Sydney-based correspondent *Barbara Barkhausen* charts the recent ups and downs of the Australian and New Zealand paint scenes

Oceania's paint industries battle different tides and waves

The Australian paint and coating market withstood the pandemic downturn comparatively well, despite prolonged lockdowns of major cities, with industrial paint sales and private renovation projects boosting the market. Across the Tasman Sea, New Zealand's even stricter COVID-19 lockdown regulations have hampered growth; however, companies have used downtime to innovate.

Australia, with its population of 25.6M people, is the twelfth-largest market for paints and varnishes across the top 20 developed countries, according to London-based market researcher Euromonitor International[1]. Its paint and coating market size, measured by revenue, is forecast to be worth AU$3.6bn (US$2.57bn) for 2022 according to market research company IBISWorld[2]. This is an expected increase of 1.3% on 2021, although that could be undermined by a projected 6% inflation rate for 2022, predicted by the Reserve Bank of Australia.

Up until 2022 (from 2017 onwards) the average annual increase in sales has been steady at 1.7%. Despite this modest growth, Australian paint and coatings sales have increased faster than receipts from the entire manufacturing sector and the overall economy. This is quite an achievement given the impact the pandemic. The Australian Paint Manufacturers' Federation (APMF) said the total volume of paints sold in the year to June 30 2020 was very similar to sales yr-on-yr to June 30, 2019 – covering the initial onset of COVID-19. Sales in the year to June 30 2021 were up 3% yr-on-yr. The majority of that growth was in industrial paint sales, said the APMF.

One plus was that no pandemic restrictions were placed on paint manufacturing in Australia. Paint manufacturers continued operating with appropriate COVID-19 safety plans, which generally saw administrative staff working from home.

Also according to APMF executive officer Bernard Lee: "Initially, there was a surge in sales as home-makers kept themselves busy with painting projects during the first lockdown." However, sales only benefited from that trend for a short while. "Lockdown measures preventing trade painters entering occupied homes and consumers from visiting walk-in retailers which depressed sales, even if overall sales remained steady and that this year, sales are returning to normal," said Mr Lee.

According to Euromonitor, the Australian market is dominated by domestic suppliers – imports and exports are significantly smaller than domestic sales. Imports accounted for only 25.8% of total market size in 2020, said a Euromonitor October 2021 report.

Despite some mergers and acquisitions in recent past years, competition remains fierce. The industry is concentrated, with the top five companies generating nearly 70% of total production value in 2020 according to Euromonitor. Amongst the main contenders are the DuluxGroup, which in 2020 generated 25.4% of the industry's total production value, PPG, Hempel Wattyl, AkzoNobel and Haymes Paint. The DuluxGroup was bought by Japan's Nippon Paint in April 2019. American manufacturer Sherwin-Williams sold Wattyl to Danish rival Hempel in 2021, creating Hempel Wattyl Australia, and subsequently closing the Wattyl manufacturing plant in Auckland, New Zealand. Sherwin-Williams meanwhile retained the company's automotive paint operations in New South Wales. Another hit was when Norwegian company Jotun closed its Melbourne, Australia plant in 2021. As a result, most of the big-selling brands are now part of global paint companies. The exception is Haymes Paint, which is now the largest Australian-owned manufacturer.

One longer-term trend that is continuing, said Mr Lee, is that sales of low-VOC and low-odour paints in Australia. "The sale of water-based alternatives to solvent-based paints and coating continues to grow," he said.

Mr Lee also highlighted a useful new regulation that could help the industry save time and money – the new Australian Industrial Chemicals Introduction Scheme (AICIS) which commenced operating in July 2020. "This scheme focuses regulatory effort on hazardous chemicals and provides improved pathways for introducing newer, safer and innovative chemistry by recognising the regulatory assessments of trusted overseas regulators," he explained. This "avoids the need for separate, duplicative, costly and time-consuming assessments by Australian authorities," he added.

NEW ZEALAND BUOYS ITSELF UP TO SURVIVE

Across the Tasman Sea, in neighbouring New Zealand, the paint and coatings market has been less robust than in Australia and has been declining. Revenue is forecast at NZ$702M (US$457M) for 2022 according to IBISWorld[3]. This would be an 8% yr-on-yr decline over 2021, compared to an average annual decline of 3.7% between 2017 and 2022. That means New Zealand paint and coatings sales declined faster than the economy overall and indeed more than the combined sales of all manufacturing industries: "The primary negative factors affecting this industry are a declining life cycle stage and high competition," said IBISWorld.

The major manufacturers and suppliers in New Zealand are the DuluxGroup (q.v.), New Zealand-based Resene, the USA's PPG, and Hempel Wattyl.

Another problem has been supply-chain challenges related to COVID-19, with "shipping lines prioritising more profitable routes", away from isolated New Zealand. Restricted raw materials have pushed companies to reformulate paints, "or in some cases stopping production", said New Zealand Paint Manufacturers' Association secretary, Donna Vincent. The problem is that New Zealand does not manufacture enough ingredients to supply its manufacturers, "The trend that is right across the board is that every manufacturing company is struggling to

keep production going due to ongoing raw material shortages," said Mrs Vincent.

The government has been negotiating trade deals to ease imports and exports. New Zealand (and Australia) have been part of the Regional Comprehensive Economic Partnership (RCEP) with key Asian trading partners (including China) since January (2022). And a UK-New Zealand Free Trade Agreement was signed in February 2022.

On the plus side, while strict lockdowns forced NZ paint manufacturing to close during level-4 restrictions imposed during the pandemic, (March 25 to April 27, 2020, plus some days in August 2021), once these were eased "DIY painting has certainly increased", said Mrs Vincent said. The restrictions also fuelled a new trend towards localism, with customers wanting to support the NZ industry, she reported.

An example was an innovative colour offer called 'PPG Makers' where retailer Bunnings Warehouse partnered with several artists who have created bespoke colour palettes using PPG paints. Resene also created a new programme inviting local artists to paint their favourite New Zealand landscape.

Environmentally friendly product sales are also increasing in New Zealand with Dulux launching Dulux UltraAir in NZ during July 2021, an ultra-low chemical emissions range with the Global Green Tag certification. Resene also offers a range of environmentally friendly products. The manufacturer has also introduced a programme with NZ's CarbonClick system for online sales, enabling decorators to offset the carbon generated through purchases through donations. This environmentalism is also influencing consumers, who are increasingly purchasing soft greens and blues for interiors and increasing the use of wood stains, said Mrs Vincent. One product tapping this trend is Resene's 'We Speak Beach' palette of "colourwood wash hues", launched in late 2021. Other innovative changes to this industry and market included Dulux operating a 'New Construction Products' system from September 2021, advising New Zealand construction specifiers and decision makers on their coatings options for specific projects[4]. A similar project was launched by Resene during the pandemic through a biannual BlackWhite magazine and online platform, delivering advice and inspiration on paint usage[5]. ■

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Major strategy change announced by Evonik Industries

Evonik Industries is embarking on the next phase of its strategic transformation. Sustainability is being integrated fully and systematically into all elements of the strategy: portfolio management, innovation, corporate culture.

"Driven by our purpose, Leading Beyond Chemistry, in recent years we have made good progress both strategically and financially," Christian Kullmann, Chairman of Evonik's executive board, told investors and analysts recently. "In the next phase of our transformation, we are executing targeted and massive investments in green growth and making sustainability our central innovation driver."

Evonik is aligning its portfolio with three growth divisions: Specialty Additives, Nutrition & Care, and Smart Materials. "The businesses we are withdrawing from on strategic grounds are being optimally set up to give them a responsible route to a good future," said Kullmann. Preparations are already under way for the exit of all three businesses of Performance Materials - Superabsorbents, Functional Solutions and Performance Intermediates. Evonik aims to find new owners or partners for each of these three businesses in the course of 2023.

The proceeds from selling those businesses and the operating cash flow in the coming years will fund the green transformation. By 2030, Evonik aims to invest more than €3bn in Next Generation Solutions – products with superior sustainability benefits. That is around 80% of annual growth investments. In the same

period, a further €700M will be invested in Next Generation Technologies, i.e., the optimisation of production processes and infrastructure to avoid CO_2 emissions

"We are greatly increasing our handprint and reducing our footprint at the same time," said Thomas Wessel, the executive board member responsible for sustainability. "We will substantially increase the sales share of our Next Generation Solutions from 37% at present to over 50% by 2030." That includes, for example, drug delivery technologies for controlled release of pharmaceutical active ingredients, gas separation membranes for biogas and hydrogen, as well as natural-based active ingredients for cosmetics. "Our innovations help our customers make their products more sustainable and improve their climate performance," said Wessel. The dynamic rise in demand for Next Generation Solutions is evidence of their importance and offers Evonik above-average growth potential.

Evonik aims to reduce its footprint by significantly cutting both direct and indirect greenhouse gas emissions from production and processing. With the support of Next Generation Technologies, Evonik will reduce its scope 1 and 2 emissions by 25%, from 6.5M metric tons at present to 4.9M metric tons by 2030. This goal is fully consistent with the requirements of the Science Based Targets (SBTi) initiative, which Evonik is committed to. At the same time, the investments in sustainability are profitable: By investing €700M in Next Generation Technologies, Evonik will cut its operating costs by more than €100M/yr up to 2030.

The repositioned Research, Development & Innovation unit is also fully integrating sustainability into the management of Evonik's innovation activities. "Our RD&I targets are right on track to generate additional sales of more than €1bn with our innovation growth fields by 2030," said Harald Schwager, the executive board member responsible for innovation. "Our innovative capability is a key factor in leveraging green and profitable growth."

Evonik's aspirations are supported by its venture capital activities. A new Sustainability Tech Fund with a total investment volume of €150M will strengthen the sustainability targets by investing into innovative technologies and business models. The focus is on new technologies that will reduce emissions as well as on innovations that have a high technological fit with the Next Generation Solutions.