

Italy's paints sector emerges from COVID slump, aided by government incentives

By Brenda Dionisi reporting from Milan

As the Italian economy recovers from the particularly hard two-year coronavirus pandemic, Italy's paints and varnishes sector is among the few to have weathered the storm well. "Our sector has probably never seen such a jump in growth like that of the past two years," said Gianni Martinetti, President of the Paints and Varnishes Group of AVISA¹, which is part of Italy's national chemicals industry association, Federchimica.

■ GOVERNMENT INCENTIVES

Driving this growth is a series of governmental incentives offering tax breaks for public and private building renovations aimed at façade renewal and energy efficiency, Martinetti told *PPCJ*. These include the so-called 'Superbonus 110%', introduced in 2021 as part of the government's Relaunch Decree ('Decreto Rilancio') (Law Decree n. 34 of 19 May 2020)², a package of incentives to boost Italy's pandemic-hit economy, offering a tax deduction on certain expenses like energy efficiency and anti-seismic improvements [incurred up to June 30, 2022], building on the so-called 'Façade Bonus', introduced in the 2020 Budget Law (Law Decree no. 160 of 27 December 2019) and featuring a 90% tax deduction on expenses renewing external building façades and extended in 2021 and 2022 with a lower percentage (60%)³.

These incentives have been a veritable flywheel for the building sector, Martinetti said, which accounts for more than 50% of the overall paints sales in Italy. Roberto Meregalli, the Building Sector Co-ordinator of Assovernici⁴, the country's national paints association representing the main Italian producers of architectural paints and varnishes, also spoke about the sector's double-digit growth post-pandemic: "Compared to 2020, overall, turnover grew by 16.4% and production volumes increased by 19.2% [as per 2020 data from Italian data agency Cerved]," he told *PPCJ*, with architectural paint sales being a driver for the entire sector.



Pietro Geremia (right) who was appointed Chairman and CEO of San Marco Group S.p.A. in June 2021, succeeding his father Federico, who remains as advisor and Honorary President

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Also, 2021 data from global market researcher, Euromonitor International, reported a 7.7% rise in growth in 2021 yr-on-yr, valuing total production turnover in the Italian paints and varnishes sector at €7.66bn, while the total coatings market size rose to US\$8.67bn in 2021, from US\$7.79bn in 2020 and US\$8.17bn in 2019. Total exports of Italian paints and varnishes in 2021 grew slightly to US\$2.48bn, representing 26.7% of total product output. Most exports were shipped to Germany (US\$278M); Poland (US\$183M); and the USA (US\$170M). Meanwhile, Italy imported approximately US\$1.6bn worth of paints and varnishes in 2021, with major importers

to Italy being Germany (US\$526M); Spain (US\$227M); and France (US\$158M), said Euromonitor.

■ RECORD SALES FOR SAN MARCO

Leading Italian architectural paints producer San Marco Group also gave credit to Italy's building sector incentives for its sales growth in the domestic market, where sales were particularly high for outdoor paints, particularly those with thermal insulation benefits, said President and CEO of the San Marco Group, Pietro Geremia. With exports representing 40% of sales, demand for 'Made in Italy' paints for interiors is still high also in important foreign markets, like those in Europe, Asia and the USA, Geremia said.

Indeed, the group registered record level sales in 2021 and in the early months of 2022, closing 2021 with a turnover of €101M, an increase of +23% compared to the previous year, and a production output of 49M kg (+21.7%). Further, growth was up by +41.6% in the first quarter of 2022. The group will invest €8M this year to better

support an increase in production output. Its Forlì plant will be enlarged by 3700m² and its warehouse capacity doubled, while its headquarters near Venice will house a new production line for water-based and fine quartz paints that will increase capacity by More than 10Mkg/yr when fully operational.

The group's strategy for the next few years will focus on various aspects such as boosting multi-channel sales, differentiating sales strategies by brand, increasing local presence in the fastest growing foreign markets. "We are looking to the future with great optimism. We believe that a highly focused strategy on raw materials sourcing and the use of more sustainable raw materials, strengthening the supply chain, expanding our distribution network while differentiating products and brands and painting systems will allow us to overcome the current crisis unscathed," Geremia said.

■ ECONOMIC UNCERTAINTY GOING FORWARD

While data for 2021 is encouraging, economic uncertainty arising from continued raw material disruptions and geopolitical events like the Russian invasion of Ukraine has hampered growth forecasts for the 2022-2023 period of Italy's larger national economy. In March 2022 Italy's national statistics agency (ISTAT – Istituto Nazionale di Statistica) said Italy's GDP rose by 6.6% in 2021 compared to 2020, when GDP dropped by 9%. It also said domestic demand contributed most to GDP growth, however growth forecasts for 2022 are still difficult to pinpoint. In May 2022, ISTAT reported Italy's carry-over annual GDP growth for 2022 to be equal to +2.6%⁵. By contrast, the country's national employers' lobby Confindustria has forecasted 2022 growth to be 1.9%⁶, while the International Monetary Fund (IMF) expects the Italian economy to grow by 2.3%⁷.

Euromonitor's growth forecasts for the Italian paints and varnishes sector continue to be positive in 2022, estimating a 3.2% rise in total production turnover in 2022, equal to US\$7.9bn. Today, continued pandemic disruptions and geopolitical events have put a dent in business confidence as paint producers can no longer absorb the unprecedented increase in production costs. "The continuous rises in the cost and scarcity of raw materials are the greatest critical issues we are experiencing. These elements, combined with economic uncertainty due to a return to inflation and rise in energy costs, are placing significant limits on the growth of our sector," Assovernici's Meregalli told



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PPCJ. For example, raw materials for paints, such as solvents, increased up to 95%, while nitrocellulose rose by 40%, and epoxy resins jumped up to 110%, according to Assovernici⁸. The latest lockdown in China is further reducing the raw materials availability on the European market. Packaging prices also continue to rise.

However, as with many other industrial sectors, such economic uncertainty has helped drive a number of mergers and acquisitions in the Italian sector. "It's clear that as a bigger group you have more negotiating power when sourcing scarce raw materials and costly logistics, for example," Martinetti said.

An example is leading Portuguese paints producer CIN (Corporação Industrial do Norte), which purchased a majority stake in February 2021 in Italy's Genoa-based Boero Group, a leader in architectural and yachting paints and castings. The alliance of these two-family run businesses, which were already partners, will bring their combined annual revenue to surpass €320M and reach a top 40 position on the world's largest paint companies ranking. The partnership will create greater growth and consolidate their European presence, CIN said in a statement⁹.

While this year, leading US-based global paints and coatings producer PPG invested further in the Italian sector with the purchase of the powder coatings division of Milan-based coatings producer Arsonsisi, which generated US\$15M in sales in 2021. PPG is investing in sustainable powder capabilities across Europe and

this transaction will provide PPG with a highly automated, small- and large-batch capable, powder manufacturing plant in Verbania, Italy, PPG said. Further, in March 2022, PPG opened its new European Central Powder Coatings Research and Development Centre, located in Milan, Italy, which will enhance and accelerate powder coatings product development, the company said¹⁰.

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