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Dow Chemical Company's $38M Bet Yields $200M Payout

By Howard Amos

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VLADIMIR — In a drab industrial suburb of the ancient Slavic capital Vladimir sits Dow Chemical Company's biggest single local investment, which provides almost a third of its annual $700 million Russian sales.

The U.S. multinational created a joint venture with Russian chemical firm Izolan five years ago to make polyurethane systems that produce flexible, highly resilient foam materials used in car steering wheels, shoe soles, refrigerators and oil pipeline insulation.

The turquoise- and gray-striped Dow-Izolan plant has the capacity to manufacture 100,000 tons of Component B — half of the chemical input needed for polyurethane systems. Shipped out in blue barrels that retail for 15,000 rubles ($491) each, the plant has more than 1,000 buyers all over Russia and the former Soviet Union.

Dow does not alter its global business practices to be successful in Russia, Jon Penrice, Dow general manager in Europe, Middle East and Africa, said in an interview with The Moscow Times, but the company does adapt to the market conditions.

Penrice identified the key Russian growth markets as infrastructure, the oil and gas sector and residential and industrial construction.

"That is very different to a developed market in the West, where many of those [areas were] done 25 years ago," he said.

"Most industrial markets in Russia are growing at 5 or 10 percent — more than GDP — so we see the outlook on Russia as very positive."

The Dow-Izolan Vladimir plant arose out of the joint venture agreement signed by the two companies in 2006, after a long period of commercial cooperation. In a ceremony in December 2009 attended by Andrew Somers, president of the American Chamber of Commerce, the factory, which is situated on four hectares, was opened. About 1.2 billion rubles was invested in construction.

At least $2.8 million is earmarked to invest in ongoing expansion at the plant each year, said Mikhail Tsarfin, general manager of Dow-Izolan. Capacity has been expanded from 63,000 tons in 2009 to 100,000 today.

Component B is shipped out from the plant by truck and train. One example of expansion, deputy director of production Igor Safin told reporters, was increasing storage at the railway loading terminal. Now more is shipped from the factory by truck than by train.

George Hamilton, vice president of Dow, told the Moscow Times in March that the company was looking to double its sales in Russia from $700 million this year to $1.5 billion in 2012. Dow has operated in Russia since 1974.

In addition to the Vladimir project, Dow has concluded a partnership with state high-technology company Rusnano and is in discussions over a role in the construction of President Dmitry Medvedev's brainchild, innovation hub Skolkovo.

Penrice refused to comment on whether Dow was in talks to form any more joint ventures.

The collaboration with Izolan, the result of two years of negotiations, is the company's only joint venture in Russia. "We're [in] a completely open marriage, and trust levels are extremely high," Penrice said.

At least four Dow specialists are seconded to Vladimir at any one time, where Dow-Izolan has a total of 135 staff. Worldwide, Dow has 50,000 people on its payroll.

Technology transfer is not just a one-way street. Penrice said Dow has used oil pipeline technologies pioneered by Izolan to enhance its other hydrocarbon projects in the Middle East.

However, Penrice added that Izolan was not essential to Dow's expansion. Dow could have set up and run the factory alone, he said. "But it would have taken us longer."

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