


Dear friends,



After tiding the global recession when the label industry was showing signs of picking up , self- adhesive label manufacturers are feeling a new heat. For the past few months, label printers and converters have been battling a steady increase in the prices of raw materials - be it in the form of paper, adhesives, silicones, chemicals or may be in the form of other consumables as in some cases these have raised as high 50 to 100%.As the case would be, there have been many repeated requests form the fraternity of self adhesive label printers - both members of LMAI and non - members, over the past 3-4 months to bring out an authentic communication highlighting the uncertain and volatile situation faced by them.

LAMI in turn sought the help of three major label stock manufacturers as label stock represent 85% of the costs. in this newsletter, we have tried putting the facts together based on data made available to us by them. As managing committee of LMAI, we trust that this factual representation is sure to present an objective and impartial view of the challenges faced by the industry to our esteemed customers with a view to seeking their help and support to tide over the current crisis.

Regards  
Managing Committee- LMAI

# LABEL FIRMS FACE A ROUGH RIDE AS PRICES SOAR

## My dear printer friends,

There have been many repeated requests from the fraternity of self adhesive label printers – both members of LMAI and non – members, over the past 3- 4 months to bring out an authentic communication highlighting the uncertain and volatile situation facing the self adhesive label manufacturers industry in India since global meltdown in late 2008.

While India, as an emerging global economic power could withstand the recessionary impact much better than most developed economies, we were not immune from the adverse impact completely.

Demand recovery towards October - December quarter in 2009 helped us to stay afloat, but multiple price increases by leading raw material suppliers of all critical components had a crippling effect on the existence of our micro and small enterprise driven industry. Viability of our businesses in view of an uncertain demand in the market place and frequent and significant cost escalations is a real challenge facing all of us today.

The objective of this communication is to present an objective and impartial view of the challenges faced by the industry to our esteemed customers with a view to seeking their help and support to tide over the current crisis.

We trust, as managing committee of LMAI, that this factual representation of the prevailing scenario will help us in obtaining price revisions commensurate with inflation in material costs faced by all of us.

Regards  
Managing Committee - LMAI

**Presented below are some critical inputs received from suppliers of raw materials to self adhesive label manufacturers.**

■ One of the major reasons for paper prices to spiral to an all-time high is due to the earthquake in Chile and simultaneous strikes at mills in Scandinavia. Not to mention, China's growing demand for pulp is one added factor.

■ Secondly, a number of Petroleum based companies have closed down during the recessionary period and the volumes have not yet come to a level which can see these factories being restarted. The

shortage of these basic raw materials has led to a price increase in Films, which will continue in the foreseeable future.

■ Moreover, Adhesives are petroleum based products and the closure of Petroleum based companies have led to a shortage in these products - eventually a price increase of all Pressure Sensitive Adhesives.

■ Increase in paper prices coupled with release liners especially PET and adhesive components that are the biggest drivers, have put the pressure on Label Stock manufacturers to increase prices as their margins are severely hit. This is the case with all the Label Stock manufacturers - be it the giants globally or even our very own indigenous ones.

## Hard facts

Facts are stronger than fiction. A presentation here that is supplemented by data collected from Avery Dennison, UPM Raflatac and SMI Coated Products would throw more light on this serious issue:



Subject: Price Increase in Fasson products - July 2010

Dear Sir,

We have been discussing with you over the past 2 – 3 months in connection with the volatile and inflationary trends in key raw material prices.

There have been very substantial increases in the key raw material prices, coupled with concerns around availability, which has severely impacted the cost of our materials. While, we have taken all actions internally for driving efficiencies, cost out initiatives & have absorbed significantly high cost impacts, we have been left with no option & forced to seek your support to increase prices of our products with immediate effect. The present business environment continues to remain uncertain & challenging in the near future.

We are committed to working together with our customers through these tough times & seek your invaluable support to help us continue to provide high levels of quality, service & customer support.

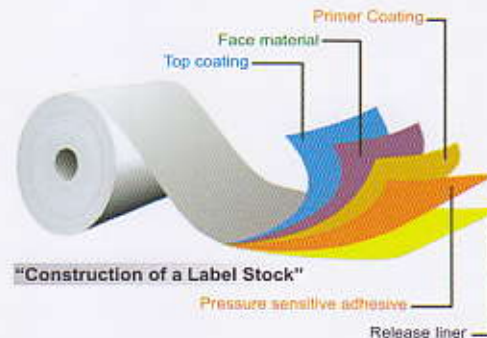
Thanks & regards

For Avery Dennison India Private Limited

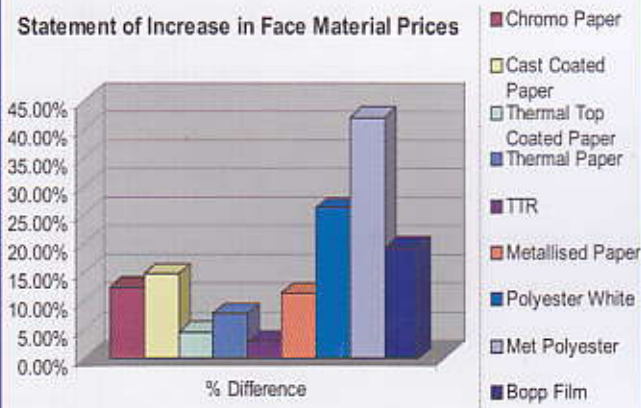
# Label Stock Materials

• Label Stock Material comprise of 3 basic components:-

- Face
- Adhesive
- Release

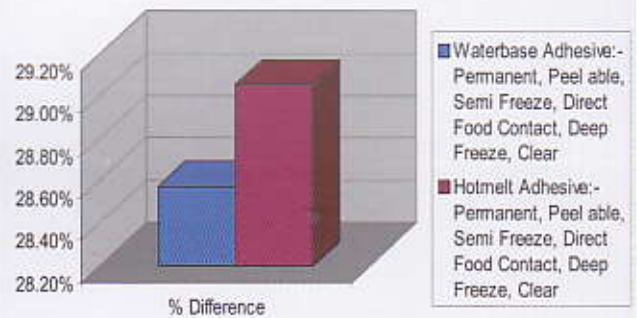


Statement of Increase in Face Material Prices



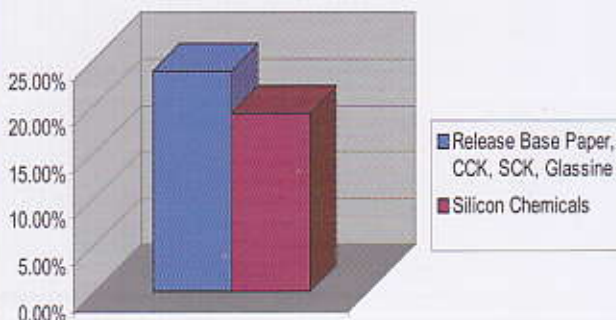
Consistently Relevant Solutions

Statement of Increase in Adhesive Prices



Consistently Relevant Solutions

Statement of Increase in Price For Release



Consistently Relevant Solutions

## Increase In Label Stock Prices

- The rates of Label stock Materials have increased accordingly by 23 % to 30 % .  
The bigger concern will be that even now there is no stability in prices due to exchange fluctuations, since imports of a number of materials have shifted to the strengthening Euro currency.
- There is a shortage of raw materials leading to uncertain supply chain situation as well.
- All the above stated are actual facts and can be verified from the following websites:
  1. Pulp – [www.foex.fi](http://www.foex.fi)
  2. Film – [www.platts.com](http://www.platts.com)
  3. Adhesives & Silicone RM – [www.icis.com](http://www.icis.com)



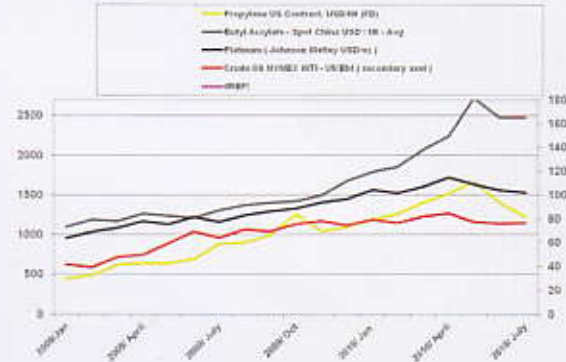
Consistently Relevant Solutions

## Pulp and Paper



- Pulp prices have increased by 70% since early 2009 - increased world demand causing a supply/demand imbalance.
  - Capacity remains limited
  - Prices have continued increasing with an accelerated speed: Jan 2010 – June 2010 price increase has been 40-50%
  - It is unclear to estimate a turning point to this trend
- Based on above, aggressive price increases to UPM Raflatac paper components have continued
  - Overall profitability of paper industry has lead to closures of unprofitable capacity. Increased demand and lack of capacity is effecting supply and demand balance
  - Poor availability and allocations affect our industry
  - Glassine availability is critical
  - UPM Raflatac is fighting against this by searching and offering substitutes like PP backing

## Adhesive and Silicone price development, Asia



## Adhesive and Silicone Components



- We are experiencing exceptionally large and unexpected movements in adhesive component prices
  - Increases have largely exceeded our earlier forecasts
  - Prices of major adhesive components are 30-60% higher than in January 2010
- Adhesive monomers have now record high prices being 60% higher than in January 2010
  - This is due to an increased demand and amplified by unexpected and unplanned capacity shut downs
  - We are expecting their prices to continue increasing
- Supply of adhesive tackifiers continues being tight and prices remain on high level
  - This is emphasized by weak expectations of gum rosin harvest
  - There are several components on allocation

## Adhesive and Silicone Components



- Chemical companies have been closing down unprofitable capacity affecting supply and demand balance. Availability of acrylic monomers and adhesive tackifiers is overshadowed by customer allocations and aggressive pricing actions. Some components are >50% higher than in beginning of 2010
- Hot melt raw materials continued having price increases
  - There are several components on allocation
  - Prices are on an extremely high level
- Silicon raw materials have remained on a stable, high level
  - Prolonged high price levels of a major silicone component (platinum) equal to 65% above of January 2009 price levels

## Raw material – FACTS for UPM Raflatac in Asia Pacific



- Price increases of all product components are unavoidable since majority of raw materials are increasing
  - Glassine liners by 30%
  - PET liners by 36% and will continue up to 50%
  - Adhesives up by 20%
  - All major face materials increased by 5-10%
  - Filmic face materials increased by 10-15%
- UPM Raflatac sources raw materials in various different currencies like; Euro, US \$, AUS \$ and YEN etc.

## Summary of key points



- Raw material prices continue persistent rising
- Year 2010 has been an exceptionally difficult year to forecast
- Actual cost inflation is double to what we expected during our last price increase in May
- Continued increases affect pulp and paper, filmic and adhesive components
- Release liners especially PET and adhesive components are the biggest drivers
- As a consequence, the price increase applied in May 2010 no longer corresponds to today's cost levels
- Internal measures done by UPM Raflatac can not absorb the increased costs. We are forced to increase our laminate prices by 6% with a validity for all despatches starting from October 18, 2010