

# Russia paint sector disrupted by invasion of Ukraine, whose coatings industry faces devastation

By David Karapetyan and Dylan Leslie Carter

The Russian paint industry is being disrupted by its government's invasion of Ukraine, with foreign coatings majors quitting the country, hit hard by resulting financial and trade sanctions. Ukraine's smaller paint and coatings sector has been devastated by the military action, with factories and offices destroyed and supply chains wrecked.

## SHUTDOWNS AND SUSPENSIONS

With Russian military action continuing a war that the UN said on April 17 had killed 2072 civilians, the Netherlands' AkzoNobel, Norway's Jotun, Denmark's Hempel and Finland's Teknos have all announced the suspension of operations in Russia.

Announcing the closure of its plant near St Petersburg, Jotun's CEO Morten Fon said: "We have a good team and a modern production site there. However, based on an overall assessment, we now find it both right and necessary to shut down." Jotun has 300 employees in Russia and the country accounts for between 2-3% operating revenues.

Hempel has permanently closed its plant in Ulyanovsk, east of Moscow, with 124 employees in Russia. It has also stopped all deliveries into and from Russia and ceased taking Russian orders. Lars Petersson, Group President and CEO in Russia said: "Based on the increasingly difficult trading environment.... while we regret this outcome, we feel we do not have any other option."

Teknos has announced it too is pulling out of Russia and shuttering its St Petersburg plant, although it hopes to find a buyer for its Russian business. "We condemn the Russian war and stand fully behind all the sanctions imposed. As part of our actions of solidarity with Ukraine, we suspend our operations in Russia," said a Teknos statement.

AkzoNobel said that because of European Union sanctions, "the majority of our coatings business in Russia is being suspended and the residual Russian business will be locally operated", and its "remaining business in Russia could come



*“ Heavy shelling has damaged factories and infrastructure, supply chains have been disrupted, and chemicals are in short supply. ”*

to a halt in the next months especially due to the practical difficulties around the supply of raw materials in Russia". It has four plants in the country.

Centrlak, the Russian association of coating producers, issued a statement regretting the decisions, with its Director Gennady Averyanov saying: "The industry community regrets this decision of our colleagues. We understand that under the onslaught of sanctions pressure and the current situation, it is difficult for leaders in European headquarters to make a different decision."

He claimed that Russian manufacturers could step in and replace the Russian sales of foreign producers: "Basically, these enterprises operate in... niches," such as

shipbuilding, he claimed. "The total share in the total output of paint and varnish materials is about two percent. Russian manufacturers have enough capacities and competencies to fill these volumes in the market."

Where the Russian paint and coating sector was facing a "difficult situation", he said, was "with the provision of raw materials for production", given trade and financial restrictions impeding the ability of Russian businesses to purchase inputs. "We hope that the joint efforts of the government and the industry will stabilise the situation," he said.

Centrlak refused to speak directly to PPCJ, an official saying the organisation's officials "don't care what foreign readers want to know", noting: "In today's situation, this is not necessary. Why give any information to foreigners? To make them laugh [mock] and rejoice?"

However, Averyanov spoke at the *Interlakokraska International Exhibition*, a trade fair dedicated to the Russian painting and coating industry staged from March 1-4 in Moscow, just one week after Russia invaded Ukraine on February 24.

There he noted Russian paint and coatings manufacturers import between 40% and 90% of their raw materials, which amount to 70% of the product costs.

That was initially looking likely to be a problem in the immediate aftermath of the invasion, when the Russian ruble plunged against the US\$ and €, but with Russia's central bank, the Bank of Russia, raising interest to 20% and imposing capital controls, the exchange rate has returned to pre-invasion levels. Whether that rate can be retained amidst a steep recession projected by the World Bank of 11.5% this year (2022) remains to be seen. Ukraine's economy will contract by 45% because of the invasion.

If the ruble falls again, that could be a problem. Valeriy Abramov, CEO Russian Coatings LLC, said at the trade fair that the share of imported raw materials in that company's production is 40%. But if imported paints become too expensive, there may be an opening for Russian manufacturers, if they can secure the right materials. In Russia's automotive industry, the market share of imports has been 70%, and a significant share of powder paints are imported, (only 10-15% liquid decorative paints are imported), said Mr Abramov.

Last year (2021), the Research Institute of Technical and Economic Research in the Chemical Complex said 70% of imports of paint were from European Union (EU) countries, especially Germany, Spain, Poland, Italy and Finland. While these products have not been sanctioned, it is too early to guess whether these imports will hold. With western paint companies pulling out of Russia, its own paint and coatings exports may decline, even though 65% of these were to Eurasian Economic Union (EAEU) countries, such as Kazakhstan, Belarus, Armenia and Kyrgyzstan.

The Russian industry was already facing some significant challenges, said a CentrLak note released last year, notably price increases for and shortages of chemical raw materials, (imported and domestic), and metals; a shortage of containers and ships because of COVID-19-linked disruption; plus an unwillingness of Russian consumers to pay more for paint.

#### TIKKURILA PLANS TO PROVIDE HUMANITARIAN SUPPORT

Finland-based Tikkurila (owned by the USA's PPG) is still hanging on. It has released a comment saying: "We intend to continue to sell a minimum amount of essential products in Russia because it is necessary to generate local currency in order to maintain employment and meet payroll." The company plans to donate net profits generated by its Russian operations to NPOs (non-profit organisations) providing humanitarian support. Mikhail Tikhomirov, CEO of Tikkurila in Russia, said: "Like many



other businesses we are experiencing a number of challenges especially in supply chain and logistics. Some of these pre-date recent events and we are working hard to find solutions in this fast-moving environment. We continue to monitor the situation closely."

Of course, the invasion has had a devastating impact on Ukraine's paint and coatings sector, which before the war, together with the varnishes market comprised 300,000-400,000t/yr, according to the Association of Ukrainian Manufacturers of Paints and Varnishes (UVLP), which said Ukraine-based producers met 80% of this demand<sup>1</sup>. The market is worth roughly US\$1bn annually (for a population of 44.1M, including Russian occupied Donbas and the Crimea, which was annexed by Russia in 2014). Per capita consumption is 6-7kg/head, compared with western European consumption of 14-17kg/head, said the association.

More than 70 companies, most in the Lviv, Sumy and Kyiv regions account for domestic production, exporting around 10% of their output, said a research paper from Ukraine's Luhansk Taras Shevchenko National University, in Starobilsk, eastern Ukraine, which has been occupied by Russian troops since February<sup>2</sup>.

Russia's invasion of Ukraine has seriously disrupted Ukraine's paint and coatings industry. Heavy shelling has damaged factories and infrastructure, supply chains have been disrupted, and chemicals are in short supply.

In Sumy, one of Ukraine's largest paint factories, Polysan Paint Plant, suffered greatly at the hands of Russian forces. The company is taking stock after Russian military forces withdrew from northern Ukraine and ceased attacking the city. Russian shelling destroyed the company's warehouse in Sumy, with 3500 tonnes of finished products<sup>3</sup> and equipment destroyed.

In Chernihiv, north of Kyiv, the company's office was destroyed by Russian shelling before its forces ceased attacking the city.

Polysan has suffered at least US\$9.85M in damage, according to owner Vitaliy Dedyushev, with the final tally likely to be higher as goods had been shipped on credit to companies in eastern and southern Ukraine areas where active hostilities continue.

This is an example of the huge material and human impact on Ukraine, which has suffered at least US\$60bn in physical damage so far, according to World Bank estimates<sup>4</sup>.

With Russia withdrawing from northern Ukraine, however, the UVLP says that its members are now starting to restart production.

#### LACK OF CHEMICALS AND SUPPLIES

"We, like all other producers, are in a very difficult position due to the destroyed infrastructure of enterprises, destruction of warehouses and finished products, and the need to relocate industries under threat of occupation," said an association spokesperson.

The most urgent problem facing the industry is a lack of chemicals and supplies. The industry has drafted a list of key chemical imports which it has submitted to the government, to help facilitate imports from abroad.

"The production of some types of raw materials is practically impossible due to the scarcity of natural resources or production facilities in Ukraine. Therefore, we have to look for such raw materials abroad and establish safe supply routes," said the spokesperson.

Despite the damage inflicted on the industry, the association says that its number one priority is restoring national production of paints and coatings. It describes this task as "one of the most important tasks for association, for the country's economy, and the preservation of jobs, both in the war and in the post-war periods."

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For more information, contact: Keith Nuthall, International News Services  
[www.internationalnewsservices.com](http://www.internationalnewsservices.com)  
 Tel: +44 (0)207 193 4888