



Additives

Industry Leaders Share

Suppliers of additives to the paint and coatings industry face the same issues that others in the chemical industry have to overcome. Key among the issues are rising raw material and energy prices, globalization and consolidation, growing competition from emerging regions, and increasing regulatory restrictions. Successful additives producers seek out the opportunities presented by these challenging conditions. Industry leaders emphasize expanded customer service and support offerings and focus on investment in innovation.

The global market for additives used in paints and coatings is valued at \$2.9 billion, according to The ChemQuest group, a management consulting firm located in Cincinnati, OH. The North American market, which accounts for 40% of the worldwide value, is worth \$1.15 billion and is growing at 3.1% per year. Despite accounting for a minimal percentage of overall formulations, additives do play a significant role in determining the performance capabilities of paints and coatings. As a result, heavy demands are placed on additives producers by their downstream customers. Market forces affecting the downstream supply chain can be strongly felt by additives suppliers as well.

Consolidation in the global coatings market is one trend that has impacted the entire supply chain. "We are seeing increased buying power on the part of the large paint companies, giving them better price leverage over their suppliers," says ChemQuest vice president Michael D. Brown. "While the smaller size of the average additives supplier makes this pressure more acute, the fragmentation and customization of the additives market gives suppliers some relief." ChemQuest forecasts continued consolidation of formulators, particularly in the architectural markets of North America and Western Europe.

by Cynthia Challener
JCT CoatingsTech Contributing Writer

Photo courtesy of GlaxoSmithKline Chemicals

Roundtable:

Their Thoughts on Key Issues

The "Asia question" is also an issue for additives suppliers. Increased competition will be accompanied by increased opportunities as the Chinese domestic market grows at double digit rates over the next five years. "Local additives producers are emerging to supply the local Asian formulators, while Western additives suppliers are developing capabilities in the region to supply the Western formulators developing formulas to supply Western OEMs moving to Asia. The additives demand is driven from this relationship with the formulator consumption often taking place close to the source of application in Asia. Concerns for intellectual property protection come in to play as these local producers develop off-sets for the Western additives," Mr. Brown notes.

Regulatory developments for paints and coatings around the globe will also impact additives manufacturers. VOC restrictions in the U.S. and the European Union are creating opportunities for innovative additives producers to introduce new multifunctional products that help formulators meet regulatory requirements while maintaining performance. There is concern, however, about the REACH (Registration, Evaluation, and Authorization of Chemicals) legislation in Europe, which is scheduled to take effect in 2007. "The major impact of REACH will be to slow the innovation and introduction of

new products to the European markets," Mr. Brown states. "This could also impact global markets as several of the major additives suppliers are located in Europe and their base of customers are located in Europe, making it more difficult and less attractive to develop products for the North American and Asian markets only," he continues.

What can additives suppliers do to ensure continued growth under these challenging conditions? It appears that many are relying on innovation as a strategy for success in the future. Mr. Brown has two additional suggestions. "The role of additives needs to transition from one of modifying the coating formula to address environmental regulations toward a role of modifying the coating film for better performance and new characteristics. These characteristics include surface hardness for scratch and mar resistance, anti-microbial, thermal insulation and reflectivity, cleanability, and appearance. I would also like to see the industry drive the customization of products harder as this is a rich source of competitive advantage and helps to offset the buying power mentioned earlier."

What are the opinions of leading additives suppliers? How do they view current market conditions? What strategies are they employing to ensure success in the coming years? JCI COATINGSTECH interviewed representatives of leading additives suppliers to the paint and

coatings industry. Their responses are presented below. Companies that participated in the roundtable include: Aqualon, a business unit of Hercules Incorporated; Borchers GmbH, a business unit of Lanxess; BYK-Chemie USA Inc.; Ciba Specialty Chemicals; Cognis; Cytec; Dow Corning; Eastman Chemical Company; Elementis Specialties; Rhodia; and Rohm and Haas Company.

JCI: *How are climbing raw material and energy prices impacting the additives market? Are they affecting any one region of the world more than another? Any segment (architectural, industrial, etc.) more than another? Any additive types more than others?*

Dr. Peter Manshausen, Managing Director, Borchers GmbH: Even specialties such as additives are affected by climbing raw material and energy prices, which lead to higher production costs. With global competition, support of local production by cheaper or less taxed energy and cheaper raw material supply—both of which depend on the regional situation—will always have an impact on the competitiveness of a company. All segments are affected. With regard to additive types, the impact depends on how many, and which chemical reactions and physical treatments, are necessary in order to generate the final product. Raw material prices will have less impact on the final material when more steps are necessary to produce the additive.

John Panichella, President, Aqualon: We are seeing raw materials and energy costs continuing to increase in 2006 throughout the world. We are working to offset these costs with productivity projects and price increases.

Dave Brown, Global Market Manager, Industrial Coatings, Cognis: Industrial additives have been af-

ected like all materials and have seen major cost increases over the last 18 months. All of the regions have been impacted by the amount and extent of the price increases. The difference between the regions comes to bear when the markets "return to normal." Asia and Europe were the first to return to typical market conditions whereas North America was the last due to the hurricanes.

Dirk Plas, President, BYK-Chemie USA Inc.: In the NAFTA region, raw material prices began escalating during the course of 2005, rising significantly in the fourth quarter. Some of this development has been driven by supply problems, but it has not affected delivery of products to our customers. Additional concerns are the freight surcharges and being able to find qualified HAZMAT truck drivers.

Volker Oehl, Global Major Market Leader for Coatings, Dow Corning: We have seen additives prices increasing in general but not equally across market segments. As with most chemicals, additives cost is influenced by the cost of raw materials, energy, transportation, etc. Dow Corning markets high value additives mainly to the inks, marine/protective, industrial and wood coatings sectors, and other segments. There are differences in terms of value, e.g., ink manufacturers often do not consider the high value additives while automotive coating manufacturers often do. Hence, the effect of the rising cost of additives influences some market segments stronger.

Sandeep Goel, Additives Market Manager, North America, Rohm and Haas: The rising cost of raw materials and energy is driving up the cost of producing additives, including rheology modifiers and dispersants. Additives suppliers have been im-



Photo courtesy of BYK-Chemie GmbH.

acted by the run up in petrochemical feedstocks, including ethylene and butane. These feedstocks impact key materials such as PEG (polyethylene glycol) and DIB (diisobutylene), which have experienced significant increases in price. As expected, rising energy costs are also driving up manufacturing and shipping costs.

Marcelo Herszenhaut, Business Line Manager, Cytec: The rising cost of raw materials and energy has had an impact on the additives market, similar to the effect on the coating markets in general. The entire value chain has been affected, making it difficult to fully implement price increases, especially in a competitive global market. The types of additives most affected are likely those used in less demanding areas, such as in low-price commodity surfactants in interior architectural latex paints. Specialty additives, like those used for waterborne and low-VOC systems, are probably the least impacted since they have unique performance properties which are not easily replaced.

JCT: *Have additives suppliers been able to pass on price increases to maintain margins? Again, has the experience been different for different regions and market segments?*

John Foley, Vice President of Industrial Formulations, Rhodia:

Rhodia has had no choice but to announce price increases as we attempt to recover the full cost of producing our products. However, it's always difficult to keep up with our rising costs. So we are constantly seeking—and finding—new ways to innovate and improve our operations so that we can remain the supplier of choice for our customers. We do see some differences across our markets and regions, but the drivers on higher costs and our drivers to improve are common factors across our business.

Greg Kalscheur, Industry Manager, Industrial & Decorative Coatings, Ciba Specialty Chemicals: Most manufacturers have had to pass along some of the increases on select products and in specific markets. However, globalization and cost pressures from the end of the value chain are keeping much of the dynamic in check. Ciba works hard to minimize (price) increases through process development and optimization. With additives, it is also critical to optimize system performance by matching the performance needs with the cost tolerance through the selection of the right products. In other words, pick the right products for each individual system.

Shruti Singhal, Global Market Manager, Consumer Coatings, Cognis: Due to increases in key raw material prices and rising oil and energy prices, we incurred rising costs in all areas of additives. Unfortunately, we have been unable to recover all increases that we incurred, whether it was our own raw materials or ones related to energy and transportation. This has led to a squeeze in margins and profitability, globally. It has been very difficult to pass along increases in Asia-Pacific due to severe competition from local and small size producers.

Michel Janssen, Marketing Director, Elementis Specialties: It is impossible