https://www.linkedin.com/pulse/russian-pesticide-market-review-alexander-lomakin/

Russian Pesticide market review

- Опубликовано 6 июля 2018 г.

The market for plant protection products (pesticides) began its formation after the collapse of the USSR in 1991 by directly entering the Russian market of multinational companies (Bayer, Syngenta, BASF, Cheminova, FMC, DuPont, etc.) and the formation of a pool of Russian producers from old (Ufahimprom and others) and new (ZAO "August", Shchelkovo Agrokhim) producers. Russian producers were rapidly seizing the market with state support (subsidizing 30% of the cost of pesticides) directly to the manufacturer in the late 90s and early 2000s, and later subsidizing 30% of the cost of Russian pesticides to agricultural producers. In this regard, the two groups divided the market by 2005 in approximately equal proportions.

Multinational companies promoted and promoted sub-patented (original) products of their own production and pesticides that were released under the patent at high prices. Russian manufacturers, using scientific developments of foreign companies, offer in general "time-tested", and sometimes obsolete pesticides at prices comparable to foreign counterparts.

Government subsidies allowed Russian producers to maintain high selling prices for their products at the level (and often even higher) of the prices of multinational companies.

At the initial stage, multinational companies placed production (formulation) of their products at Russian plants with the aim of getting into the state program of subsidizing pesticides. Russian plants helped to expand the number of products offered and financially supported their production.

The pricing strategy on the market has been dictated and dictated so far by four multinational companies (BASF, Bayer, Syngenta, DuPont). The rest of the producers and importers form a pricing policy based on them.

The products of multinational companies are realized through an extensive network of distributors with the ability to provide agronomic and logistical services, Russian producers sell their products through their own networks.

The bulk of products are sold to agricultural producers on credit. The burden and risks of lending to multinational products rest with distributors, Russian products on Russian manufacturers.

90% of the world production of active ingredients (the main ingredient of plant protection products) is produced in China, a small part in India.

All world companies (multinational and Russian including) purchase most of the active substances in the PRC and India.

Chemical synthesis of active substances in the Russian Federation, like any other high-tech industry, comes to a gradual decline due to the financial inefficiency of production in Russia and a host of administrative and technological barriers.

Since 1990, the number of synthesizing enterprises has decreased from ten to one.

The most common type of pesticide production in Russia is the simplest process of the formulation (the preparation of a mixture of ready-made ingredients purchased abroad) of finished products.

The volume of the market for plant protection products by the conditional evaluation of several independent marketing agencies (by sampling farms in a number of key regions and subsequent extrapolation) is calculated in the range of 1 to 1.5 billion US dollars per year.

There is no more precise information on the volume of the market.

The market for plant protection products is regulated by Federal Law No. 109-FZ of 19.07.1997 "On the Safe Management of Pesticides and Agrochemicals" and by-laws of the Ministry of Agriculture of the Russian Federation.

For the implementation of plant protection products, registration of a pesticide in the Ministry of Agriculture is required, which lasts for up to 3 years now and costs from $ 100,000 to $ 300,000.

The registered product (registration or the right to sell it and import) can not be transferred by another organization (trade law).

After 2005, part of the distributors of multinational companies, while reducing the overall margin of doing business and the high risks of non-return of accounts receivable, began to form the third force - importers, who started registering pesticides (generics-analogs for the active ingredient) and offering them on the market at affordable prices.

Until 2008, these importers controlled a small part (up to 10%) of the market, as they faced opposition to the marketing efforts of multinational companies (Chinese products are bad and dangerous), and non-proliferation in the subsidy programs are not producers in Russia, and leave to end producers Russian producers of pesticides in 100% credit.

The imbalance of prices by that time between multinational and Russian producers and importers reached multiple ratios (importers offered products cheaper from 2 to 10 !!!! times).

The crisis of 2008 showed agricultural producers, who had to save on everything and risk buying new products from China from importers, that the quality of products

importers are not inferior not only to Russian but also to multinational producers and the market share was redistributed over 1 year with a ratio of 40% to multinational producers, 30% to Russian manufacturers, 30% to importers.

The economic effect of this redistribution cannot be overestimated.

The ill-considered credit policy of leading Russian producers after 2008 led to the fact that the aggregate receivables of ZAO August and Shchelkovo Agrokhim exceeded their turnover at the end of 2017 (about 17 and 12 billion respectively).

Aggregate debt of agricultural producers in the market to suppliers of pesticides is rapidly approaching the entire annual turnover and is about 70%.

The record harvest of 2017 (about 130 million tons of grain) and the next fall in wheat prices from the forecasted 7 to the actual 4 rubles per kg led to a shortage of agricultural producers of at least 390 billion rubles, which exceeds the annual market for plant protection products by 5 times, at least, that allows us to confidently predict that the situation with settlements for pesticides delivered will be problematic.

Import of finished goods is subject to 5% customs duty. Import of active substances is not subject to customs duty.

Import of plant protection products by importers takes place upon receipt of a license for pesticide import received by the Ministry of Industry and Trade of the Russian Federation (the procedure is automated and time-regulated for up to 14 days) on the basis of the Decision of the Ministry of Agriculture of the Russian Federation.

Since 2017, at the initiative of the Ministry of Agriculture, the Order of the Ministry of Agriculture of Russia of 26.04.2017 N 200 "On Approval of the Procedure for Considering the Application and Issuing an Opinion on the Importation of Plant Protection Products (Pesticides) Included in the Unified List of Goods Subject to Bans or Restrictions on Import or Export member states of the Eurasian Economic Union in trade with third countries "(Registered in the Ministry of Justice of Russia on July 31, 2017 N 47583), which significantly complicated imports to importers of available plant protection products (pesticides), namely ban l import of pesticides on permissive letters, significantly reducing the number of importers and consequently competition in the market and the trend is on the decline in selling prices.

In 2017, an anti-dumping investigation procedure was initiated for herbicides originating in the European Union and imported into the customs territory of the Eurasian Economic Union initiated by Russian producers against multinational companies (which have always had the most expensive selling prices for products) with a view to introducing import duties on these products, and as a result, an increase in selling prices in the market and an increase in margin in sales. (Published on the official website of the Eurasian Economic Commission 05.10.2017 Publication No. 2017/96 / AD23)

The Ministry of Agriculture is in the process of agreeing to changes to the Regulation on the registration of pesticides and agrochemicals, the purpose of which, according to preliminary data, is the complication and rise in the cost of registration procedures, which is the longest and most expensive in the world now and blocks the entry of large Chinese players to the market with affordable prices pesticides. The Draft Regulation is hiding from the community in every possible way and is developed in strict confidence.

Since the end of 2017, all importers without exception have not been given permission to import registered preparations on the basis of glyphosate without explaining the reasons. One of the alleged causes is the investigation into the European community of the endogeneity of glyphosate. On the other hand, the importation of the active substance glyphosate into the factories of ZAO August and Schelkovo Agrochem is not prohibited and the production of the glyphosate-based pesticides continues. Until now, importers accounted for a large share of the glyphosate-based pesticides market, due to the affordable price of pesticide (cheaper by 2 times than Russian producers and multinational companies) and not inferior to quality.

The average market price for glyphosate (54%) in 2017 for importers was in the range of 250 to 350 rubles, while glyphosate produced in August and Schelkovo Agrokhim cost 677 rubles and 737.5 rubles respectively in 2017. In this situation, the selling price of glyphosate is expected to increase due to the dominant position of producers in the market.

This preparation is used to put untapped arable land and fallow land and processing fumes into circulation and is the tonnage of the most used (tonnage) pesticide in agriculture today. The annual consumption of this drug is measured in hundreds of thousands of tons in Russia. On 1 hectare of fallow land or vapors it is required to use from 2 to 4 liters.

Delay or refusal to issue permits will form (and already forms) a shortage of products and a sharp increase in the selling price.

In parallel, the state introduces programs to recover part of the costs of maintaining and improving soil fertility, putting untapped arable land and fallow lands into circulation, through subsidies from the regional budget. What shows the inconsistency of actions in the decision of a problem of increase in areas under crops: on the one hand - a rise in the price of the product used for expansion of an arable land, with another - state support.

The estimated damage to agricultural producers from the ban on the import of glyphosate-containing drugs may amount to hundreds of billions of rubles, or lead to the refusal or reduction of agricultural producers in the expansion of farmland due to fallow lands.

The above actions intentionally or accidentally lead to a non-market deformation of the plant protection products market, its monopolization and a significant rise in price products, which, accordingly, will worsen and complicate the financial situation of agricultural producers and will ultimately affect the prices of food in the middle and near future.