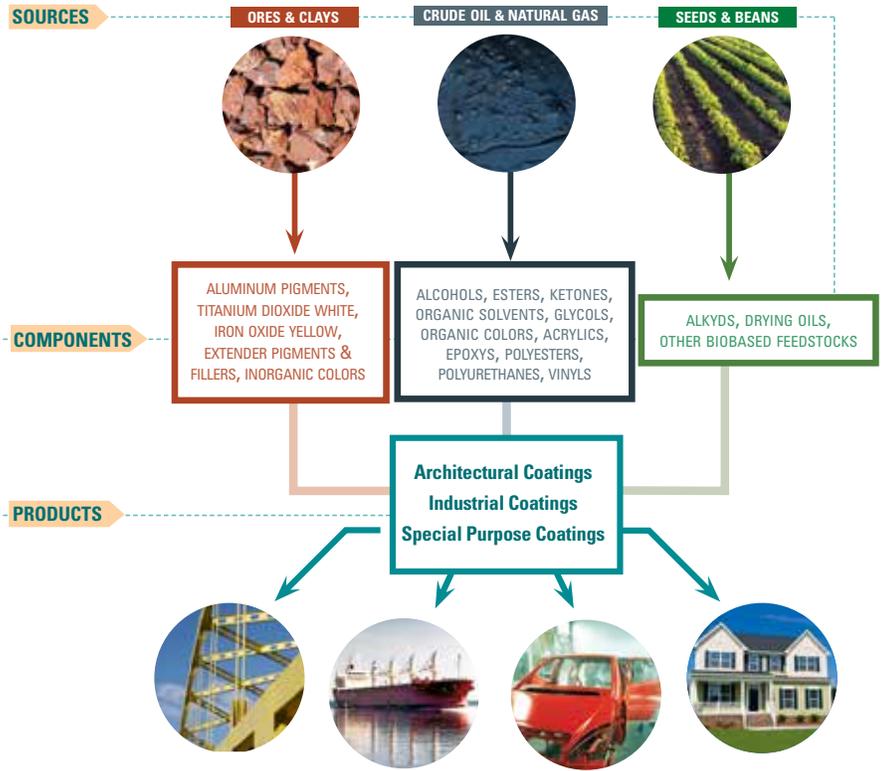
While often overlooked or invisible, coatings are indispensable products. Coatings not only preserve our cars and homes, they preserve the bridges we drive across and the tunnels through which we travel; and they save energy by keeping buildings cooler, among many, many other things. The paint and coatings industry is not only integral to providing products that sustain our daily lives, but also provides jobs for its thousands of employees, and end-use customers.

The American Coatings Association (ACA) is a voluntary, nonprofit trade association working to advance the needs of the paint and coatings industry and the professionals who work in it. The organization represents paint and coatings manufacturers, raw materials suppliers, distributors, and technical professionals. ACA serves as an advocate and ally for members on legislative, regulatory and judicial issues, and provides forums for the advancement and promotion of the industry through educational and professional development services.

With this *Issue Backgrounder*, ACA aims to introduce the U.S. paint and coatings industry and its products, as well as the vital role they play in the American economy and society. This backgrounder also outlines top federal policy priorities on which ACA and industry hope to work with the 115th Congress.

The U.S. Industry

Practically every manufactured thing has a coating, and the "value added" by coatings to virtually every product made to enhance its performance or lifespan is extraordinary.



www.paint.org/about-our-industry/value/

But what are coatings?

When we talk about paint and coatings, we are not referring solely to paint used to cover walls in the home. Enamels, primers, undercoats, stains, varnishes, aerosol paint, caulks, sealants and adhesives are all coatings. The U.S. paint and coatings industry includes manufacturers, raw materials suppliers and distributors. Raw materials for paints and coatings are derived not only from fossil fuels and minerals, but also from natural products, such as clays, tree saps and vegetable oils. Petrochemicals are still among the most critical raw material, and the industry is seriously affected by petrochemical shortages and price fluctuations.

The Shipment of Paint & Coatings in the United States



On the whole, the U.S. paint and coatings industry employs some 278,000 workers.¹ The manufacture of paints and coatings is a small industry in the United States as compared with other industries, with some 39,000 workers.² Industry facilities are located in urban areas like Chicago, Cleveland and Louisville, as well as in Northern New Jersey, throughout California, Florida, and Washington State. However, it is important to note that the manufacture of integral paints and coatings feeds not only the health of jobs related to the sale of paints and coatings — paint and wall covering contractors, as well as retail establishments — but also those in manufacturing end-use markets that use those paints and coatings: the auto industry, aerospace, paper, machinery, home appliances, electronics, wood furniture, and metal containers, among the universe of other applications.

And, more and more often, a thin film of coating is being used to replace another material such as a plastic laminate or high-performance architectural material.

The \$28 billion U.S. industry is made up of approximately 1,000 companies operating nearly 1,300 establishments.³ The top 10 paint companies range in annual sales from \$500 million to over \$1.4 billion, and represent approximately 74 percent of the U.S. market. The next largest paint companies, ranging in sales from \$100 million to \$700 million, represent about 10 percent of the market. The remaining paint companies compete for the balance of the market. Although many of the larger companies are publicly traded, many — if not most — of the remaining smaller manufacturing companies are privately held and/or family businesses.

The U.S. market accounts for just under 20 percent of \$149 billion global paint and coatings shipments value.⁴ The coatings industry also contributes in a significant way to the U.S. economy by exporting over \$2.5 billion in coatings product, while generating a substantial trade surplus of \$1.5 billion.⁵

Types of Coatings

To fully understand what kinds of coatings make up the industry's markets, industry categorizes types of coatings as three distinct categories.⁶

Architectural Coatings are used for decoration and general maintenance of residential, commercial, institutional and industrial buildings. They include both interior and exterior paints, are either water-based or solvent-based, and are used mostly by professional painters and Do-It-Yourselfers. Architectural coatings shipments, representing more than half of the volume of paint sold in the United States, reached \$11.2 billion in 2015, the highest value within the paint and coatings industry — an uptick of 10 percent over 2014. It is estimated that approximately 90 percent of all architectural coatings are now water-based, the remainder of which are considered solvent-based.⁷ This is in response to consumer demands for paints that are easier to apply while being environmentally friendly.

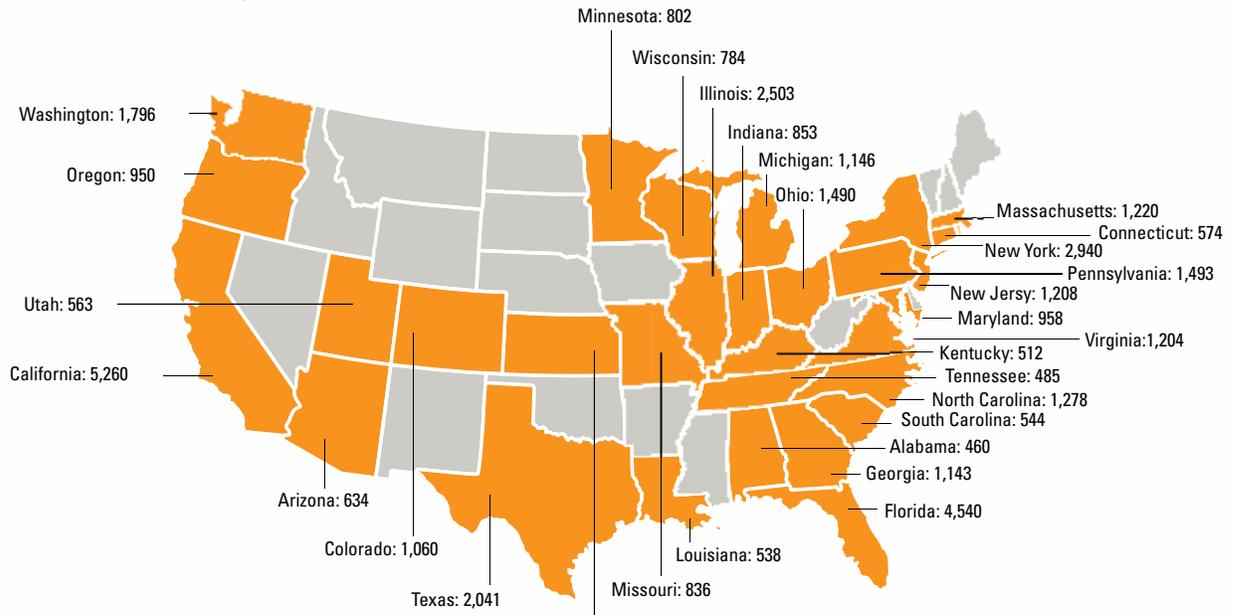
Industrial Coatings, or coatings that are factory-applied to manufactured goods as part of the production process, are also known as original equipment manufacture, or **OEM Coatings**. They include finishes for automobiles, buses, transportation equipment, appliances, wood and non-wood furniture, metal building products, metal container and closure finishes, and paper. From this non-exhaustive list, you can see that a host of independent and diverse industries depend on coatings, especially OEM coatings, for their production. OEM Coatings represent the second largest segment of industry with product shipments of \$7.8 billion in 2015, up by 12 percent over the previous year.

Finally, **Special Purpose Coatings** simply serve a special purpose and include marine paints, high performance maintenance coatings, automotive refinish paints, traffic and highway markings and aerosol paints. Some special purpose coatings include roof coatings, multi-color paints, metallic paints and spray paint. Specialty coatings like marine coatings used on Navy ships are designed to be

- 1) anti-corrosive — to maintain the integrity of ships' surfaces, and
- 2) anti-fouling — to keep living organisms from building up on ships, which could adversely affect critical performance characteristics, like speed. In 2015, Special Purpose Coatings reached a high of \$5.6 billion in product shipments, growing at 42 percent over 2010.

Top 30 States with the Highest Number of Paint and Coatings Establishments

Total U.S. Establishments: 45,000



Industry by the Numbers: National Overview

The following statistics highlight the significant contributions industry makes to the U.S. economy and the people employed by the industry.

- Four sectors make up the paint and coatings industry: painting and wall covering contractors; paint and coating manufacturing; paint, varnish, and supplies merchant wholesalers; and paint and wallpaper stores.
- The U.S. paint and coatings industry employed 278,300 workers in 2014, adding more than 10,000 jobs from the prior year.
- The U.S. paint and coatings industry workforce earned an average wage of \$45,800 in 2014, an uptick of 1.6 percent from 2013, adjusted for inflation.
- Within the industry, paint and coating manufacturing posted the highest average wage at \$68,700 in 2014.
- The U.S. paint and coatings industry had nearly 45,000 establishments in 2014.
- The payroll for the U.S. paint and coatings industry totaled \$12.7 billion in 2014. Industry payroll rose by 5.5 percent between 2013 and 2014, compared to an increase of less than 4 percent for the entire private sector, adjusted for inflation.

Industry by the Numbers: State Overview

The paint and coatings industry has a presence in every U.S. state, adding value to state economies for employment and trade. The following statistics underscore that vital role.

- **California** ranked first in the nation by paint and coatings industry employment with 36,600 workers in 2014; **Texas** ranked second with 25,600 paint and coatings industry jobs. **Florida** followed **Texas** with over 19,800 paint and coatings industry jobs; and **New York** and **Ohio** rounded out the top five leading states by paint and coatings industry employment, with 14,200 and 12,900 jobs, respectively.
- The highest paid paint and coatings industry wages were those in **Ohio**, where the annual average wage for the state's paint and coatings industry workforce (12,923) was \$60,900 in 2014.
- **Minnesota's** 4,972 paint and coatings industry workers received the second highest annual average wages at \$60,600.
- **California** was also the leading state by paint and coatings industry payroll, at \$1.5 billion in 2014.
- **Texas, Ohio, Illinois,** and **New York** completed the list of top five states in paint and coatings industry payroll in 2014.

See how the states rank in terms of industry employment, wages, payroll, number of establishments, and exports at

www.paint.org/economicfacts.



Industry's Federal Priorities

ACA would like to work with the 115th Congress to ensure the growth and success of the U.S. paint and coatings industry, and continue the industry's part in delivering high-quality foodstuffs, durable goods, housing, furniture, and thousands of other products to market, as well as the national economy. As such, ACA has identified the following legislative and policy priorities for which it believes meaningful progress and reform are necessary for the sake of its industry and the nation.

Regulatory Reform

While Congress may not delegate its essential legislative functions, it routinely transfers authority to implement laws and issue regulations to Executive Branch agencies. However, Congress retains its overall power to engage in oversight to enable it to carry out its legislative functions. By providing for the appropriate variety of regulatory analyses, Congress can facilitate a more open, thoughtful, and accountable regulatory process. When executed, regulatory oversight can help reduce unnecessary burdens and increase the benefits of rulemaking. Without oversight, excessive or poorly designed regulations can cause confusion and delay, give rise to unreasonable compliance costs in the form of capital investments, increase labor and administrative burdens, retard innovation, reduce productivity, and distort private incentives.

ACA believes that Congress must act to evaluate the myriad federal agency regulations. Federal legislation is needed to give the public a greater understanding of the analytic underpinnings of agency decisions by providing for increased regulatory transparency, promoting effective congressional oversight, and increasing government accountability.

ACA urges Congressional action to make the regulatory process more transparent, agencies more accountable, and regulations more cost-effective. In particular, ACA supports reform efforts that would:

- Increase Congressional oversight of regulatory costs and benefits, including economic, scientific, and policy analyses underlying the regulations;
- Require regulatory flexibility analyses to include alternatives to the proposed rule that would maximize net economic benefits or minimize net economic costs; and
- Greater Congressional oversight of the impact of new regulations and the efficacy of existing regulations.

Legal Reform

When it functions properly, America's justice system benefits every citizen in two ways. First, it assigns liability for damage and the cost associated with it to the person responsible. Second, it deters careless behavior by placing people at financial risk for their wrongdoing. Today, valuable products and services have become costlier or even unavailable, as unwarranted lawsuits make it too costly for industry to provide them. In addition, courts are so choked with frivolous lawsuits that it can take years to get a fair hearing on a valid claim. The rapid growth of class action suits, product liability claims, and punitive damage awards threaten the nation's economy, and the very businesses that drive its growth and our livelihoods.

The costs to industry often effectively stifle new product research and development, as well as the offering of products already developed. The cost of liability insurance — when



and if a manufacturer can get coverage — is prohibitive when compared to the speculative benefits of introducing new products and product lines. This reluctance transcends the product manufacturer, affecting suppliers and distributors as well. Fear of unwarranted liability, denial of insurance coverage, and astronomical legal defense costs impedes valuable and potentially lifesaving products from ever being introduced into the marketplace.

To make the judicial system more fair and predictable, ACA supports federal legislation that would:

- Authorize federal courts to hear class actions when they have a significant interstate character;
- Limit attorneys' fees to a reasonable percentage of actual damages and plaintiffs' costs;
- Impose mandatory sanctions against attorneys for filing frivolous lawsuits;
- Establish clear conditions under which a manufacturer or retailer is liable for defective products;
- Disallow the repeated sanction of punitive damages against the same corporate defendants in different cases.

Reform is needed to restore balance, fairness, and predictability. A uniform national solution is necessary because individual states are powerless to provide a comprehensive remedy — one state cannot dictate judicial or legislative policies to another state. Congressional action on tort reform would protect the due process rights of corporate defendants without infringing upon the rights of injured plaintiffs to be compensated.

Tax Reform

U.S. manufacturers face higher tax costs than almost all of its competitors in other countries. The corporate tax rate in America is the highest among developed nations. The current tax system has created an uncertain environment that

consistently undermines manufacturers' ability to compete and succeed in the global marketplace.

ACA urges Congress to create a tax climate that encourages innovation and spurs investment, job creation and economic growth. ACA deems key ingredients for a comprehensive tax reform plan to include:

- A lower Corporate Tax Rate;
- Equitable treatment of small businesses filing under Subchapter S of the tax code in areas such as expensing of certain investments;
- Encouraging investment by making permanent a competitive R&D tax credit;
- A modern International Tax System that does not contain disincentives to U.S.-based manufacturing; and
- A robust Capital Cost-Recovery System.

ACA hopes to collaborate with the new administration and Congress to achieve these goals.





Trade Policy

The vast majority of U.S. paint and coatings companies are in the global marketplace. ACA urges Congress to continue working to ensure a level playing field for U.S. exports. The U.S. market is largely open to imports from around the world, but some countries continue to levy tariffs on U.S. exports that, in some cases, are extremely high. Foreign governments have also erected other barriers against U.S. goods and services. America's trade agreements, however, work to create a level playing field; and by tearing down foreign barriers to U.S. products, these agreements have a proven ability to make big markets even out of small economies.

ACA encourages Congress to work with the current Administration in a bilateral manner to promote U.S. exports, remove tariff and non-tariff barriers to U.S. goods and services, and increase access to markets through free trade agreements and other bilateral and multilateral agreements.

Energy Policy

Manufacturers depend on an affordable and reliable energy supply to remain competitive in a global economy. Oil, natural gas and clean coal remain essential contributors to America's energy security, but investments in other energy sources such as nuclear, alternative fuels, renewable energy, and energy efficiency must be made. Of equal importance, as a key part of the chemical value chain, is industry's reliance on the availability of feedstocks that are derived from petroleum and natural gas extraction to make its products; and the increased availability of both oil and gas due to new shale plays has had beneficial effects on the availability of these raw materials.

ACA stresses that America must continue to expand access to its domestic energy supply in order to meet current needs for affordable energy and build on its current success as a global leader in energy production.

Immigration Reform

Today's immigration system, now in its third decade, is incapable of being responsive to an ever-changing national economy and hyper-competitive global marketplace. Simply put, the problems with our immigration system have become an emerging threat to the current and future productivity, ingenuity, and competitiveness of key sectors of our economy, including agriculture, housing, manufacturing, tourism, engineering, and technology.

ACA maintains that enacting immigration reform now will accelerate U.S. economic growth at a critical time when it has struggled to recover, and will help to enable sustained growth for decades to come. Done right, reform will also serve to protect and complement the U.S. workforce, generating greater productivity and economic activity that will lead to new innovations, products, businesses, and jobs in communities across the country.

ACA urges Congress to enact pro-growth immigration reform to strengthen and sustain the U.S. economy.





Infrastructure Investment

Many of our nation's roads, rails and bridges are falling into disrepair; important aspects of our aviation system are outdated and in need of expansion or renovation; and our waterway system is hampered by aging locks and decades-old infrastructure. Paints and coatings will be a significant contributor to any effort to improve our infrastructure, including:

- Coatings for water transmission, which improve the pipeline infrastructure and serve as an internal lining and a corrosion-resistant external coating, for both potable and non-potable water transmission pipelines;
- Coatings applied to steel structures that slow or delay the corrosion process and significantly extend the life of the steel by 15 or more years, even in offshore environments;
- Coatings for the railroad industry that reduce the potential for derailments; prevent shifting or movement from the force of passing trains; and permanently protect rail structures from corrosion and abrasion by strengthening existing metal structures; and
- Traffic marking paint, which provides safety to millions of motorists.

ACA supports legislation that provides for broad-based investment in infrastructure repair and modernization, including increased public and private funding; a state-of-the-art information and telecommunications system; modern road, wastewater and drinking water systems; and improved inland waterways and ports. ACA believes such action by Congress will create jobs, have a significant positive impact, and stimulate the nation's economy. In addition, ACA supports adequate funding for the Department of Transportation so that it can maintain the regulatory infrastructure that keeps paint and coatings products in commerce.

CONTACT

For more information on the paint and coatings industry, visit ACA's web site at www.paint.org; or contact ACA's Vice President of Government Affairs Heidi McAuliffe at hmcauliffe@paint.org, or (202) 719-3686.

¹ Based on 2014 data gathered from the U.S. Bureau of Labor Statistics' Quarterly Census of Employment and Wages using the following NAICS codes: 238320 Painting and Wall Covering Contractors; 325510 Paint and Coating Manufacturing; 424950 Paint, Varnish, and Supplies Merchant Wholesalers; and 444120 Paint and Wallpaper Stores

² Based on 2014 data gathered from the U.S. Bureau of Labor Statistics' Quarterly Census of Employment and Wages

³ U.S. Census Bureau's Annual Manufacturers' Shipments, Inventories, & Orders (M3) and Annual Survey of Manufacturers

⁴ The ChemQuest Group

⁵ Trade data derived from U.S. Bureau of the Census data and are reported on a Census or Customs basis

⁶ These three major categories do not include miscellaneous paint products that comprise the remainder of the paint and coatings industry shipments

⁷ ACA Industry Market Analysis, 9th Edition (2014-2019)



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