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Siegwerk NAFTA's Response to On-going Material Disruptions

The global availability of raw materials continues to be very tight for all printing ink manufacturers including Siegwerk. With little or no clear outlook as to the length of shortages, product disruptions are likely to last.



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Following the economic downturn in 2008, many raw material suppliers reduced operating capacity and personnel. In some instances, suppliers permanently shut down plants to accommodate the economic downturn. Inventories were reduced dramatically over 2009. Due to the increase in demand at the end of 2009 and early 2010, many industries were not positioned to adequately supply and service their customers. In addition, many suppliers were not sufficiently convinced of the sustainability of the increases, and have consequently hesitated in restarting previously idled production capacity.

Compounding the problem, numerous cases of force majeure, closures due to environmental reasons, and labor strikes exacerbated an already tight market which has led to serious reductions in supply and product allocations. The following is a brief summary of the situation for each primary material stream:

Pigments:

- A large portion of Siegwerk's organic pigments are sourced from Asia. A surge in Asian domestic demand has put limitations on material available for export. Several intermediate suppliers are short of raw material feedstocks, while others have curtailed operations or have been shutdown due to environmental reasons.
- Freight costs from China have also doubled since last year. Containers are becoming scarce and ships are "slow-steaming" in order to conserve energy thereby further extending lead times.
- Commodities like TiO₂ and Carbon Blacks are also in very tight supply as a consequence of plant closures and significant increases in demand in other related industries.
- Pigment prices have increased between 10 - 40% depending on availability, and lead times are extended. For these materials, suppliers have issued tight sales controls.

Resins:

- Globally, acrylic resins have been particularly hard hit due to acrylic acid force majeure during 2nd quarter 2010. Though improving, the shortages remain for acrylic resin systems.
- Globally, UV monomers are in very short supply for similar reasons as acrylic resins along with the force majeure declared for epoxy resins.
- Many other specialty resins, such as polyurethanes, polyamides, vinyls, etc., are in short supply due to plant capacity constraints and shutdowns, as well as, increases in demand in other related industries.

- Problems with the harvest of gum rosin in Southern China has put major stress on the entire supply chain of refined and derivative hard resin products with material shortages. Prices have increased more than double in some cases.
- Global shortages of cotton linters and wood pulp are being experienced. This affects the manufacturing of nitrocellulose.
- Resin prices have increased between 10 – 150%. Tight sales controls and allocations have been implemented for all resins globally. Extended lead times are being demanded by all resin suppliers.

Additives:

- Supply issues with additives have been less dramatic with small disruptions in specialty waxes.
- Prices have increased from 5 -10% with the threat of further increases likely.

Solvents:

- Solvent shortages are a result of producers operating at lower capacity. Force majeure and various mechanical failures have aggravated the situation further.
- Pricing has increased between 15 - 30%.

As a consequence of these market and supply developments, all raw material prices are, without exception, under extreme upward price pressure. Most significant increases are to be found in the area of resins, followed by pigments, solvents, and additives.

Siegwerk is well aligned with its global suppliers to minimize supply disruptions and is continuing to focus technical efforts on finding viable, quality products to sustain customer satisfaction.

Siegwerk greatly appreciates its customers' continued business and patience during these challenging times.

About Siegwerk

Siegwerk is a world-leading supplier of printing ink for packaging and publications. Our international family business of 4,000 employees strives to exceed customers' expectations of quality, reliability and support. In 2009, we have generated revenues of \$1 billion USD. Our headquarters is located in Siegburg near Cologne (Germany).

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