Canada: Industrial Chemicals – Paints and Coatings

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Madellon Lopes
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Summary

The Canadian Paints and Coatings industry (North American Industry Classification System – NAICS – 325510) consists of manufacturers of paints, varnishes, lacquers, shellacs, and stains. This industry is divided into two unique subsections – architectural and industrial. Each subsection is approximately equal in size in terms of shipments and total value of sales.

The architectural coatings sub-sector depends largely on the performance of the construction sector. This sub-sector is comprised of exterior and interior house paints, primers, sealers, varnishes and stains. Products in this sector are typically sold in large retail chains such as Canadian Tire, Wal-mart, Sears, Rona, Home Depot and individual paint stores.

The industrial sub-sector is closely connected to the automotive, industrial equipment, and major appliances sectors. Industrial coatings include automotive paints and sealants, can coatings, coil coatings, furniture finishes and road marking paints. These products are typically sold directly to end-users. The paints and coatings industry is heavily dependent on raw materials because of the many types of formulas and compounds.

Many of the larger industrial coatings manufacturers are headquartered in southern Ontario, with plants and distribution centers in other provinces. The majority of the larger firms operating in Canada are foreign owned subsidiaries and joint ventures headquartered in the United States and Europe.

Canadian subsidiaries and joint venture partners of larger international firms are not required to do much research and development but look to their respective parent companies to supply them with the necessary technology to produce or to further enhance the products they manufacture. Other firms in the industry that produce paints and coatings in Canada look to their suppliers of raw material for advancing technologies that are specific to their input materials. This avenue of technological advancement and formulation is where most paint companies derive their products competitive advantage. This method also allows for companies to produce and design products to satisfy demands in a specific market.

As with many industries in Canada, the paints and coatings industry follows the same trend of a heavy cross border exchange of goods with the United States. In 2007, approximately 83 percent of imports originated in the United States, and 91 percent of exports were destined to the U.S. **End Summary**.

Market Demand

The Canadian paints and coating industry realized shipments of US$1.7 billion in 2007. Imports grew to $992 million, up 3 percent from 2006, of which 83 percent, or 821 million came from the U.S. Canada's paint and coatings industry is considered to be a mature and highly competitive market. However, with both end user sectors (architectural and industrial) growing there is lucrative potential for U.S. products in the market.

In 2007, Canadian new and resold housing sales improved over 2006 levels at 228,343 and 520,000 units, respectively. Forecasts for 2008 indicate overall sales will slow slightly; however, with mortgage rates set to remain within 25-75 basis points of current levels coupled with a strong Canadian dollar, the real estate market is expected to remain stable through 2008. Moreover, the Canadian Mortgage and Housing Corporation (CMHC) maintains the economy will remain consumer driven, especially given the strong dollar, which will translate into increased investment in the home: renovations and upgrades. This in turn will spur demand within the paints and coatings industry, setting the stage for market growth over the coming year.

New automotive sales reached their second highest recorded levels in 2007, up 1.5 percent from 2006 to 1,690,548 units. Growth has continued into 2008, as sales in January and February have surpassed their totals of a year ago. Moreover, Canadian roads host over 19 million used vehicles, the ongoing maintenance of which drives the automotive parts market, a substantial sector for the paints and coatings industry. Additionally, the industry-wide trend to advance "eco-friendly" technologies has led to increased opportunity for new paint and coatings technologies within this sub-sector. The need for new technologies combined with industry growth underscore the position of the automotive sub-sector as a catalyst for demand in 2008.

As with architectural paints and coatings, the industrial sub-sector demand will expand on the strength of the economy. Industry Canada expects higher technology areas of this sub-sector to fuel demand, where new technologies are being applied to meet current industry needs as product sales and services abound. These include environmental sustainability, construction and maintenance, equipment manufacturing, coatings and road marking paints.

Major Canadian cities are following Europe's example in applying green technologies to their core infrastructure and new developments. Presently, Toronto is in the early stages of implementing a Green Development Standard that promotes construction of environmentally friendly buildings. These standards will result in improved air and water quality, reduce green house gas emissions and enhance the natural environment. Nano-paints, utilizing nanotechnology that will address green standards, will find a growing market for its eco-friendly composition, replacing conventional wall and exterior paints. R&D of nanotechnology is opening doors for U.S. companies with this expertise given the increasing social and political attention to global warming. Demand for nanotechnology also remains high in the automotive sector, as major manufacturers are replacing conventional vehicle paint with this new technology as they look to market the "green" benefits of their products. Nano-paints and coatings have also made headway in the marine and military markets.

Market Data

In 2007, Canada imported more than US$992 million in paints and coatings, of which US$821 million or 83 percent were from the United States; a 3 percent growth from 2006. Industry estimates suggest another 3-4 percent increase in imports through 2008. Germany is Canada's second largest supplier with approximately 1.7 percent of the market share, followed by the United Kingdom at approximately 1.1 percent. Other notable partners include France at 0.75 percent and Italy at 0.72 percent.

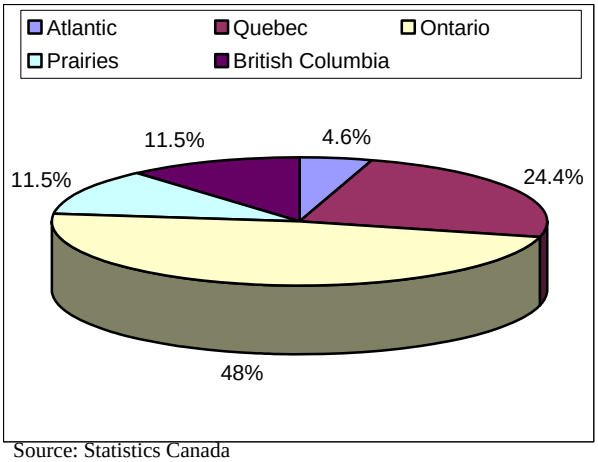
Canadian Paints and Coatings Market Overview (US Millions of Dollars)

	2006	2007	2008 (Estimated)
Total Market Size	2,131	2,195	2,261
Total Local Production	1,631	1,680	1,730
Total Exports	463	477	491
Total Imports	963	992	1,022
Imports from the U.S.	797	821	846

Source: Industry Canada.

Approximately 72 percent of Canadian paints and coatings production occurs in Ontario and Quebec. The predominance of this region is predicated upon demand, as roughly 60 percent of Canadians reside in these provinces.

Regional Distribution of Establishments (2007)



Source: Statistics Canada

The paints and coatings industry in Canada employs approximately 6,320 people in 137 businesses. Production is highly concentrated n Ontario, which houses 48 percent of all Canadian establishments. Quebec remains the second largest manufacturing market at 24 percent, with the Prairie provinces and British Columbia representing 11.5 percent and the Atlantic provinces comprising roughly 5 percent. In 2007, Canada's paints and coatings market was valued at US$2.2 billion. Total imports accounted for US$992 million in 2007 of which US$821 million or 83 percent was from the United States. According to industry analysts the market is expected to experience growth at around 3 percent, in close relation to Canada's overall economy.

Recognizing the industry need for "green" alternatives, the Government of Canada began investing in nanotechnology in 2005. The application of nano-technologies to paints and coatings allow for a significant reduction in emissions of greenhouse gases. Through Technology Partnerships Canada, the federal government committed an initial US$3.4 million in research and development of new nano-based coatings for the aerospace industry in 2005, followed by a US$8.6 million contract with Toronto-based Integran Technologies Inc. A further

US$12.2 million in R&D funding was provided for a project headed by Edmonton-based Quantiam Technologies Inc. Provincially, the government of Alberta has invested $3.5 million annually in R&D to be used in the production of olefins – which are the building blocks of plastics, textiles, consumer goods and other chemicals, while Ontario has demonstrated an increasing interest in nanotechnology, offering US$600,000 in research subsidies in 2007.

While government investment in new technologies is on the rise, contributions to research and development – both public and private - remain relatively limited in comparison with the United States. This amounts to a distinctive technological advantage for U.S.-based firms, either as a means of direct entry, or in partnership with developing Canadian-based firms. A recent survey identified 50 start-up companies concentrated within the Quebec-Windsor corridor, Edmonton and Calgary, as well as British Columbia who focus mainly in nano materials, primarily ultra fine powders or coatings. Given their limited funding and close proximity to Canada's large markets, these companies can provide interesting trade opportunities/partnerships for larger American firms.

Best Prospects

Paints or coatings enhanced by Nano-materials:
Materials enhanced by nanotechnology while still imperfect (coatings are difficult to disperse) are expected to drive demand in the industry. Multi-functional coatings, for example combining dirt repellence and temperature resistance, are of specific interest. Other features sought by industry are: Scratch resistance, self-cleaning, durability, water-repellence, UV-protection, and antimicrobial properties. At best, nano-enhanced materials combine several of these features in one. The technology will be introduced predominantly into the Canadian market through imported products or foreign owned plants in Canada.

Smart Bio-Coatings
Plastics enhanced by enzymes: Coatings made from these materials retain a portion of their enzymatic activity and can perform a number of enzymatic functions, such as decontaminating chemical agents or binding special bacteria or proteins.

Coatings with Molecular Surface Control
The relatively new applications for Coatings with Molecular Surface Control technology - namely coating controls of properties such as surface energy, charge, conductivity, porosity, roughness, friction, physical and chemical reactivity, and compatibility with biological organisms – are growing, and will offer great opportunities for U.S. firms.

Light curing products, such as UV-curing inks, are also increasing in demand, while trials with photosensitive chemicals have demonstrated successful applications and are now making strong inroads into the Canadian marketplace. R&D for these products remain concentrated in the U.S., which will maintain Canadian reliance on American imports over the short-term.

Polyurethane (PUR) Coatings
There is speculation of additional growth in the Polyurethane coatings market in the near future - mainly in automotive, and can-coil applications. One and two-component waterborne PUR coatings are expected to be key growth areas followed by radiation-curing and dual-cure systems. Throughout the 1990s there was a gradual increase in the demand for PUR in Canada and the United States. Legislation is considered a driving force for further market

development due to the phase out of PentaBDE and OctaBDE within the industry in 2005. For further information regarding PUR regulations please see the following link: http://canadagazette.gc.ca/partI/2006/20061216/html/regle3-e.html.

Key Suppliers

- Akzo Nobel (Netherlands)
- BASF (Germany)
- Benjamin Moore (USA)
- Cloverdale Paint (Canada)
- DuPont (USA)
- General Paint (Mexico)
- Gurertin Brothers Coatings and Sealants (Canada)
- Home Hardware (Canada)
- Ibis Products (Canada)
- ICI (Canada)
- International Paint (Netherlands)
- PPG (USA)
- Protech (Canada)
- Sherwin-Williams (USA)
- Sico Inc. (Netherlands)
- Société Laurentide (Canada)
- Valspar (USA)

Prospective Buyers

Distribution channels in the Canadian Paints and Coatings industry vary according to application. There are three basic distribution channels:

- Direct purchasing, often via B2B marketplaces;
- Wholesalers/distributors and,
- Independent commission agents.

Additionally, purchasing large volume orders via website has become an efficient forum for the distribution of paints and coatings. Use of this medium offers easy B2B access to a multitude of competitors against which a buyer can cost compare pricing from anywhere in the world. The enhanced transparency has increased competition, which in turn has compelled manufacturers to be cost competitive, thus engendering greater purchasing equity. A prime example of an online B2B marketplace is *CHEMIDEX CYBRARY* (www.chemidex.com), which provides its members with exclusive access to continuously updated product information and in-depth technical support from the world's leading suppliers of raw material ingredients. Further to online marketplaces, electronic networking is also a viable avenue to streamline product procurement and obtain information. *Elemica*, a network for global process industries developed by 22 leading chemical companies, is but one example of an electronic networking facilitator within the industry (www.elemica.com).

Though the above supply chains are the best channels to obtain highly available input materials, special pigments and formulated materials are frequently supplied through processors. Wholesalers also fill orders, but their products are not of high a quality due to specific storage requirements for some pigments and nano materials.

Lastly, there are many distribution channels available for finished products. These range from retail and chain stores (for example: Home Depot, Canadian Tire) or do-it-yourself stores to wholesalers, independent commercial agents, and distributors. In some cases, certain paints may be purchased in department stores such as Wal-Mart and Sears.

Market Entry

Due to the North American Free Trade Agreement (NAFTA), there are no significant trade barriers such as tariffs or import quotas impeding imports of paints and coatings into Canada. These tariffs were eliminated on January 1, 1993. As such, trade in paints and coatings remains unhindered between Canada and the United States.

With most chemicals there are labeling and regulatory requirements. For more information on Canada's substance specific issues please refer to the Health Canada's consumer safety website at http://www.hc-sc.gc.ca/ewh-semt/occup-travail/whmis-simdut/index_e.html/substance_specific_issues.htm and http://www.hc-sc.gc.ca/hecs-sesc/hecs/index.html. In addition, further information on market access can be found on Industry Canada's website at http://www.ic.gc.ca/.

Health Canada and the Federal Government of Canada have formulated guidelines and regulations outlining the production and use of paints and coatings with high values of poisonous chemicals. Some of these regulations can be found at:

- Surface Coating Materials Regulations
- Environment Reduction Plan for Nitrogen Oxides/Volatile Organic Compounds
- Canadian Environmental Protection Act, 1999, List of Toxic Substances (http://www.ec.gc.ca/TOXICS/EN/detail.cfm?par_substanceID=169&par_actn=s1)
- Chemical Substances, Canada (http://www.chemicalsubstanceschimiques.gc.ca/en/index.html)

The Government of Canada is actively trying to remove/limit 2-butoxyethanol in paint and coating products produced in Canada. (http://canadagazette.gc.ca/partII/2006/20061227/html/sor347-e.html)

Market Issues & Obstacles

Most industries are seeking to become increasingly environmentally friendly. The Paints and Coatings industry is no exception. Two major drives to comply are the 1) Federal Government and, 2) TerraChoice Environmental Marketing Inc.; they are encouraging the industry to adopt eco-labels and eco-friendly formulas.

In the mid 1980s, the Canadian Council of Ministers of the Environment (CCME), http://www.ccme.ca/, as well as many other Federal organizations set a target to reduce volatile organic compounds (VOCs) in consumer paints by 20 percent over 12 years – between 1985 and 1997. The CCME is a group made up of provincial and territorial Ministers of the Environment as well as Environment Canada, www.ec.gc.ca – which is a Federal organization. The 20 percent VOC reduction goal was part of the CCME's overarching *Environment Reduction Plan for Nitrogen Oxides/Volatile Organic Compounds.* To communicate this new target, the CCME met with the Canadian Paint and Coatings Association (CPCA), and asked the Association to take voluntary action to lower the VOC content in commercial and architectural paints. In 2003, the Ministers of the Environment and Health published a *List of Toxic Substances* in Schedule 1 under the *Canadian Environmental Protection Act 1999.* Of the substances listed, 2-butoxyethanol, a staple in industrial paints, was deemed harmful to human health and barred from indoor use. See http://www.ec.gc.ca/epa-epe/cpca-acipr/EN/index.cfm.

The LEED (Leadership in Energy and Environmental Design) Green Building Rating System™ was developed by the US Green Building Council and has driven the green building movement in the United States. Many companies in Canada have followed suit. A few competitors in the Paints and Coatings industry in the United States have introduced zero VOC paints to meet demand resulting from LEED. Canada's version of LEED (currently being developed) will put similar pressure on the Canadian paint industry to manufacture paints with even lower VOC and heavy metal content.

Trade Events

Canadian Manufacturing Week 2008
Toronto, Ontario
September 23-25, 2008
Website: http://www.smecanada.ca/cmw/index.asp

International Coatings Expo
Toronto, Ontario
October 13-17, 2008
Website: http://www.coatingstech.org/Programs/index.cfm?event=ICE

Montreal Manufacturing Technology Show 2008
Montreal, Quebec
May 12-14, 2008
Website: http://www.smecanada.ca/montreal/facts.asp

National Hardware Show Canada
Toronto, Ontario
October 2008 (Dates to be finalized)
Website: http://www.nationalhardwareshowcanada.ca/images/100477/index.htm

Resources & Contacts

Canadian Paint and Coatings Association (CPCA)
1200-170 Laurier Ave W
Ottawa, Ontario, K1P 5V5
Tel: (613) 231-3604
Fax: (613) 231-4908
Website: www.cdnpaint.org

Canadian Chemical Producers' Association (CCPA)
Suite 805
350 Sparks Street
Ottawa, Ontario K1R 7S8
Tel: 613-237-6215
Fax: 613-237-4061
Website: www.ccpa.ca

Industry Canada
(Trade Data Online)
C.D. Howe Building
235 Queen Street
Ottawa, Ontario K1A 0H5
Tel: 613-954-5031
Toll-free: 1-800-328-6189 (Canada)
TTY (for hearing-impaired only): 1-866-694-8389 (toll-free)
Fax: 613-954-2340
Email: info@ic.gc.ca
Website: http://www.ic.gc.ca/ic_wp-pa.htm

Ontario Painting Contractors Association (OPCA)
Suite 305
211 Consumers Road
Willowdale, Ontario M2J 4G8
Tel: (416) 498-1897
Fax: (416) 498-6757
Website: www.ontpca.org

For More Information

The U.S. Commercial Service in Toronto, Canada can be contacted via e-mail at: Madellon.Lopes@mail.doc.gov; Phone: 1-416-595-5412 x227; Fax: 1-416-595-5419; or visit our website: www.buyusa.gov/canada.

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Drafted by: MLopes/MJoubarne/SPascucci