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Dig Deep Into the Fact behind Growth of Russian Agrochemical Market

By Yutian Lu
Marketing Manager of AgroPages
yutian.lu@agropages.com

Russia owns an expansive savannas crop production area, which is referred to as the final granary of the Earth. Russia is seen as a precious land in the eye of the world's agrochemical suppliers, which is worth expanding and developing. Such an enormous market faces layers of difficulties such as the language barrier, a long registration period, protectionism, and high market share taken by the multinationals. The attractive Russian agrochemical market demonstrates incredible prospects, but there is no dearth of companies who say they are frustrated.

Why is the Russian market so attractive? What is the competitive scenario in the market? What are the difficulties for new players to develop this market? How do local companies respond to the fierce competition? AgroPages interviewed experts from well-known Russian local companies, who gave their answers to these questions.

Soaring market growth

According to recent research of Kleffmann Group, in 2019, the Russian crop protection market showed a 28% increase for the first time in its history reaching RUB160 billion ($2.12 billion). Taking into account that in 2019, the Russian currency was fluctuating slightly between RUB61 and RUB67 against the US Dollar (+/- 6-7%) and global prices for raw materials and final formulations remained stable, such a result can be explained only by increased consumption of pesticides.

As said by Ms. Inna Volnianskaia, general manager of Agrochemical Business Solutions Ltd., the consumption of Russian crop protection market has tripled compared with ten years ago. This can be attributable to the Russian government's efforts to expand local manufacturing capacity, so as to achieve the import control of core commodities and increase the value of export products.

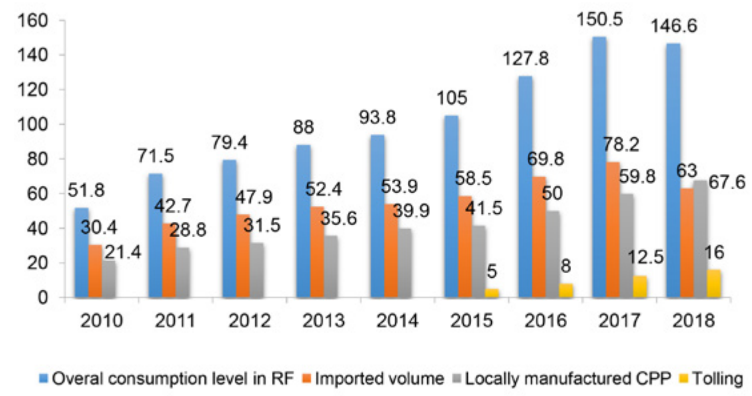


Figure 1: Crop protection product consumption volume in Russia (in 000 tons)
Sourcing: Official website of the Union of the Local Manufacturers of crop protection product in the Russian Federation

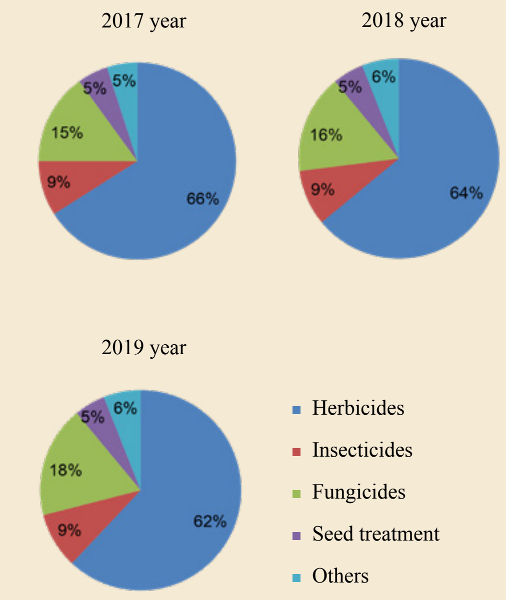
The import phase-out policy drives the development of market

According to the interviewees, the significant growth of the Russian crop protection market is closely related to the rapid development of agriculture in recent years. Russia has the biggest farmlands in the world and is second in terms of freshwater resources. Agriculture had been developed extensively in the 1990's as it had a lot of non-cultivated agricultural territories, which were bigger with more yields and more profits.

Mr. Jozsef Fekete, head of R&D of Progress Agro, said, after the crises in 2008 and 2009, and the Ukrainian conflict due to sanctions from the United States (US) and the European Union (EU) to the Russian Federation and in retaliation by the Russian Federation to the EU and the US, under unfavorable external economic and policy conditions, Russia has formulated anti-crisis plans for the purpose of maintaining a sustainable development of national economy and social stability, and has turned to import phase-out policy. Russian agriculture became more attractive to local investors as the food imports of

Herbicides are the main agricultural chemicals that are widely distributed over the whole territory of the Russian Federation. Their market share during the last four years from 2016 to 2019 was not lower than 60%. The second place is occupied by fungicides especially those consisting of two and more active ingredients.

Shares of CPP types between 2017 and 2019



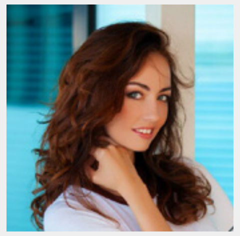
The most popular herbicides in Russian market:

- 2,4D 2-ethyl-hexyl ether 550 g/l + florasulam 7,4 g/l EC (more than 3200 tons)
- Bentazone 480 g/l SL (more than 2900 tons)
- Glyphosate IPA salt 480 g/l SL (more than 2850 tons)
- Glyphosate IPA salt 360 g/l SL (more than 2850 tons)
- Glyphosate potassium salt 540 g/l SL (more than 2300 tons)
- Clethodim 120 g/l EC + clethodim 240 g/l EC (more than 1950 tons)

The most popular fungicide in Russian market:

- Spiroxamine 250 g/l + tebuconazole 167 g/l + triadimenol 43 g/l EC
- Pyraclostrobin 62,5 g/l + epoxiconazole 62.5% g/l EC
- Propiconazole 250 g/l + cyproconazole 80 g/l EC
- Propiconazole 300 g/l + tebuconazole 200 g/l EC

Interviewees

			
Jozsef Fekete Head of R&D at Progress Agro	**Alexander Lomakin** CEO at AFD AgriConsult LLC	**Anastasia Romanovskaya** Head of Marketing and Export, Lysterra LLC	**Inna Volnianskaia** General manager of Agrochemical Business Solutions Ltd

meat, flour products, vegetable oils, fruits, vegetables etc. had almost stopped. The export-oriented production of wheat, oilseed crops (sunflower), soybean, dramatically increased and also vegetables/fruits for local consumption. Russia became self-sufficient in most areas of food production.

"In the last five years, Russia has turned to import phase-out policy. Agriculture has become one of the strategic sectors and it has extensive support from our government. Thus, agricultural output has grown quickly in recent years and the most important point is that it increases not only in terms of quantity but also quality. You are aware that Russia has become the world leader in wheat exports in the last two years and we continue to keep this place," said Ms. Anastasia Romanovskaya, head of Marketing and Export of Lysterra LLC.

Local companies have clear thinking on the growth

The rapid development of agriculture has brought great opportunities to the crop protection segment. Based on the results of the 2018, Russian crop protection products market reached 8th place in the TOP 10 pesticides market in the world. Russia has become very attractive for business and investments and it is sure that the bullish trend will continue.

"The growth of the CPP market in Russia is influenced by many factors, including an active increase in cultivated areas, an intensification of agricultural production, and an increase in pest activity and a change in their species composition. Russia is also seeking to follow European trends. However, considering climate, crops produced and field area, it is impossible to not use chemical CPP on a global scale. With support from the Ministry of Agriculture of the Russian Federation, as well as leading players in the country's agro-industrial market, trying to find new pesticide compositions using active ingredients with low levels of harmful impurities in their formulations. The development of organic pesticides, biopesticides, micro fertilizers and growth regulators is also underway," said Mr. Abdusalam Dzhavadov, general manager of Shans Group.

Mr. Alexander Lomakin, CEO of AFD-Chemicals LLC, is not entirely convinced that at the back of the boom there is always critical thinking involved.

"Unfortunately, there are no real statistics on the market for CPP in Russia. The data presented and or collected by reputable marketing holdings for multinational companies is highly approximate and makes significant assumptions. The market's growth is due to the yearly local currency devaluation and the recommended prices for end consumer growth. Along with this, there is an unprecedented price war, in which not only Russian manufacturers but also multinational companies are involved. Sales growth in physical terms is insignificant."

For the market prediction this year, Ms. Romanovskaya said that, firstly, as COVID-19 caused several failures and delays in shipments, customers were in a panic and started to hoard for the future. Secondly, there was climate change and this year we had a very warm and wet spring that promoted the growth of weeds and spread of disease. Finally, the level of pesticide application (especially fungicide and insecticide) is quite low in Russia. As a result, the Russian CPP market will develop even if we don't expand our cultivation areas. It will be an intensive way of growing. "The same time, we have a special government program that motivates farmers to use their land for agricultural purposes." Ms. Romanovskaya explained. FX rate is another issue. This spring, the oil and gas sector influenced the FX rate and it pushed farmers to buy more pesticides while local prices did not change with the ruble devaluation. All of these factors provide the impetus for the Russian CPP market to grow.

Landscape of cooperation and competition

"Three Forces"

The trend of the last decade in the Russian market involves the struggle of three forces related to effective demand between multinational companies, local producers and importers from China and India, conditionally dividing the market into three equal parts. In the last three years, local producers have fought with importers through tightening the import policy of formulations, and with multinationals through anti-dumping duties.

The total acreage of the Russian Federation in 2019 does not show a significant increase when compared with the year before. According to the data published by the Statistical Bureau, it remained on the level 79.559 million ha with the following structure:

Wheat	Barley	Sunflower	Soybean	Corn	Rape
28.0 million ha	8.75 million ha	8.51 million ha	3.3 million ha	2.55 million ha	1.63 million ha
35.2% % total area	11% % total area	10.7% % total area	4.2% % total area	3.2% % total area	2.1% % total area
+5.2% 2019/2010 change	+21.3% 2019/2010 change	+18.9% 2019/2010 change	+173% 2019/2010 change	+80.5% 2019/2010 change	+90.3% 2019/2010 change

Ms. Tatyana Yakovleva, press service of AgroKhimProm GC, believed that the business model of cooperation between local manufacturers and multinational companies can meet the market demand to the greatest extent and satisfy the needs of different types of agricultural producers. The business model of cooperation between local and multinational companies provides maximum coverage of the market and meets the demands of different agricultural producer types. "Manufacturers unlike selling companies can offer their clients with more attractive terms which depends on their commercial policy. However, sometimes such companies are not interested in selling their products to individual farmers or companies (small wholesale or retail). In this case, the sales are made through local distributors of multinational companies. For the most part, this is the way of cooperation between local and multinational companies."

However, according to Mr. Lomakin, the cooperation between Russian manufacturers and multinational companies does not bring proper rewards and has had no value. He said, "As a representative of the youngest and developing part of the market (importers) that has left distribution to Russian manufacturers and multinational companies, I regret to report that, in the last five years, the products of glyphosate representatives lost their price positioning during the price war and cannot be quoted, as was possible for a fairly long period from the late 1990s to the mid-2010s. Constant changes to selling prices of up to four times a year and discounting of up to 70% when sold to the end manufacturer prevent the strategic placing of these players in the promotion policy."

He added that finding new markets or introducing new active ingredients is not critical. Multinational companies have been losing their distributors, which have caused operational losses for several years, Russian manufacturers, every year, are worsening their financial conditions due to the excess in receivables over turnover, and importers are experiencing a decrease in effective demand. Nowadays, the trend is to push local formulations, but this can be done only by our multinationals or local producers, newcomers will experience long periods of starting up their businesses and will require huge investments in registrations. This trend is mainly due to the market's monopolization. Who will survive and win is the only question in the market, which time will answer in the coming years.

"A hard nut to crack"

Although the Russian market has been attracting new players in recent years, the interviewees shared the same view on this regard: for new players, the Russian market is not so easy one.

First, the government vigorously supports local companies and has initiated corresponding protection measures.

The import phase-out policy implemented by Russia makes local manufacturers more competitive in domestic market through subsidy support and special economic environment conditions. For example, in

Interviewees

Tatyana Yakovleva
Press service of AgroKhimProm GC

Abdusalam Dzhavadov
General Manager at Shans Group

Kseniya Polyakova
Head of Registration Department at Shans Group

Ekaterina Kartashova
Leading Procurement Manager of Chinese direction, Shans Group

2019, the Russian government imposed special tariffs on herbicides imported from the EU, and the regulation was the extended to other types of pesticides, only for protecting local pesticide manufacturers.

Ms. Yakovleva said, in recent years, the chemicals from India have appeared on Russian marked, representing a certain competitive threat for domestic manufacturers and multinational companies' distributors. Indian companies offer lower prices and sometimes can "break the market". At the same time, foreign companies have certain difficulties with fast access to the market due to Russian regulation of pesticide turnover. A new chemical is to be registered in Russia or be included in the list of the chemical manufacturers in case of contract production by Russian companies in India (production of generics). Both procedures are rather complicated and require much time, finance and labor resources.

"I would exclude Hungarian companies as influencers in the Russian market, as 2018 to 2020 were tragic years for them. Chinese and Indian companies face major non-trivial problems, which are the lack of understanding of the current situation in the Russian market, the lack of desire to invest in registration and production, and the lack of representation in Russia for finished products. The sad experience of several Indian and Chinese companies that have lost investments in Russia exacerbates this situation. To my regret, these players do not present any threat to the redistribution of the market." Mr. Lomakin said.

Second, the product registration is very time-consuming and expensive.

Russia has stricter laws than other European countries, and the registration rules are completely different from the EU, and even more stringent. If you want to register pesticides, it does not matter if there are any analogues in the market, you should prepare a full dossier of your product. The registration process takes maximum three years and you have to provide all the research and demo trials for every crop in concern of application rate and pests, toxicology experiments, biological trials, ecological experiments etc. All registration trials have to be done by state authorities.

"The regulation of pesticides in Russia is based on its own legislation. The Ministry of Agriculture of the Russian Federation annually drafts and introduces standards for the approval of pesticides. Research centers and institutes carry out considerable work on experiments related to the biological efficiency of formulations, toxicology, and determining cumulative properties," said Ms. Kseniya Polyakova, head of Registration Department of Shans Group.

"A pesticide in the process of being registered in Russia is obliged to successfully pass registration tests including two-year biological tests on efficiency assessment in three climatic zones, toxicological testing or toxicological examination of GLP report, as well as occupational health tests and ecological examination. A pesticide can be registered in Russia for 10 years than prolonged based on completing all these stages," added Ms. Yakovleva.

Mr. Lomakin said that the main goal of the registration policy is to increase the time and cost of registration, leading to its closure and less competition. "In 2020, we witnessed unpleasant cases of withdrawals of registrations from the world's leading companies related to glyphosate-based preparations, due to very strange reasons of non-compliance with the requirements covering non-essential formulation components. Along with the constant efforts of lobbyists to close the Russian market to imports of formulated products, it can be seen that the regulatory policy covering the registration of pesticides in Russia is not only imperfect, but is also strongly susceptible to factors negatively affecting the market, both from outside and inside the country. In my mind, there is no clear policy yet. Decisions affecting the market are made under pressure from EU players and local producers. Pesticide turnover policy comes down to tightening control over the importation of formulations and anti-dumping duties on European herbicides."

Third, existing companies are very active in the market; therefore, it is difficult for new players to enter the market, establish a good brand image and make it widely known.

Many local Russian companies not only continue to actively cooperate with their foreign partners, especially with China and India, but are also establishing their own production bases in the territory of the Russian Federation, ensuring the constant availability of products in the warehouses of Russian companies, reducing logistical costs and creating a more flexible system for meeting consumer needs.

In the opinion of Ms. Ekaterina Kartashova, leading procurement manager of Chinese direction of Shans Group, it is very important to increase the production capacity of local manufacturers' plants. "Our company began our own manufacturing process this year at our brand-new plant, "Shans Enterprise," located in the Lipetsk region. We are convinced that this will enable us to boost our sales and provide the market with high-quality Russian-made chemical plant protection products."

At the moment, some multinational companies have begun building their plants in Russia, while others are cooperating with local producers for the tolling process. If we look at the ranking of TOP 10 companies in the CPP market in Russia, the balance between multinational and local producers is 50/50. In general, the CPP market is very intense and competitive, so we play in equal conditions. It means that an end-user makes the final decision and we can only persuade him with different arguments about our products. This is a perfectly competitive market in a pure form," concluded Ms. Romanovskaya.

Local leading companies' ways to "break the ice"

Despite the policy support and local protection, the local leading companies do not sit around, instead, they are carrying out an action of "breaking the ice" in an orderly manner.

"Facing the increasing number of new players in the market, new players should not only offer exclusive products, but also provide end-users with a complete line of products in order to remain competitive in the agribusiness environment," said Mr. Dzhavadov.

"It is the fact that demand remains one of the most important factors. It depends not only on the number of products and manufacturers in the market, but also on other important aspects, such as the cyclical nature of diseases and the emergence of new resistant pests and weeds. Shans Group conducts annual monitoring and comparative analysis of past diseases and pests, in order to vaguely forecast the market and assess future customer needs.

Today Russian agriculture depends heavily on foreign chemicals and active ingredients. However, in recent years a lot of large-scale projects have been forced to change the process. New active substances and chemicals that meet customer and safety demands have been developed. They help the growth in agriculture and reduce the dependence on pesticides from abroad. Scientists from leading research institutes of our country as well as agricultural experts including advanced agrochemical manufacturing companies have been involved in this process. The projects are conducted on a local scale with the support of large institutions for business development and support.

AgroKhimProm GC is one of the pioneers in this field. "AgroKhimProm" Group of Companies together with the scientists from Moscow Lomonosov State University have developed and patented a fundamentally new active ingredient for plant growth several years ago. "We manufactured a line of chemicals based on this ingredient (SCS. technology) and successfully introduced them in Russian agriculture as well as in other countries. This approach, in our opinion, is capable of developing industry at the moment. All agrochemical companies soon will offer similar products and the price being the only difference between them," said Ms. Yakovleva.

"There is a consolidation of agrochemical companies because small companies are unable to withstand the present competition as well as any crisis that may arise, such as the COVID-19 pandemic this year. It happens largely due to overloading of the pesticide market both in Russia and elsewhere in the world. At the same time, while most companies can offer a 'standard set' of chemicals and active ingredients, very often these are generics. New original products rarely enter the market. Therefore, the ability of an agrochemical company to stand out by having exclusive products in its basket is tested," added Ms. Yakovleva.

Ms. Romanovskaya said, "Lysterra chose that way to be a unique and boutique company. In our main business of Crop Protection Products, we try to create a product with new mixes of active ingredients that do not exist in the Russian market. It helps us not only to be competitive but also to develop agriculture and to help local farmers to follow world trends. At the same time, we expand our portfolio with additional products such as repellents, adjuvant, fertilizers and biological products to offer complex crop protection and supporting systems for our customers."

This year, Lysterra finally invented a special product (that is awaiting a patent) to clear water reservoirs from cyanobacteria/blue-green algae. This problem is very important all over the world and slowly becoming global. We hope that our product Vodaguard (that we already sell and apply in the United States (US) will help make the world better and it will support the sustainable development of the planet.

Conclusion

Global warming, COVID-19 pandemic…, the world is always in rapid change, and so is the Russian market, but despite the rapid change, it still has its unchanging law. "Healthy competition is creating market rules". According to the opinion of Ms. Volnianskaia, operation in Russian agrochemical sector can bring prosperous and growing business even for new comers. The key to such success is first of all professional team, right market positioning and.... patience. No matter the obstacles your businss is meeting on its way there are always plenty of options you may choose to win the situation. As crisis is not only about bankrupts it's also about start-ups."