

# At a crossroads – Pesticides value chain in Europe

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Following a slowdown during 2015-16, the global pesticides market has witnessed slow, but steady recovery. The European region is expected to reach USD 15-15.5 bn in realized sales by 2019, registering a CAGR of 3-3.5% over 2016-19. However, despite steady growth, rapidly changing global market dynamics, consolidation in the industry and a stricter regulatory stance have posed significant challenges, with far-reaching implications, for European players across the value chain.

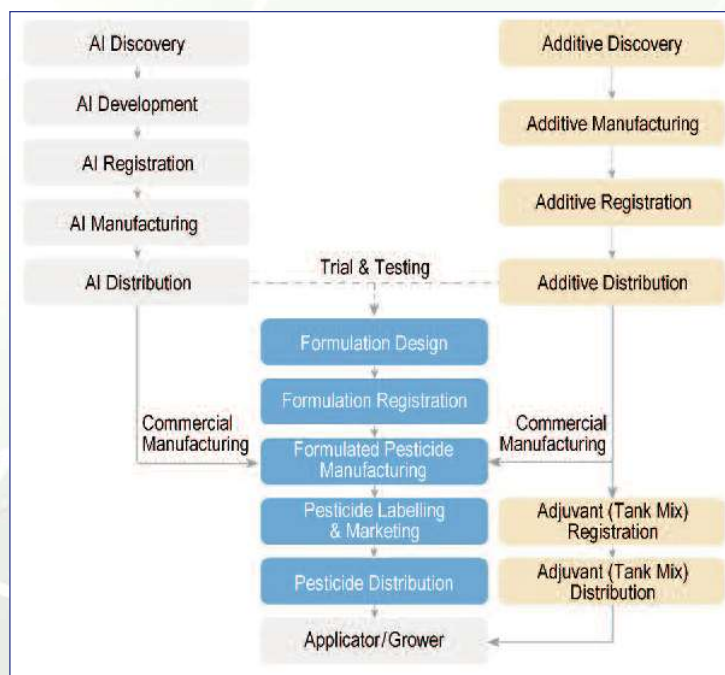
The European pesticides market has traditionally been intensively competitive, with large players accounting for 65-75% share across most segments in the value chain. Regulatory pressures, coupled with further consolidation, have resulted in margin pressures, thereby forcing companies to reinvent their business models and pursue newer opportunities to remain competitive.

Additive suppliers (manufacturers and distributors) and pesticide formulation companies represent two segments in the market that have been impacted the most. The following trends highlight the changing stance of these participants in light of emerging opportunities.

## SHIFT TOWARDS HIGH-VALUE, MULTI-FUNCTION PRODUCTS

Consolidation among integrated pesticide players, along with stringent local regulations, is resulting in several European additive players shifting their focus to related high-value markets, such as the adjuvants and surfactants. This is expected to further intensify competition in the adjuvant space. In anticipation of this imminent change, a growing number of players are beginning to offer low-toxicity, multi-function adjuvants through increased investments in safer adjuvant technology to ensure sustainability.

For example, through its BREAK-THRU product range, Evonik has made inroads into the biodegradable super spreaders and



sustainable biosurfactants segment. Similarly, Clariant has launched the Synergen ME family of products, optimized for particular

herbicides and their combinations. While similar larger players have been successful in repositioning themselves, small- and medium-sized enterprises are finding it difficult to do so, especially due to the scale of new investments required and the difficulty in forging closer ties with pesticide formulators.

### **EFFORTS TO ENSURE PROXIMITY WITH ADJUVANT APPLICATORS**

For an additive manufacturer, the ability to meet all of their customers' demands across cropping systems with as few products (additives) as possible is highly favoured as applicators want adjuvants that are simple to use and multi-functional in nature. Furthermore, pesticide applicators/farmers tend to often rely on additives recommended by the pesticide formulator for a tank mix application. Traditionally, this segment has been highly competitive, with numerous players offering quality products. Applicators and growers are spoiled for options and mostly rely on their retailers – whom they trust and have a relationship with – for purchasing additives.

The applicator's lack of training/knowledge represents a major challenge for additive manufacturers. This holds true especially with relation to the adoption of new herbicide trait technology (DICAMBA and 2,4D tolerance), which requires that advanced additives be added by the applicator. Subsequently, manufacturers are now investing in

mandatory application training for both applicators and growers to ensure a steady uptake for new cropping systems.

### **DIVERSIFICATION OF SERVICES PORTFOLIO**

The ability to support and scale up complex formulations – liquid and dry – as well as undertaking services such as filling/packaging, repackaging, and logistical support are some of the pre-requisites for a pesticide formulator. Market consolidation would result in prices being driven by a select few, thus making it unviable for new entrants, while smaller players would rely on toll manufacturers to reduce cost. Moreover, the increasing complexity of pesticide molecular structures, with multiple Active Ingredients (AIs), would require formulators to invest in the requisite technology – strong formulation research, technical preparation, processing equipment, technical specifications and formulation qualities, among others – as well as expertise in handling such formulations.

### **EMERGING OPPORTUNITIES IN TOLL MANUFACTURING**

Consolidation among the top players and the growing adoption of the asset-light model by pesticide formulators are expected to result in increased reliance on toll manufacturers to remain competitive.

Furthermore, as the share of post-patent products in the market increases and more active ingredients turn off-patent in the near future, European toll manufacturers are well-positioned to capitalise on the potential windfall. Additionally, in contrast to integrated pesticide manufacturers, toll manufacturers enjoy relatively low regulatory control, with manufacturing and safety standards representing the main benchmarks. These toll manufacturers also have the opportunity to expand into ancillary service offerings such as formulation design, logistics, packaging and warehousing to distinguish themselves from the competition. Once established, such a player would be well-positioned, in the long run, to launch their own line of pesticide products.

In addition to these emerging trends across the value chain, the market is also witnessing a steady shift from the traditional demand centres. Since uncertainty on the Brexit front is expected to keep demand recovery subdued, market players are working towards reworking their supply chains to get better access to non-EU markets. The market is closely eyeing these developments, and a tougher political environment would continue to pose newer challenges. However, as far as market participants remain agile and continue to transform in line with market demand, the European pesticides ecosystem would only emerge stronger in times to come.

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