

Russia's crop protection market remains the preferred choice for foreign companies

In 2019, Russia's crop protection market grew by almost a third through increasing in cultivation area and intensification of agricultural production. However, the COVID-19 has shown how strong Russian producers depend on Chinese raw materials. CREON Group experts revealed recent trends.

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2020 began for producers of plant protection products (PPP) with a disruption in international supply chains and longer delivery times. More than 90% of the active substance (AS) on the Russian pesticide market is supplied from China. "Companies that have managed to bring in AS before border closure with China, turned with great benefit", - says the head of the PPP company supplying the largest Russian agricultural companies. In March and April, the deliveries from China were delayed for two to four months, says an industry player: "Some farmers at that time didn't get orders for December and January 2019".

To date Russia is the fastest growing market for PPP in the world. In 2019, Russian pesticide market grew by 28% exceeding 160 billion rubles (\$2,3 billion). According to the Russian Ministry of Agriculture, in the previous year the sown area for grain and oilseeds increased by 1.1 million hectares which was a favorable factor for extensive growth in the use of PPP. That in turn contributed to the growth of herbicide market, accounting for about 50% of the total domestic pesticide market.

From January to April of this year the production of PPP in Russia increased sharply. According to Rosstat, in the first four months of 2020 the production of herbicides increased by 55.4% to 38.1 thousand tons; fungicides - by 3.2% to 10.6 thousand tons. Compared to 2019, in April herbicide production increased by 34.9% and amounted to 12.6 thousand tons, while the production of fungicides declined by 6% to 4 thousand tons.

Several factors contributed to the growth rates in the first four months this year, according to Mikhail Danilov, marketing and sales director of "August" company: "Early spring is the first factor. Secondly, many agricultural producers doubted that they will get ordered pesticides on time due to the pandemic restrictions, and purchased it in advance. Thirdly, many were aware that cost of production depends on exchange rate and tried to buy more products at old price. According to the Association of European Businesses (AEB) and Russian Union of Producers of Chemical PPP, in the first quarter of 2020 shipments of PPP to top 10 industry leaders increased by 62%. However, over time the surge in demand began to flatten - most farmers have already received the required products".

Pesticide Prices Rise

Following the pandemic and oil crisis, the ruble decline has affected the cost of pesticides since the price of imported AS pegged to the US dollar exchange rate. Thus, in April most of the PPP producers have had to increase prices for all groups of products. "Obviously we were forced to raise prices to exchange rate, on average up 10%," says the pesticide supplier.

Large PPP producers have sufficient stock of raw materials to fulfill their contractual obligations, committed at the end of last year for next season. Therefore, pre-purchased AS at a lower exchange rate allowed large companies retain previously agreed price terms. "At the beginning of this year, before US dollar jumped, prices for chemical PPP were even lower than in 2019 due to the growing competition in the

market,” notes Mikhail Danilov. - Therefore, at the moment the average price of “August” products is lower than last year, whether we deliver under old or new contracts conditions.”

Most of the industry participants surveyed by CREON Group believe that the coronavirus won’t affect much to agribusiness and pesticide producers: “At the beginning of the pandemic there was a week or two of uncertainty, but companies continued to operate,” says an industry expert. “We work inside the agricultural market that is not affected by the pandemic, we have sown and sprayed everything, and no restrictions have bothered us,” says the Russian PPP producer from Russia’s top-10 companies - “If the ruble exchange rate will stable, then we can assume that sale prices will not change until the end of the year - we have not revised ours yet.” However, a regional representative of another large Russian producer expressed confidence that prices would be rising: “Surely, everything will go up. It’s unavoidable”.

Localization spurred PPP market to development

The five-year anti-dumping duties introduced in 2018 on the import of herbicides from European countries have become a favorable factor in the development of Russian PPP market. This led to the localization of European production in Russia for which the development and implementation of long-term investment projects is becoming a priority business strategy.

For example, Syngenta is building a new enterprise in the Lipetsk SEZ with about 1.6 billion rubles (\$22 million) investments. “In the first phase of the project the plant will produce 5 million liters of herbicides annually, and we are going to start operation in mid-2021”, said Jonathan Brown, company director in Russia. -“With the opening of Lipetsk plant, we plan to increase the extent of localization of our PPP products in Russia to 80%”.

In January 2020, German Bayer became a resident of the Lipetsk special economic zone. The company intends to build a PPP plant with primary focus on Russian market, part of the products will be exported, including the CIS countries. The detailed of the project have not yet been disclosed, but experts estimate more than 1 billion rubles (\$14 million) investments. “Constructing our own plant is strategically important step for the company towards developing localized production and increasing access to high-tech Bayer products”, said Yves Piquet, head of Bayer Crop Science Eastern Europe.

However, the active substance (AS) for PPP will continue to be imported from China: “Each company has only a few factories in the world, where they produce AS and that meet the needs of the whole market. And there is no point in multiplying production for Russia, Europe, China and US markets”, explains Jonathan Brown. Not only Russia, but also many developed countries import AS and don’t seek to produce it domestically.

The future is with biopesticides

Fluctuations in prices for chemical PPP caused an increased interest of farmers in biological preparations, the demand for which has been steadily growing for several years. “For instance, France plans to transfer up to 50% of PPP to biological products by 2025, up to 25% throughout Europe by 2030, and as a result a boom is developing for effective high-quality biologicals,” says Rustam Ramazanov, CEO of Bionovatic. - China is also rushing despite its world domination in the chemical agroindustry. And the same is happening now in the US”. Expert believes, that the growth driver in US is not even an environmental agenda, but the solution of problems with added value in the agricultural sector: “The farmer should be the one who earn as the main actor in the country's food security and the pillar of sustainable agriculture, and not give all the profit to pesticide companies”, - Ramazanov believes. By market experts, the chemical segment of PPP is

growing by only 1.5-2% per year, and the biological segment - by 15-20% vary by country. Therefore, biological PPP are the future of entire sector of plant protection products.

The Russian PPP market remains attractive for both global players and domestic companies. Significant land resources for agriculture, favorable climatic conditions, high quality soil along with favorable geographic location, allowing export both to the EU and to Central Asia, provide companies in the industry with great opportunities for growth and development. "The Russian pesticide market continues to grow steadily. In 2019 market size exceeded 160 billion rubles and reached over 3% of the world market. Hence, Russia has been and will remain a priority market for international pesticide producers", said **Olga Zhuravleva**, member of the Board of Directors of CREON Group.

Pesticides 2020 Conference: September 28, Moscow ([Program and Registration](#)).