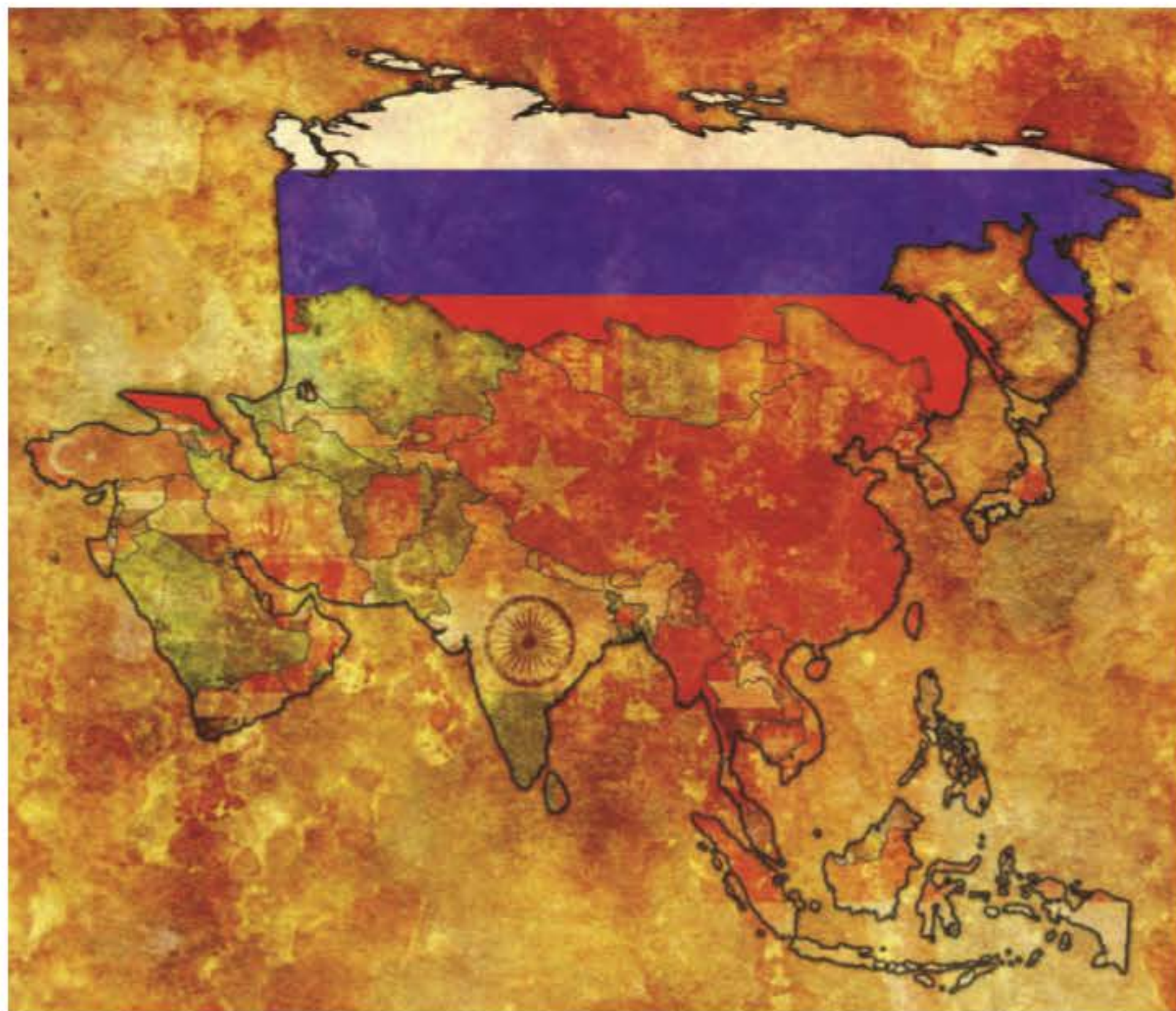


# Russia's Industry for Water-Dispersible Paints is on the Recovery Track

The volume of production of water-dispersible paints in Russia will steadily grow in the coming years – reaching 604,500 metric tons by 2020.



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**T**he volume of production of water-dispersible paints in Russia will steadily grow in the coming years adding nearly 1.5 percent per year or 9.4 percent in total in the period from 2016 till 2020, reaching the figure of 604,500 metric tons by that time, the basic industry forecast from Julia Kislova, the senior expert of Russia's Coatings Producers Association CentrLak has showed.

She indicated that the industry was under heavy pressure due to the country's economic crisis and the fall in the volume of building works over the past few years, so sales went down from the peak of 555,200 metric tons in 2013 to 525,100 metric tons in 2015.

Although, the country's Economy Ministry promises the revival of the Russian economy

starting from this year with the growth in the building, woodworking and metal industries. CentrLak believes that this optimism could not be fully justified, so in the pessimistic scenario of the forecast with the negative factors still in place, the domestic market will reach the volume of 554,700 metric tons only by 2020.

Still, there is a possibility of faster recovery of the country's economy, Kislova suggested, adding that this will encourage domestic and international companies to expand and modernize production capacities. In this case, the industry's output has the real chance to grow to a record-breaking height of 652,500 metric tons by 2020 and this is the optimistic version of the forecast.

## The common industry challenges

In 2016 CentrLak reported that the coating industry was in heavy depression as the domestic



plants were loaded on average by only 40 percent. The commissioning of several huge plants by international companies last year promised to bring this figure even lower in 2017, also taking down the average profitability of the business. On water-dispersible paints side the picture also was not quite bright, as several large manufacturers reported financial difficulties last year.

In particular in 2016 Rostov Coatings Plant, which was one of the largest manufacturers on the Russian South, went bankrupt. The facility had declared production capacity of 30,000 metric tons of water-dispersible paints, but it seems that plant never actually reached this figure due to the low demand. In August 2016 Russia's state-owned bank Sberbank, who was the main lender of the plant, put its property for sale and the future of the facility now remains unclear.

Vladimir Fatuvaev, the chief technology expert of coating manufacturer Industry LKM, suggested that over the past year the main challenge of the domestic plants was the high dependence on imported acrylic and acrylic styrene latex for production of water-dispersible paints, but in past years the domestic demand on these products has been almost fully met with the new chemical facilities commissioned in St. Petersburg, Vladimir and Moscow Oblasts.

It is believed that domestic plants should now feel some relief from these import-replacement initiatives. The strong devaluation of the Russian Ruble in 2014 provoked the hike in prices for imported components, while the potential for the increase of wholesale prices for water-dispersible paints at the domestic market was and in fact still is rather limited. Fatuvaev pointed out that the Russian coating industry in general managed to replace import of a significant number of functional additives, including antiseptics, defoamers and thickeners, as well as  $\text{TiO}_2$ .

## The potential of export growth

Centrlak Association doesn't disclose any forecast on possible export growth. According to the data of the Russian



The demand for paint should be driven by the revival of the building industry in Russia.



LKM Group cited high dependence on imported acrylic and acrylic styrene latex for the production of water-dispersible paints as a challenge for domestic plants.

Federal Customs Service the country's plants were not exported large quantities of water-dispersible paints in past years, as in 2013-2016 the average volume was amounted to nearly 25,000-30,000 metric tons per year. Roughly 80 percent of foreign sales still accounts for the countries of the post Soviet Union space and in 2014 export supplies of Russian plants were negatively affected by the trade conflict with Ukraine.

Still, several manufacturers have recently revealed some export plans. In particular, Bitex-Siberia, one of the largest producers of coatings in this part of the country established some export supplies of water-dispersible paints to Kazakhstan and Mongolia and eyes further development of export. Andrey Slisarenko, the

plant's owner, explained that at the moment the competition at the domestic market is growing, making export supplies more attractive.

Slisarenko also suggested that at the foreign market there is a steadily growing demand for water-dispersible paints, because this type of coating is environmentally-friendly and economical. In Russia there is no such trend observed yet, but Bitex-Siberia in general is ready to develop in this direction, he said, not revealing any certain targets on the increase of export supplies in coming years.

According to Sergey Petrov, the spokesperson of Russia distributor Chemical Goods, export of water-dispersible paints from the most part of the country is not actually feasible, because of the harsh



climate. He explains that these products could not be transported in the common trucks at low temperatures for obvious reasons. In general, logistics spends hamper the possible development of export suppliers and the attempts of domestic plants to enter some foreign markets as the result so far failed.

Petrov explained that in his opinion there are very few companies in Russia now that actually can compete at the foreign markets with international companies in terms of price/quality ratio. He noted that the large markets of Europe or China already have quite strong producers of water-dispersible paints, so there is no room left here for Russian manufacturers. At the same time, some potential could be observed in Central Asia, but the local market is small and can not provide high demand for Russian products.

### Industry reorganization is required

At the same time Kislova indicated that the strong growth in demand for water-dispersible paints in fact is not possible without re-organization of production facilities. In particular, she said, to protect equipment against corrosion the plant must replace details that come into contact with water to the elements made of stainless steel or plastic. This certainly will require additional investments and not every entity is ready to bring it in amid harsh market conjuncture.

Kislova also pointed out the considerable prejudice against the use

water-dispersible paints among Russian industrial consumers. She explained that these customers are accustomed to the use of organodiluted coatings, have strong ties with suppliers of these products and well-established technological process of painting. They also have the urgent need to minimize the cost of the used raw materials. All in all, due to the presence of these factors experts do not forecast the real strong rise in demand for water-dispersible paints in Russia in coming years.

In addition, there are some natural factors hampering the growth for water-dispersible paints, Kislova said. She specified that the cold season occupied most times of the year in Russia and this is the reason why most industrial customers are using organodiluted coatings. This concerns not only the use, but also the transportation of paints. Spends on logistics of water-dispersible paints in winter time become much higher, putting the additional financial burden on the customers.

Finally, Kislova admits that Russian water-dispersible paints basically still have poor quality and this is partly associated with the poor quality of the used materials. On the one hand, the low purchasing power of the population forces manufacturers to produce coatings in the first place in the economy segment and the quality of these products leaves a lot to be desired. On the other hand, the price of imported materials is high, while quality of Russian materials is low,

so there is not a lot of place for maneuver for the market participants.

### No real alternative for water-dispersible paints

The forecast of Centrlak in general has quite an optimistic nature, as Kislova pointed out that the stable growth in the industry was only delayed with the recent economy crisis. In the middle- and long-term prospects Russia's government eyes enhancing of the country's ecology legislation and the industrial producers are evolving the advantages of this type of coatings. All in all, this makes further growth of demand inevitable, so the situation at the Russian coating market in the future most likely will become in line with the global picture and the share of water-dispersible paints will significantly grow compared to the current rates.



According to Russia's Coatings Producers Association, the country's water-dispersible paint in general has poor quality.



Russia has a huge range of paint and coatings.

Already now Centrlak observes the growing interest in water-dispersible paints from the cannery industry, automotive and auto repair industry. This type of coatings already occupies huge share in the segment of industrial floor coatings, furniture industry and metal industry. In this areas the projected rise of the production performance should also spur the demand for water-dispersible paints within the coming few years. Obviously, the optimistic scenario has all chances to come true if there are no new shocks to the Russian economy, as the continuing geopolitical tensions now add some uncertainty to all forecasts. **CW**