**Paint and Coatings:**

**What Will Be Coloring the Market in 2007?**

by Cynthia Challener, JCT CoatingsTech Contributing Writer

The year is drawing to a close and 2007 will arrive shortly. What will the New Year have in store for the paint and coatings industry? Which issues will come to the forefront? Globalization, consolidation, regulation, innovation—how will these market drivers impact manufacturers of paint and coatings? What effect will changes in the housing industry, retail environment, and auto industry have? JCT CoatingsTech asked these questions of leading paint producers and industry consultants. Their thoughts are presented below.

Contributors: Steven Nerfi, consultant with Kasugam, Nerfi and Gromewy (KNG); Daniel S. Murad, The ChemQuest Group; Holger Ebbighausen, group communication manager coatings, Akzo Nobel NV; Thomas Company; and Susan Gill, DIY market manager, Rohm and Haas Company.

**Rough MATERIAL and ENERGY COSTS**

JCT: Do you expect the recent trend of higher oil and petrochemical prices to continue in the New Year? Will the paint and coatings supply chain be able to recover higher costs in 2007?

Angela R. Strzelecki, DuPont: Energy prices have declined somewhat from their record highs. Despite the recent decline, energy costs remain significantly above historic levels. Varying factors, such as production volumes and supply/demand, could continue to drive costs. The cost of raw materials and energy costs will continue to impact the entire supply chain, from feedstock to finished products.

**GLOBALIZATION**

JCT: Will globalization throughout the paint and coatings supply chain continue? Will there be specific impacts in 2007 that haven't been observed yet, or issues that will be more prevalent in the coming year than they have been recently? If so, what are they? Will there be a lessening of any pressures resulting from globalization? If so, what would they be?

Steven Nerfi, KNG: Globalization is a key issue in the paint and coatings industry throughout the supply chain. Both paint producers and raw material suppliers to the industry are building plants in Asia and forming joint ventures with Asian companies. Asia is leading the growth market for the industry, and the major players are active in the region. This trend will continue for years to come.

**CONSOLIDATION**

JCT: Will consolidation within the paint and coatings supply chain continue in 2007? At the same pace? Will any specific segments see more activity than others? Who (in general) will benefit from these activities? Who (in general) will experience a detrimental effect?

Daniel Murad, The ChemQuest Group: Consolidation is definitely very active. I expect the pace will continue with strategic firms making good money and actively seeking investment opportunities.

Holger Ebbighausen, Akzo Nobel: We believe that further globalization of the coatings industry is inevitable as the supplier and the customer bases strengthen globally. Only coatings manufacturers having a strong global reach in both manufacturing and distribution will be able to profit from these developments, while small regional companies will have more and more difficulty protecting their margins.

Segments displaying a particularly strong trend toward further globalization are the industrial markets (automotive, steel, and wood furniture, for example). In these segments, the trend towards the relocation of the industry forced coatings suppliers to shift their manufacturing base to low-cost countries several years ago. A similar globalization trend can also be seen in architectural coatings. Strong growth in housing and business construction in a number of emerging markets will be a key driver for growth in the coming years.

Thomas P. Frauman, Rohm and Haas, Powder Coatings: Powder coating represents an environmentally compliant alternative for factory-applied finishing of most metal products. Production of fabricated metal goods continues to leave Western Europe and the United States in favor of lower labor economies in China, India, Russia, Latin America, and Eastern Europe. Today’s migration represents a significant challenge for the powder coating industry as manufacturers must deal with stranded capacity and costs in more mature markets, while placing strategic investments in emerging markets to support growth and follow their global customers. The most notable change ahead will come with the rising affluence of the middle class in places like China, where the nature of local demand will change over time. That is, with increases in disposable income and more popular concern about environmental issues will come greater demand for “clean technology,” offering an expansive array of appearance choices as well as higher standards of quality and performance.

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The year is drawing to a close and 2007 will arrive shortly. What will the New Year have in store for the paint and coatings industry? Which issues will come to the forefront? Globalization, consolidation, regulation, innovation—how will these market drivers impact manufacturers of paint and coatings? What effect will changes in the housing, automotive, and other industries have? JCT CoatingsTech asked these questions of leading paint producers and industry consultants. Their thoughts are presented below.

Contributors: Steven Nerfli, consultant with Kusumag, Nerfil and Gromewy (KNG); Daniel S. Murad, chairman and CEO, The ChemQuest Group; Holger Ebbighausen, group communication manager coatings, Akzo Nobel nv; Thomas Company; and Susan Gill, DIY market manager, Rohm and Haas Company.

RAW MATERIAL AND ENERGY COSTS

JCT: Do you expect the recent trend of higher oil and petrochemical prices to continue in the New Year? Will any moderating prices hold firm? Will the paint and coatings supply chain be able to recover higher costs in 2007?

Angela R. Sztelecki, DuPont: Energy prices have declined somewhat from their record highs. Despite the recent decline, energy, raw materials, and logistics costs remain significantly above historic levels. In 2007, I would expect crude oil prices will continue to rise, but at a moderated pace. With the dependency on petrochemical-priced supply, the paint market will continue to be challenging to recover these costs.

Holger Ebbighausen, Akzo Nobel: We expect petrochemical prices as well as prices of other key raw materials to stay high and continue increasing, although not at the same pace as we have experienced during the last 18 months.

Tom McKay, BASF: Market experts are saying crude oil prices will continue to rise to near $80 per barrel. This will undoubtedly affect the price of many raw materials used in industrial coatings. How much is the big question, and only time will give us the answer. In general, we have a difficult time passing on these increases in raw materials.

GLOBALIZATION

JCT: Will globalization throughout the paint and coatings supply chain continue? Will there be specific impacts in 2007 that haven’t been observed yet, or issues that will be more prevalent in the coming year than have been recently? If so, what are they? Will there be a lessening of any pressures resulting from globalization? If so, what would they be?

Steven Nerfil, KNG: Globalization is a key issue in the paint and coatings industry throughout the supply chain. Both paint producers and raw material suppliers to the industry are building plants in Asia and/or forming joint ventures with Asian companies. Asia is the leading growth market for the industry, and the major players are active in the region. This trend will continue for years to come.

Daniel Murad, The ChemQuest Group: The shift of manufacturing to low labor cost regions will continue in 2007. We see a great deal of activity in companies looking to invest further in China, India, and Eastern Europe.

Angela R. Sztelecki, DuPont: Globalization is expected to continue and it is expected that the growth rates for the coatings industry in emerging economies will continue to significantly outweigh those of North America and Western Europe.

Bill Wolfsorn, PPC: We anticipate that Asia-Pacific (China, Southeast Asia, and Central Eastern European demand will grow, and that North American and Western European demand will have a slower growth rate.

Holger Ebbighausen, Akzo Nobel: We believe that further globalization of the coatings industry is inevitable as the supplier and the customer bases strengthen globally. Only coatings manufacturers having a strong global reach in both manufacturing and distribution will be able to profit from these developments, while small regional companies will have more and more difficulty protecting their margins.

Segments displaying a particularly strong trend toward further globalization are the industrial markets (automotive, steel, and wood furniture, for example). In these segments, the trend towards the relocation of the industry forced coatings suppliers to shift their manufacturing base to low-cost countries several years ago. A similar globalization trend can now also be seen in architectural coatings. Strong growth in housing and business construction in a number of emerging markets will be a key driver for growth in the coming years.

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CONSOLIDATION

JCT: Will consolidation within the paint and coatings supply chain continue in 2007 at the same pace? Will any specific segments see more activity than others? Who (in general) will benefit from these activities? Who (in general) will experience a detrimental effect?

Daniel Murad, The ChemQuest Group: Consolidation is definitely very active. I expect the pace will continue with strategic firms making good money and actively seeking investment opportunities.

Steven Nerfil, KNG: Consolidation has been going on for more than 20 years. M&A activity was high in the late 1990s but then slowed down in the first few years of the current decade. During the last 18 months activity has picked up noticeably again and should continue at a height not seen in 2007.

Thomas P. Frauman, Rohm and Haas Company: In Western Europe and North America, the industrial coatings sector is ripe for consolidation.
as major producers seek to optimize costs of goods sold in ever more challenging market conditions. The most likely acquisition candidates would be mid-sized, privately owned companies with good brands and reputations, where plants could be shuttered and pro-
duction transferred to existing as-
sets. Additionally, I would expect major players to con-
tinue the process of consolidating second tier players in growth mar-
tets like China to achieve greater market access.
Angela R. Strzelecki, DuPont: We expect to see continued consolida-
tion within the supply chain, es-
pecially in those markets that are still highly fragmented such as select in-
dustrial and decorative segments. Globalization of coatings consumers will continue to drive consolidation as suppliers look to serve their multi-
national customers in their local re-
grons.
Holger Eggensbach, Akzo Nobel: Globalization is a key driver of consolidation. Akzo Nobel will ac-
tively pursue organic growth and growth by acquisition to be a front-
runner in the consolidation of the coatings industry.
LOW COST COMPETITION
JCT: Low-cost competition from emerging regions of the world is likely to increase. What specific effects do you see this increasing competition having on the mar-
tet in 2007?
Daniel Marad, The ChemQuest Group: Low-cost competition is pres-
ent in raw materials, particularly in dry goods such as pigments and fillers. On the formulated coatings side, China is already emerging as a great deal of powder coatings but they seem to find their way into Europe more so than the U.S. This is in part due to the fact that some European manufacturers that in-
vested heavily in building state-of-
the-art facilities in China are taking advantage of low-cost production and importing powder coatings back into Europe. I expect that Chinese manufacturers will also ex-
port to the U.S. eventually. There is little evidence of that occurring already.
Angela R. Strzelecki, DuPont: Competition from emerging regions has been increasing over the preced-
ing years, and we expect to con-
tinue in 2007. Multinational suppli-
ers to the coatings industry need to be able to compete locally in the markets they serve. Additionally, ad-
vances in technology continue to play a significant role in the indus-
try, and the value delivered to the consumer.
Tom McKay, BASE: The main low-
cost providers impacting the coil and extrusion market place are Tai-
wan and Korea, with India and China lurking in the background. In general, more coated material will be imported as the price gap be-
tween Asian steel and domestic steel widens. If this gap were to narrow, more product would be coated do-
meanly.
Thomas P. Frauman, Rohm and Haas Company: The applied cost of powder coatings is largely deter-
mined on the customers’ factory floor. Rohm and Haas will continue to invest in R&D to provide more application-efficient and lower en-
ergy curing coating systems. Furthermore, we will deliver the ap-
plication support to insure our cus-
tomers know how to apply our coatings in a manner consistent with meeting their cost objectives. We feel that better technology, ap-
plicated more efficiently, will deliver lower applied costs for the customer than cheap materials.
Holger Eggensbach, Akzo Nobel: We don’t expect any specific negative effects from this develop-
ment. We have a clear strategic fo-
cus on the emerging regions, which gives us a competitive advantage in the areas in which we are active. The resources of the U.S. will lead to further perform-
ance improvements in low-VOC sys-
tems.
TECHNOLOGY DEVELOPMENTS
JCT: Nanomaterials, smart coatings, and other state-of-the-art tech-
nologies are being adopted more widely by the coatings and coatings industry. What can we expect from these and other novel tech-
nologies in 2007?
Steven Nefli, KNG: Nanomaterials are receiving great interest, particularly as inorganic additives such as fillers, pigments, and extenders. Some companies are developing resins formulated as nanoscale materials. Smart coatings are at the infant stage, but interest is definitely growing. Interest in these novel technologies will continue to grow in 2007.
Angela R. Strzelecki, DuPont: Nanomaterials continue to be an area of significant interest and in-
vestment. There are commercial examples where the application of nanomaterials in coatings im-
parts improved functionality. An example where we have inte-
grated this into our product offer-
ings is Voltron® wire enamel, which provides superior electrical insulation properties. Researchers will continue to develop both stand-
alone and functional applications that transform the performance of traditional coatings to previously unattain-
able levels.
Thomas P. Frauman, Rohm and Haas Company: Expanding pow-
der coatings’ share of the industrial-
textiles market will depend heav-
ily on advancing technology in the following areas: lower cure temperatures, enhanced appear-
ance properties such as spatter finish textures and brighter metallics; smoother thin film clear and opaque coatings; im-
proved application at higher rates on both simple and complex parts; better solutions for customers re-
quiring numerous colors and fre-
quent color changes; coatings that provide protective properties with minimal surface preparation; and repro-
ability.
Developing products that fulfill these attributes enables powder suppli-
ers to deliver substantial benefits to the industrial coatings buyer and compete more aggressively with al-
ternative coatings. These benefits in-
clude favorable economics, environ-
mental compliance, and cured film performance.
Additionally, new markets in-
cluding engineered wood, plastic, and metal coil are accessible to powder coatings with order of mag-
itude improvements in cure tem-
perature, powder application, and appearance properties.
Bill Wolfohn, PPG: Development and availability of those technologies represent two key enablers for a suc-
cessful marketing strategy. Coatings Examples of PPG’s recent new prod-
uct introductions include Durabond sprayable primer used on appl-
sprayed bedliner for pickup trucks. Audiogrip sprayable primer to reduce sound in automotive pas-
tenger compartment and EnviroPrime NT lead-free electrocoat for enhancing a vehicle’s corrosion properties while meeting in environ-
mental compliance.
PRODUCT INNOVATION
JCT: Will R&D leading to product in-
novation be important in 2007? If so, how can we expect to see that significance reflected? Will there be extensive new product introductions? If so, in what areas?”
Steven Nefli, KNG: Producers of organic additives traditionally have relied on product innovation as a means for maintaining or ex-
panding market share. They are constantly developing new ma-
tals and new formulations of ex-
isting compounds that are more concentrated or use a dif-
f erent carrier. Always, the goal is to offer improved performance at an equivalent price or equal performance at a lower price.
Bill Wolfohn, PPG: Coating innovation remains a key to PPG’s technology leader-
ship role in the markets we serve, and to maintaining a competitive advantage in those marketplaces. Invention and in-
of itself is not a fulfilling strat-
ey for our customers or our company, but market-driven in-
novation can serve untold—and unrecognized—market needs. That combination must result in a differentiated value to cus-
tomers that will allow them to capture share or value price. We are un-
dergoing the melding of our research and development and mar-
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tial to the future of the cus-
tomers, and in meeting the growth
as major producers seek to optimize costs of goods sold in ever more challenging market conditions. The most likely acquisition candidates would be mid-sized, privately owned companies with good brands and reputations, where plants could be shuttered and production transferred to existing as-sumed. Additionally, I would expect major producers to continue the process of consolidating second-tier players in growth markets like China to achieve greater market access.

Angela R. Szafralezki, DuPont: Competition from emerging regions has been increasing over the preceding year, and we expect it to continue in 2007. Multinational suppliers to the coatings industry need to be able to compete locally in the markets they serve. Additionally, advances in technology continue to play a significant role in the industry and the value delivered to the consumer.

Tom McKay, BASF: The main low-cost providers impacting the cost and erosion market place are Taiwan and Korea, with India and China lurking in the background. In general, more coated material will be imported as the price gap between Asian steel and domestic steel widens. If this gap were to narrow, more product would be coated domestically.

Thomas P. Frauman, Rohm and Haas Company: The applied cost of powder coatings is largely deter-mined on the customers’ factory floor. Rohm and Haas will continue to invest in R&D to provide more application-efficient and lower energy curing coating systems. Furthermore, we will deliver the application support to ensure our customers know how to apply our coatings in a manner consistent with meeting their cost objectives. We feel that better technology, applied more efficiently, will deliver lower applied costs for the customer than cheap materials.

Holger Ihrighausen, Akzo Nobel: We don’t expect any specific negative effects from this development. We have a clear strategic focus on the emerging regions, which gives us a good chance to continue to ex-pand our own manufacturing base into those markets. In doing so, we will be able to profit from the cost advantages in the emerging regions.

JCT: Will additional regulatory requirements be implemented in 2007? If so, what are they and what might they have?

Steven Nerfli, KNC: Nanomaterials are receiving great interest, particularly as inorganic additives such as fillers, pigments, and extenders. Some companies are developing resins formulated as nanoscale materials. Smart coatings are at the infant stage, but interest is definitely growing. Interest in these novel technologies will continue to grow in 2007.

Angela R. Szafralezki, DuPont: Nanomaterials continue to be an area of significant interest and investment. There are commercial examples where the application of nanomaterials in coatings impacts improved functionality. An example where we have integrated this into our product offering is Voltron® wire enamel, which provides superior electrical insulation properties. Researchers will continue to combine this with traditional applications that transform the performance of traditional coatings to previously unattainable levels.

Thomas P. Frauman, Rohm and Haas Company: Expanding powder coatings’ share of the indu-strial coatings market will depend heavily on advancing technology in the following areas: lower cure temperatures, enhanced appearance properties such as spatter finish textures and brighter metallics; smoother thinner films; clear and unique coatings; improved application at higher rates on both simple and complex parts; better solutions for customers requiring numerous colors and fre-quent color changes; coatings that provide protective properties with minimal surface preparation; and reusability.

Developing products that fulfill these attributes enables powder suppliers to deliver substantial benefits to the industrial coatings buyer and compete more aggressively with alternative coating systems. This includes favorable economics, environmental compliance, and color film performance. Additionally, new markets including engineered wood, plastic, and metal coil are accessible to powder coatings with order of magnitude improvements in cure tempera-ture, powder application, and appearance properties.

Bill Wolfsjohn, PPG: Development and availability of those technologies represent two key enablers for a successful marketing strategy. Coatings suppliers, in conjunction with original equipment manufacturers, will strive to establish a premium image and value for their respective innovations in the eyes of the consumer.

Examples of PPG’s recent new prod-uct introductions include Durabond sprayable powder coating for the appli-cation of sprayable bedliner for pickup truck. Audiogard sprayable damper to reduce sound in automotive pass-enger compartments and Enviroprime NT lead-free electrocoat for enhancing a vehicle’s corrosion properties while achieving in-environmental compliance.

Product Innovation

JCT: Will R&D leading to product in-novation be important in 2007? If so, how can we expect to see that significance reflected? Will there be a new product introduction? If so, in what area?

Steven Nerfli, KNC: Producers of organic additives traditionally have relied on product innovation as a means for maintaining or ex-panding market share. They are constantly developing new materi-als and new formulations of existing compounds that are more concentrated or use a different carrier. Always, the goal is to offer improved performance at an equivalent price or equal performance at a lower price.

Bill Wolfsjohn, PPG Coatings: Product innovation remains a key to PPG’s technology leader-ship role in the markets we serve, and to maintaining a competitive advantage in those marketplaces. Invention and of itself is not a fulfilling strat-et for our coatings’ business or our company, but market-driven in-novation can serve unmet—and unrecognized—market needs. That combination must result in a differentiated value to cus-tomers that will allow them to capture share or to capture price. We are strongly behind the melding of our research and development and marketing and sales initiatives is essen-tial to the success of our cus-tomers, and in meeting the growth
goals of our company. The success of this approach is reflected, for example, in the PCAG Awards that PPG has won during the past six years. (In 2006, PPG won the award for its collaboration with General Motors on the development of an environmentally friendly, color-specific powder primer.)

Susan Gail, Rohm and Haas Company: Performance in panels and deep tones will continue to be important.

Tom McKay, BASF: Key advantages we expect to see reach the market include increased durability, and increased reflectivity for roofing products.

Angela R. Stratelechi, DuPont: Environmentally friendly applica-
tions, such as waterborne systems or improved powder systems for new and continuing applications, will continue to be areas where advances will be made and we expect these technologies to grow in 2007.

Holger Elbigaassen, Akzo Nobel: We regard innovation and in-
vestment in new technology as a key growth driver for our coatings businesses, particularly in the fast-emerging market-
tures of the U.S. and Western Europe. A continuous stream of new applications is needed to allow for better differentiation in order to secure margins in this highly competitive environment.

Increased environmental regula-
tions are a challenge but are, at the same time, another driver for inno-
vation and, thus, offer opportunities for the well-prepared company. The implementation of the first stage (as of January 1, 2007) of the EU VOCI—Directive in decorative products and vehicle refinish is an example for this. In this case, our early ability to supply compliant products helped us to defend and expand our position in a number of mature markets.

JCT: Are there any other issues not yet mentioned that will impact the paint and coatings industry in 2007? If so, what are they and why will they be important?

Storm Perlis, RNC: In the U.S., recent trends in the housing and automotive markets should be of concern to manufacturers of paint and coatings. New home sales (new homes always require painting) are declining while sales of pre-existing homes are stagnating. The architectural segment experienced healthy growth rates as the market boomed over the past four years. The decline in housing sales in the U.S. will now translate into lower growth rates for this segment, which accounts for 50% of the market.

In the automotive market, planned plant closures by Ford and recent announcements of significantly reduced profitability at DaimlerChrysler will also translate into reduced demand for paint and coatings. The impact will be quite broad, with both large producers and small paint shops feeling the effects. Some of the reduced production will eventually be replaced by the new U.S. plants announced by Toyota and Honda. However, because these plants will not be operational for several years, the contraction of the U.S. auto industry will definitely take a toll in 2006 and 2007.

Demand for durable goods tends to be more stable. However, where it has been feasible to shift production to lower cost regions (wood furniture and future coatings, for example), manufacturing has been moved offshore. J.I. "Rusty" Johnson III, Rohm and Haas Company: In the architectural market, big box stores/mass mer-
chandisers are continuing to grow their share of the contractor paint business at the expense of company owned paint and independent dealer outlets, and other.