

# PAINTING A ROSY PICTURE

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Indeed, according to Jim Brown, Marketing Development Manager at International Paints, while costs have clearly risen for operators, costs have also risen considerably for producers with the clearest indication of this price rise being the BEAMA MCI (marine coatings index) which has increased by 12 basis points in the last 12 months and 43 basis points in the last 24 months.

"This increase has been predominantly caused by the increasing cost of hull coatings, specifically biocidal antifoulings. These products typically contain copper-based biocides to help prevent fouling growth and this key raw material has seen costs quadruple in recent times. For example between 2003 and 2006 when copper prices were increasing steadily, but sensibly, we carried out a series of antifouling price increases," he said.

"A price spike in mid-2006 was impossible to effectively manage with price increases and the cost to us of making antifouling paint rose suddenly and by a huge amount. We therefore implemented a copper surcharge of \$2.50 per litre in July 2006 for our biocidal antifouling product range.

"The intention and result was not to increase profits," he continued. "The surcharge was simply a necessary mechanism to pass some of the extra cost of the copper that we passed onto the end user. The reason a surcharge was used was that it could be implemented immediately and be effective across all sales in a uniform manner. We also believed it to be fairer to our customers than heavy price increases, since if the copper price fell as we hoped it would, we could immediately remove the surcharge and our customers could quickly return to their pre-surcharge price levels."

Despite a drop in the copper price in the last half of 2006 this proved to be "only temporary and in 2007 copper prices continued their rise at the same average rate since 2003. Demand for copper is still strong, especially in China which has seen a 9% increase in demand during 2007, with a further 9% increase forecast for 2008."

The key issue is that despite China heavily investing in local copper mines, global supply is not increasing significantly and, due to strike action at various mines and ports in South America, demand is likely to remain high. Although copper is at the same level now as it was in June last year, the circumstances are different, he stressed.

"Last year, the price reached that level following a spike, and we anticipated it to fall, hence the surcharge. This year the price has reached the same level but as a result of a natural increase in the mar-

ket," he said.

The strategy taken by IP during 2007 was to stop surcharging and put the \$2.50 charge onto the selling price. "Future antifouling price rises remain a possibility if the current trend of rising copper costs continues, although it is believed that the worst is now over. Our non-biocidal foul release coatings, Intersleek 700 and Intersleek 900 do not contain copper and remain unaffected by these price increases," he said.

"Finally, although aluminium prices have decreased during 2007 due to falls in demand within the US economy, strong demand in China is forecast for 2008 with analysts predicting a 22% increase. Continuing high energy costs will also help sustain the price in the coming months. This will continue to impact heavily on coatings such as anti-corrosive primers."

This is how IP has addressed this significant challenge but other producers have responded in similar ways to cope with these market movements. For the suppliers, the real issues are to balance ongoing price integrity and product quality in order to maintain revenues, market shares and their competitiveness. In such circumstances as seen over the past year or so, succeeding in achieving this balance is at

