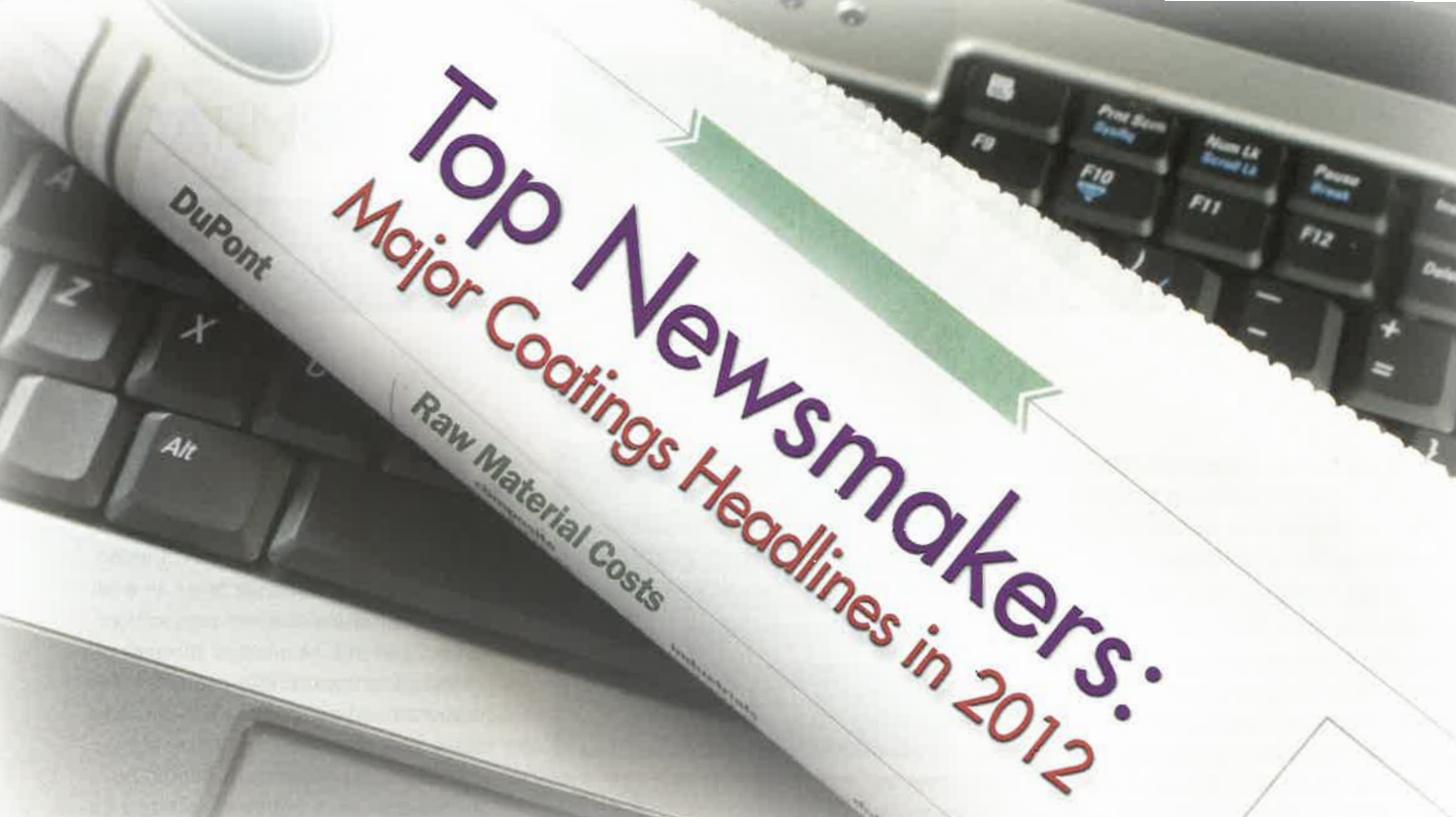




Top Newsmakers: Major Coatings Headlines in 2012

Raw Material Costs

Cynthia Challener
Coatings Tech
Contributing Writer

It is hard to believe, but the end of another year is fast approaching. As 2012 draws to an end, major weather events, political elections, and a looming fiscal cliff occupy the general U.S. news headlines. What were the top newsmakers for paint and coatings during the past year? That depends on who you ask, of course. Collected below are the comments of people involved in various aspects of the paint and coatings market, including representatives from a paint manufacturer (Diana Strongosky, vice president of research & development for the Global Supply Chain at The Sherwin-Williams Company), a raw material supplier (Eric J. Kaiser, marketing director for Arkema Coating Resins), a distributor (Kim Koenig and Martin Will, technical sales support representatives for Paints, Inks, Coatings & Adhesives at Nexeo Solutions), two consultants (Michael D. Brown, president, StrategyMark, Inc. and George Pilcher, vice president, The ChemQuest Group, Inc.) and, from the American Coatings Association, an industry analyst (Allen Irish, director of industry affairs and counsel) and technology expert (Steve Sides, vice president, science, technology, and environmental policy).

SALE OF DUPONT'S PERFORMANCE COATINGS BUSINESS

Although DuPont's performance coatings business was not acquired by a rival paint company and no consolidation of the industry will occur as a result, this sale to investment firm Carlyle Group LP for \$4.9 billion was considered by many to be the top newsmaker of the year.

"DuPont's performance coating business is the number four paint provider globally, so this sale is significant for the industry, but it is also important in the broader context of the chemical industry," states Michael D. Brown of StrategyMark, Inc. "With this transaction, DuPont has finalized a process that it began in the 1980s to exit the paint and coatings industry as it converts itself from a successful chemical giant to a company focused on agriculture and nutrition, advanced materials, and biotechnology."

In addition, Brown believes that the new management will be much more focused on the business than DuPont has been in recent years. This will have a positive impact on the industry, particularly with respect to the automotive segment. "As a result, the competitive environment in the sectors in which the business participates could change. Overall, though, it will be healthy for the business and for the industry," Brown asserts.

DuPont expects that the transaction will be completed in the first quarter of 2013.

STRONG NORTH AMERICAN PAINTING SEASON

A surprising—but very positive—piece of news for the paint and coatings industry in North America in 2012 was the unexpected health of the architectural paint market. “Considering the continued economic issues and the fact that the GDP is growing at just 2.5%, it is quite impressive that the North American architectural market appears to be growing at close to 10%,” notes Brown. He adds that the growth is due to more than just a good painting season. It has continued into the third quarter, and thus reflects improvements in the fundamentals of the housing market, which is seeing increased housing starts, more turnover in general, and greater expenditures on repairs.

Furthermore, U.S. paint sales this year carried a major part of the global architectural coatings growth, and performed much better than Europe and China. According to Brown, this has been very good for paint manufacturers in the region. Raw material suppliers, however, did not benefit as much. Because there has been a measurable amount of overstocking by manufacturers, the strong sales of coatings were not fully passed through in the demand for raw materials.

Fortunately for both formulators and suppliers, Brown believes that the current conditions in the North American architectural home paint segment bode well for 2013, and that next year should bring another good season.

TITANIUM DIOXIDE (TiO₂)

One of the biggest stories in 2012—in fact, a carryover from 2011—was the supply of titanium dioxide (TiO₂) and all associated issues, including pricing and improving hiding efficiency. “Even though the height of the supply issues has tapered off, there is still strong awareness because TiO₂ is such a critical ingredient for the industry,” observes Diana P. Strongosky, of The Sherwin-Williams Company.

TiO₂ was a huge topic of discussion for all paints, inks, coatings, and adhesives customers of distributor Nexeo Solutions, according to Kim Koenig, because rising costs were having a real impact on the total cost of paint formulations. “All buyers of TiO₂ spent time looking for replacements to effectively lower the cost of their formulas, which allowed distributors to bring them alternative products that could do just that. Customers were definitely more open to ‘out of the box’ thinking, and consequently, we had additional opportunities to sell our product line,” she says. Koenig expects that, with the cost of TiO₂ remaining fairly strong, customers will continue to look for alternatives in 2013.

However, globally the price of titanium dioxide has fallen since reaching a plateau four or five months ago. “While the market was struggling with supply in 2011,

overstocking has now become an issue, and this softening will continue for the next six to 12 months,” Brown comments. It appears that, when allocations were announced in 2011, many paint companies purchased a lot of excess material out of fear of reduced availability and rising prices. Destocking then began at the outset of the fourth quarter, and continues. Brown does note that the strong North American paint season helped to mitigate the impact in that region somewhat, but the effects have been strong in Europe and Asia.

Tightening of the TiO₂ market is expected to occur late in 2013, with prices rising once again. Brown believes that this tightening will take place before any new supply is available (such as the new capacity announced by DuPont, scheduled to come on stream near the end of 2015), and that it will be absorbed by increasing demand.

RAW MATERIAL COSTS

High raw material costs were a real issue in 2011, and continued to make news in the early part of 2012. For Arkema, coverage of the volatile raw materials markets has shown how important it is for the company to find innovative technology to help customers better manage costs, according to Eric J. Kaiser, Arkema’s marketing director.

Fortunately, raw material supply and pricing has stabilized overall in 2012, and enabled all participants in the coatings industry supply chain to shift their R&D back to innovation and business development, according to Strongosky. “Since 2008 and the economic decline, raw material prices have been very high, and many have been in short supply. As a result, resources have been directed at reformulating in order to keep existing products on the market. Now that there has been some pricing stabilization, more companies are refocusing their efforts on breakthrough innovations.”

Over the past two decades, companies have, in large part, been practicing “incremental improvement” rather than transformational product design, according to George Pilcher, of The ChemQuest Group. “Strategic creation of value-added platform technologies and new products is preferable to incremental improvement focused on value-maintenance. Fortunately, throughout 2012, and to some extent in 2011, an increasing number of such transformational products have been brought to the market. This type of innovation is required for the coatings industry to be truly successful.”

The increased interest in investing in innovation seems to have been reflected in the attendance at the American Coatings Conference that took place in Indianapolis, IN in May. Drawing over 1000 participants, the 2012 ACC was the best attended coatings technical conference in the world, according to Steve Sides, ACA’s vice president of science, technology and environmental policy.



SLOWING DEMAND IN CHINA

While many of these news items are positive in nature, this one is not. Strong demand in China has served as a driver of growth for coatings and many other industry sectors. Unfortunately, it appears that this solid growth can no longer be counted on. "Chinese demand is slowing, with the consumption of chemicals off in general, and weaknesses observed in certain segments, including building and construction, which are of key importance for the coatings sector," explains Brown. He adds that exports are also down, largely due to the dependence of China on sales to Europe, which have declined due to the economic problems that region is currently experiencing. Complicating the situation is the fact that Chinese coating manufacturers, like those in North America, also built up inventories of commodities, and destocking is occurring there as well. "As a result, there has been a shift in 2012 from Chinese dominance to a rise in the importance of the U.S. market. Europe cannot be expected to be a growth driver for some time, and now that there is a question about China, the future demand for coatings in that country depends heavily on whether economic policies can be put into place that will enable the return of strong growth," Brown concludes.

SUSTAINABILITY REMAINS A KEY ISSUE

Many news stories in 2012 have centered around sustainability, both in the form of educational events focused on the topic, and significant reporting on regulatory trends and other sustainable formulating issues, according to Kaiser. "Sustainability and regulatory compliance are key factors driving new product development and innovation in the coatings industry, and Arkema is pleased to be a significant contributor to sustainable solutions for our customers," he comments. Adds Sides: "The apparent expansion of green building standards and green chemistry legislation and regulation has created new opportunities for companies to serve emerging customer interests." Addressing issues such as air quality, health and safety, and the need for lower- to zero-VOC formulations are all becoming part of the everyday activities within the paint and coatings industry, according to Strongosky.

For Pilcher, the fact that sustainability is here to stay means more opportunities for both raw material suppliers and formulators, especially with respect to renewable materials. "'Green' is the topic of the day—it's everywhere, and this fact is unlikely to change in the years

ahead. We are just beginning to tap the potential for generating vitally important biobased versions of important starting materials we currently obtain from fossil fuels, as well as new monomers upon which to build new, value-added, higher-performance polymers for use in paints and coatings," he noted. "There are also new biorenewable solvents. The possibilities are practically endless, and, thus, so are the opportunities for creating innovative solutions to current problems."

CONTINUED IMPACT OF GLOBALIZATION

Maintaining a global perspective continues to be a key to success in the coatings industry. "In 2012, we saw many news stories about coatings producers investing in developing economies," notes Kaiser. "The sustained slowdown in the overall U.S. and European economies has motivated many coatings producers to accelerate their efforts to diversify their global market participation. Successful raw material suppliers will be those who . . . have put resources into product technology and the capabilities required to support their customers wherever they operate around the world."

"With so many new ways to communicate, open innovation will ultimately become the norm."

EXPANSION OF OPEN INNOVATION INITIATIVES

The idea of open innovation was discussed more in 2012 than in any previous year. "Partnering has become more acceptable as more companies are coming to realize they cannot innovate at the level required for real success using only their internal resources," observes Strongosky. "Internal and external collaboration has become a critical component of success, and we expect that this trend will be just as, or possibly even more, important in 2013. With so many new ways to communicate, open innovation will ultimately become the norm."

The paint and coatings industry does, in fact, support a significant amount of the basic research carried out by universities and government-supported laboratories, according to Pilcher. While such activity is more prevalent in Europe, it does occur in North America and Asia. "Such participation is a mechanism for the industry to help researchers that do not have industry experience evaluate the commercial viability of technological breakthroughs," he comments. As a result, advances have been made in nano- and bio-technologies applicable to paints and coat

ings, as well as in more traditional chemistry areas, such as resin, additive, crosslinker, and pigment technologies. Pilcher also points out that most new product announcements are related to new particles, polymers, processes, or coatings rather than new molecules or monomers. "For such technologies to be converted into successfully launched products, however, technical and marketing personnel at formulators and ingredient developers must be aware of the research being carried out and be able to recognize potential applications for the new materials," asserts Pilcher. "That is where a corporate culture that has fostered innovative thinking among its employees comes in."

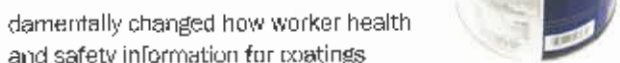
NEW FEDERAL TRADE COMMISSION DEFINITIONS FOR 'GREEN' CLAIMS

A recent announcement by the U.S. Federal Trade Commission could have significant implications for both raw material suppliers and paint formulators. The agency issued new, tougher standards for green marketing claims. The new Green Guides require substantiation of claims such as "degradable," "recyclable," "recycled content" and "compostable." Clarification is also provided for other terms, including "carbon offsets," "non-toxic," and "renewable energy." Terms not being addressed include "sustainable," "natural," and "organic," because there is a lack of sufficient basis to do so or, in the case of "organic," a guideline has already been established by the U.S. Department of Agriculture.

While the FTC guides are not rules or regulations, the agency can issue warnings and fines. Martin Will, a technical sales support representative for the Paints, Inks, Coatings, & Adhesives business of Nexeo Solutions, points out that the guides will limit what the distributor's customers can call "recyclable," "degradable," "containing recycled content," "compostable," "carbon offsets," "non-toxic," etc., and will require many of them to do significant testing in order to substantiate their claims. "For customers that have been specifying some of our products for green applications, there may now be a substantial delay in the final approval of these products," Will commented. "Some of our customers may also withdraw some claims for existing products. We will also be making sure that our suppliers have not made unsubstantiated claims that potentially put us at risk as their representatives." The greatest impact is likely to be seen in 2013 as the FTC steps up enforcement.

ADOPTION OF THE GLOBALLY HARMONIZED SYSTEM FOR PACKAGING AND LABELING

The alignment of the U.S.'s Hazard Communication Standard (HCS) with the Globally Harmonized System of Classification and Labeling of Chemicals (GHS) has fun-



damentally changed how worker health and safety information for coatings will be composed and formatted, according to Sides. The Occupational Safety and Health Administration (OSHA) submitted its final rule to the Office of Management and Budget (OMB) in October 2011 for review, and it was published in the *Federal Register* on March 26, 2012. Employees must be trained regarding the new label elements and safety data sheet format by December 1, 2013. By December 1, 2015, all companies must be in compliance with all provisions of the rule. This will have significant implications for Material Safety Data Sheet and label authoring, publishing, distribution, and management. There are also revised criteria for the classification of hazardous chemicals that will mean companies need to re-evaluate how their substances and mixtures are classified. "Coatings manufacturers and raw material suppliers will need to comply with the changes, which will take tremendous cost and effort," stated Sides.

DISCONTINUATION OF THE U.S. CENSUS CURRENT INDUSTRIAL REPORTS

For those that closely track the performance of the U.S. paint and coatings industry, work became a lot more challenging in 2012—the first year without the Current Industrial Report (CIR) program of the U.S. Census Bureau. The CIR program prepared accurate data on the production and shipment of a large number of manufactured products, including paints and coatings. This information was invaluable for market analysis, forecasting, and decision-making within the industry. "The CIR reports were an objective, independent source of data on the industry that is no longer available, making it more difficult now for analysts to develop a realistic idea of what is going on in the industry," says ACA's Allen Irish. "Without this information, the market is definitely going to be less transparent."

The ACA's *U.S. Paint & Coatings Industry Market Analysis* report, which was prepared by The ChemQuest Group and issued early in 2012, is the last industry report of its kind to be prepared using Census Bureau data, Irish noted. ■

So, what will dominate the coatings headlines for 2013? Stay tuned . . . and check out each issue of CoatingsTech.