Russian market for raw materials

Igor N. Romanov, Julia E. Kislova.

This market research study is based on the views and opinions of experts - producers and consumers alike - within the Russian paints and surface coatings market, and draws on data from the Federal State Statistics Service and secondary sources of information.

Unlike markets in Western European countries and the USA, the Russian market for raw materials is characterized today by instability, a lack of organization, and the influence of non-market pricing mechanisms. This is the result of a flawed legal basis,

- Significant price fluctuations during the year;
- Inconsistent quality of the raw materials;
- Lack of facilities and insecurity of raw material supplies.

In Russia, there was virtually no change throughout 2005 in the pace at which the prices of basic raw materials used in paint production changed. Price fluctuations are often not linked to macroeconomic processes within the country, but stem from reasonable price increases imposed by the manufacturers. Russian producers of major paint raw materials are unable to meet market demand in full. Consequently, such materials are in short supply. Given this situation, manufacturers are raising their prices to virtually the same level as those of foreign analogues.

The following conclusions may be drawn from the experts' forecasts of the present volumes of paint raw materials being imported into the Russian market.

According to analysts at "Concept Centre", the Agency for Marketing Decisions (AMD), Russia imported 180,000-200,000 tonnes of foreign raw materials for paint production in 2004. This is largely corroborated by data supplied by the Federal Customs Service of the Russian Federation.

The experts from Concept Centre believe that imports break down as follows: binders for paint materials account for 32%, pigments and additives each account for 27%, while other kinds of raw materials make up 14%. (Figure 1). Some 40% of the experts believe that imports of paint raw materials into the Russian market will most likely grow at 10% per annum in the near term.

The experts believe that consumption of organic pigments will enjoy the greatest growth. That is the view of 58% of the respondents. The experts also expect an increase in consumption of titanium dioxide (55% of respondents), thixotropic additives (34%), inorganic pigments and dispersants (31% each), and effective pigments and fungicidal additives (29% each).

Binders are necessary ingredients of all paint materials. Production of different media in Europe had the following breakdown in 2005 (Figure 2).

Alkylds are the most popular paint binders in Europe. They account for 24% of total media production, with acrylates making up 15.5% and vinyl resins, 18.4%. For Russia, it is strategically important to provide paint producers with high-quality binders. According to experts, alkyd materials account for no less than 65% of total consumption of paint materials in Russia. The domestic market is limited by a rather small range of basic alkylds, yet Russian production of alkyd paint materials relies on domestic semi-finished alkyd materials. Tikkurila Paints (Finland), Akzo Nobel (Netherlands) and a number of other European companies with paints production on Russian territory are the exceptions.

The experts expect that raw materials suppliers already widely represented in the Russian market, such as Akzo Nobel (Netherlands), BASF (Germany) and Dow Chemical (Switzerland), will continue to beef up their activities in the market through to 2010. This is the view of 67%, 73% and 58 % of respondents.

It should be noted that domestically produced acrylic and polyester binders are inferior to foreign production as regards quality and product range. In addition, no new acrylic or polyester binders are being produced in Russia, and there are no prospects of this either. This puts Russian paint producers at a huge disadvantage to foreign competitors, in both internal and external markets.

According to estimates by foreign experts, titanium dioxide now accounts for 65-70% of the total consumption of inorganic pigments, and more than 90% of white-pigment consumption. Global demand for titanium dioxide in the paint industry is forecast to fall in the long term, perhaps by around 2%.

Experts predict that the use of titanium dioxide in Russian paint production may reach 63,000 tonnes by 2010. The Russian market for titanium dioxide pigment is forecast to grow at 10-12% per year in the next five years.

It should be noted that Chinese producers appeared on the Russian market for titanium dioxide in 2004-2005 in addition to the well-known Ukrainian manufacturers. Many Russian consumers of Chinese titanium dioxide have noted its poor quality. Scepticism on the part of Russian paint manufacturers about Chinese titanium dioxide should not be applied to all Chinese producers of the pigment. Thus, "TEKS Paints Ltd" (St. Petersburg) has already signed up for annual delivery contracts for approx. 1000 tonnes of Chinese titanium dioxide sold under the "Lomon" and "InterChina" brands. Chinese pigment has begun to compete seriously on a quality/price basis with pigment produced in the Ukraine.

Within the last few years, global demand for TiO has grown substantially. The price increases that have been implemented are aimed at increasing production profitability and justifying future investments in this business. The toughening of environmental legislation and growing demand for ecologically sound and safe paint materials have intensified the trend towards using additives in modern paint production.

Western-European and, especially, American companies that consume paint materials prefer additives which are based on inexpensive and, as a rule, modified chemical compounds. Japanese businessmen are actively developing expensive reagents to serve as paint additives.
The reason for this is a lack of indigenous petrochemical raw materials and a tradition of locating harmful production outside that country.

Many small Russian manufacturers who produce inexpensive goods do not use additives for compounding their paint materials. In Russia, there is virtually no functional additives production.

As it is well known, raw material imports constitute a large share of Russian paints. This not only makes paint production extremely sensitive to market and currency fluctuations on the foreign markets, but, given modern customs duties, frequently also ensures that finished paint materials are imported more readily than raw materials.

With regard to foreign raw materials, most experts expect that those companies which have their own industrial divisions in Asian countries and, in particular, China will strengthen their positions in the Russian market. Thus, BASF, a German company, will have the greatest presence on the Russian market by 2010. More than 65% of respondents are of this opinion. There is a high probability that the Russian market will be penetrated by chemical raw materials made in China under the Bayer brand name. This is the view of about 60% of the experts. Slightly more than one half of the respondents believe that affiliated companies of DuPont and Akzo Nobel, located in China, have bright prospects in the Russian market.

Many experts also believe that the Russian paints sector will not be competitive either abroad or at home until it creates its own raw-material base.

At the same time, Russia is capable of having modern facilities for producing raw materials for paints. The difficulty lies in how to extract the most effective use from the country's resources, namely, minerals, scientific and technical potential, and stable demand dynamics, with a view to developing the sector.

The experts are already predicting an increase in the volumes of Russian-produced waterborne emulsions and an expansion of their product range. Capacity is available for their manufacture. In particular, Tambov OAO Pigment can produce about 5000 tonnes of emulsions a year, yet in 2004 output came to just 500 tonnes. Once domestic companies can produce binders which rival those of western companies and once consistency of quality is attained, paint companies will be able to reject imported raw materials, to improve their compounding and to expand their range of paint products. All this will lead to a reduction in imports of paints.

Domestic companies have begun developing expertise in modified alkyd paints. Thus, production of alkyd-siloxane paints has already started at Raduga Sinthez Ltd. and Lakokraska PF, although one of the producers of the large-volume paints "PF-060" and "PF-053", is planning in the near future to start manufacturing new alkyd media modified by vinyl and acrylic monomers. Such binders will make it possible to greatly expand the product range of alkyd paint materials that form coatings offering advanced atmospheric resistance, anticorrosive properties and durability.

Thus, the situation of binders in the Russian market would suggest that, in the near future, paint producers will have an opportunity to obtain domestic raw materials which will enable them to develop and manufacture paints that meet the modern requirements of consumers.

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Agency for Marketing Decisions:
For more information about the Russian Paint Market:
Julia Kislova
Deputy Director, Concept Centre
Tel/Fax: +7 4852320483
Kislova@concept-centre.ru
www.concept-centre.ru