

Interview (Wynca): Consolidation in Chinese industry will reduce glyphosate price wars

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by Shuyou Han

Stringent environmental protection measures and zero-growth pesticide policies in China have spurred consolidation with smaller players finding it difficult to survive. In a wide-ranging interview, the president of Wynca Group (Zhejiang Xinan Chemical Industrial Group), Yanming Wu, talks with *Agrow* correspondent Dr Shuyou Han about the Chinese domestic and export market as well as the impact of the big mergers and acquisitions on the Chinese pesticide industry.



q Could you provide a brief background of the Wynca Group?

A The Wynca Group was founded in 1965. We successfully became a listed company in September of 2001 in China. We are among the top 20 crop protection companies in the world. The Wynca Group is mainly engaged in crop protection and organic silicone materials. We have set up 11 overseas subsidiaries in

countries including the US, UK, Argentina and many African countries.



q Could you comment on the general status of the Chinese pesticide industry and trends in pesticide production?

A China's pesticide production has been in a declining trend during recent years. According to statistics from the China Petroleum and Chemical Industry Federation, the country's total pesticide output in 2016 was 3.22 million tonnes, which fell by 8.7% in 2017 to 2.94 million tonnes. With increasingly stringent environmental protection pressure in China and the further implementation of zero-growth pesticide policies, China's pesticide production will continue to decline slowly. China has been accelerating the transformation and upgrade of the manufacturing industry in recent years, and accordingly, corresponding policies have been introduced. For the pesticide industry, the country's environmental protection inspections continue to heat up. From the national to the local levels, several rounds of environmental inspections were conducted. The entire pesticide industry has been dramatically affected, which in turn opens a door for developing a scientific, standardised and environmentally friendly production system in the future, and laying a solid foundation for the healthy and orderly development of the entire pesticide industry. During the last three years, Wynca undertook a relocation of its manufacturing facilities, which led to a decline in production in 2017. With the relocation having been completed, some 80,000 tonnes of glyphosate herbicide production capacity has been released.

q Has the environmental crackdown led to smaller manufacturers being driven out of the market? What has been the impact on big players? Is it a driver to move consolidation forward?

A With the continuous advancement of structural reform on the supply side, companies are faced with eliminating outdated production capacity and oversupplies. Bigger players equipped with advanced technologies, quality product portfolios and adequate environmental protection facilities will gain advantage in this process and enjoy the benefits brought by the withdrawal of outdated production systems and the

consequent increased product prices. From this perspective, environmental protection inspection is good for the big players. Every enterprise has its advantages and disadvantages. Industrial concentration is already an inevitable trend. Various enterprises can reach consensus and win-win co-operation. The most crucial factor in the reorganisation between enterprises relies on the complementarity of advantages, and the realisation of production concentration and large-scale operation in the short term. At the same time, it can reduce excessive competition within the glyphosate industry and improve the efficiency of industrial organisations.

q With rising labour and raw material costs, will overseas companies turn to India for sourcing products?

A With the steady increase in population comes for a higher demand for food and pesticides. The decline in pesticide production in China will inevitably cause foreign customers to turn to suppliers outside China, to India or other countries. China's pesticide industry is large in volume, rich in resources, and fully equipped with quality facilities. The attractiveness of China's pesticides is still superior to the Indian market in many ways, such as supply chain robustness, post-sales service, and registration dossier support. For the foreseeable future, China will still maintain its position as the world's leading pesticide producer and exporter. The Wynca Group has been exploring the establishment of manufacturing facilities abroad and exporting China's pesticide production technologies to foreign countries, thus serving external users better.

q How has the year 2017 been for pesticide exports from China? What has been the situation for glyphosate exports and the price of glyphosate?

A After the sharp rise in market prices during 2008-2009, the significant drop in glyphosate price made margins thin. Wynca began to optimise its factory production system, set up a formulation research centre in a chemical industrial park to enhance formulation sales, gradually shifting exports from technical to formulations. Wynca's overseas market development strategy also involved initiating penetration of the end-user market. We decided to establish our brand and broaden sales channels. Therefore, we started from the Ghanaian market in West Africa by acquiring local brands to expand sales channels, and then established a formulation plant. Currently, Wynca's own brand sales have radiated throughout West Africa. The "Wynca" trade mark has been successfully registered in 26 countries. We own more than 400 registrations covering 90 countries. In 2017, the export and foreign sales of our products reached \$419 million. In the next three years, we will make full use of the advantages of Wynca's brand and existing overseas resources, integrate domestic supply chains, and create a solid international platform that integrates production, trade and services together. We will put more effort on diversified product portfolios, precision agriculture and artificial intelligence technologies. In countries including the US, Argentina and Ghana, we will pay more attention to prioritising and focusing on capital operations (mergers and acquisitions) in Central and South America, Africa and South-East Asia with an objective to reach new sales terminal channels quickly.

q What were the developments in the Chinese domestic market in 2017?

A In 2017, the domestic agrochemical market was in a weak state and the demand for glyphosate declined. The main reasons were: (1) Changes in crop structure led to reduced pesticide use: lower commodity prices led to a decline in the planted area under maize; double cropping in rice in the south of China has changed to single crop rice; and the cotton planting area also reduced; (2) Lower grain prices resulted in farmers choosing to work in cities, resulting in a lot of abandoned farmland, which led to a reduction in glyphosate consumption; (3) Glyphosate was banned in tea gardens in Guizhou and Anhui, causing a decline in demand; (4) In some provinces, farmers were encouraged to use machinery for weed control to reduce herbicide consumption. Despite this, in 2017, some pesticides saw price rises in China. Prices of imidacloprid, acetamiprid and thiamethoxam insecticides more than doubled compared to 2016. The price of abamectin and emamectin increased significantly, and technical products were difficult to obtain. In 2017, the government's "Pesticide Zero Growth Policy" worked out, and the amount of pesticide used fell for the third year in a row. According to field trial results and scientific estimates, pesticide utilisation rates reached up to 38.8% in 2017, an increase of 2.2% in spraying efficiency from 2015, which was equivalent to reducing the use of pesticides by 30,000 tonnes.

q **How do mergers and consolidations affect the Chinese pesticide industry?**

A Mergers and consolidations will help to reduce excessive competition within the industry for the same product and increase the efficiency of industrial organisations. That will help adjust product portfolios, eliminate inferior products, create vertically integrated companies and optimise product structure. The consolidation of multinational companies has little effect on China's agrochemical industry. MNCs are still in tier 1 in terms of product R&D and market channels. China's domestic pesticide companies are in tier 3, mainly producing off-patent products, primarily selling technical and toll manufacturing. Chinese glyphosate companies are currently undergoing restructuring. In the future, the consolidation of glyphosate companies will still be possible, depending on whether the companies can complement each other. The restructuring will help improve pricing adjustments, and the price war can be reduced to a certain extent. Glyphosate will return to its due value, and production enterprises can obtain reasonable profits.

q **When do you expect genetically modified crops to be grown in China? How would GM crops affect the Chinese pesticide industry if central government gives it a green light in the future?**

A Regarding major crops, GM insect-resistant rice and phytase maize have been offered safety certificates from the Ministry of Agriculture and Rural Affairs. In particular, insect-resistant rice has obtained a biosafety certificate in the US. Considering domestic public opinion on GM crops, it is difficult for the government to turn on the green light on adopting insect-resistant rice in China. Due to technological advancement, the industrialisation value of phytase maize is not as pronounced as before. The only hope for GM crops is to adopt insect-resistant maize. China's self-developed insect-resistant and herbicide-tolerant maize and soybean lines have reached the stage of obtaining biosafety certificates. In fact, China has already approved the commercial cultivation of insect-resistant cotton and virus-resistant papayas, and the planted area is

extensive. The question now is when to grow GM staple crops such as maize and rice. We believe that the Chinese government will gradually release maize, soybeans and rice. An optimistic estimate of the release of GM maize will be during the "Thirteenth Five-Year Plan" period (2014-2019). [Monsanto's] Roundup Ready/Bt corn is likely the first GM crop being adopted in China. This will disrupt the herbicide use pattern in China since selective herbicides somehow are being replaced by glyphosate. The amount of insecticide use will also be significantly reduced. There is little effect on seed treatments and fungicides. We can foretell that there is an enormous opportunity for glyphosate mixtures.

q How vital are product registrations in the high-end markets? Can you talk about your market penetration plan in the Americas and the EU?

A Due to the nature of the herbicide industry, the Wynca Group has been committed to the development of the international market, especially the high-end pesticide market. Stringent registration procedures and market regulations are favourable conditions for us. Wynca's excellent product quality has won high praise from the market, and it has also cultivated many long-term stable customer groups. We have undergone a process of re-evaluation of glyphosate in North America as well as the EU. We are a member of the Glyphosate Task Force in the US and the EU. Wynca actively participated in the reassessment of glyphosate during this process. We will continue to maintain such investment in the future, strive to register pesticides in other primary target markets and promote branded sales in end-user sales channels.

q How do you foresee the next five years for Wynca?

A Wynca will continue to transform itself in the next five years by focusing research on formulations, enriching product portfolios, providing farmers with integrated crop protection solutions. At the same time, we will be developing drones, and entering the fields of agricultural services.

q What are the opportunities and challenges for Wynca in the next five years?

A Opportunities for us are as follows: (1) From the perspective of the external market, we must seize the opportunity for industry consolidation and quickly expand our business through M&A and restructuring; (2) From the standpoint of internal management, we should further improve production efficiency, reduce production costs, and enhance product market competitiveness through intelligent means. We also must consider the following challenges: (1) The pesticide industry is facing further consolidation. The combination of stronger and stronger alliances and complementarities between enterprises will be a significant trend; (2) Traditional pesticide companies have undergone transformation and upgrades, moving from traditionally selling products to enrich product portfolios, and thus providing end-users with a full range of crop protection solutions.