The chemistry between Europe and Russia
Maintaining business ties is essential amid political tensions

Dmitry Konov, board member of the Russian Chemists Union

Cooperation between Russia and Europe in the petrochemical business has been mutually beneficial, helping both to reduce costs and advance ESG efforts. Now, restrictions imposed by the EU on trading chemical products with Russia are hurting producers and consumers on both sides for no visible gain.

In 2021, Russia exported $28.7 billion and imported $49.4 billion worth of chemical products, according to the Federal Customs Service. Russia has mostly been selling commoditized products such as fertilizers, rubbers, and plastics, in turn buying specialty and fine chemicals such as compounds for petrochemicals.

Cooperation with the European Union, Russia’s largest trade partner, has been especially important in this regard. In addition to shipping specialty chemicals to Russia, the EU supplied the country’s chemical companies with modern equipment and technologies to build new production facilities. This contributed to reducing the carbon footprint of Russian factories, helping them supply greener chemical products to European customers.

The economic sanctions against Russia put an end to this cooperation. The EU banned its companies from purchasing fertilizers and most chemical products from Russia. European firms including BASF, Henkel, Clariant and Kemira suspended operations in the country, incurring financial losses. Providing Russian chemical companies with European technological equipment and associated funding has also been restricted.

As someone who completed an MBA in Europe and has many personal and professional ties in the region, I am deeply saddened by what has happened to our business partnership. Cooperation in the chemical industry between Russia and the EU has been natural and mutually beneficial due to our geographical proximity and complementary strengths. Rich in resources, such as natural gas, oil, potash and phosphates, Russia has a competitive advantage in producing commodity chemicals and fertilizers. In turn, Europe has a competitive advantage in technologies for chemical production and making value-added products.

Today, both sides have been forced into a no-win situation. It’s frustrating for Russian and European chemical companies to leave each other’s markets and face higher costs because of changing supply and sales chains. Instead of buying from each other, both the EU and Russia must purchase products from markets located further away, inflating costs. For example, Russia has been the main supplier of synthetic rubbers – the main feedstock for tire manufacturing – to Europe, with a market share of more than 40%. Restricting this kind of cooperation creates losses for producers and consumers and has no clear benefit to anyone.

Companies belonging to the Russian Chemists Union have been planning a number of expansion projects aimed at increasing the country’s share in the global petrochemical market from about 2% currently to 7-8% by 2030, increasing export revenue by as much as $18 billion per year. Many of these projects depended on supplies of European equipment that have halted due to sanctions, and are now being delayed amid the search for new suppliers.

The fact that our chemical producers have been cut off from supplies of European equipment has a negative impact not only on Russia, but also on EU companies. It threatens long-term cooperation and devalues investments made by European manufacturers into R&D and marketing. Our forced breakup may also hurt the ESG agenda, as Russian companies have been relying on the most environmentally friendly equipment from European producers to reduce their carbon footprint.

Russia's largest petrochemical producer, Sibur, where I served as CEO for more than 15 years, has been a reliable supplier for European companies such as Michelin, Pirelli and Nokian and had annual sales in the EU of more than €2 billion. Sibur has also been a sustainability leader in the industry, launching an international net-zero collaboration platform with companies including Air Liquide, BASF and Solvay in partnership with the World Economic Forum to coordinate solutions to climate change. Under the current restrictions, Sibur has been cut off from its international initiatives and can no longer supply most of its chemical products to Europe. Its European partners, in turn, must source products elsewhere and at a potentially higher price, as Russia is geographically the closest supplier.

The recent restrictions have also hurt the development of modern business in Russia. Sibur, like many other Russian companies, has relied on European partners, licensors, and technical specialists to launch new products and upgrade its production facilities across the country. For example, Sibur cooperated with Germany's Linde, the Netherlands' LyondellBasell, the U.K.'s Ineos and Switzerland's Consers to build its flagship $8.8 billion ZapSibNeftekhim facility in Siberia to produce the most popular types of plastics – polyethylene and polypropylene – for export to Europe and other markets. Sibur has worked with a variety of other European companies, including Italy's Technimont, the U.K.'s Technip and Germany's ThyssenKrupp, to upgrade and build new facilities.

I would highlight two other important things. Firstly, cooperation between the EU and Russia was in no way related to military production. It was a civil cooperation, serving the interests of consumers on both sides and, as an important element of supply chains in many other industries, from medicine to agriculture, supporting their lifestyles. Secondly, Russia was a net importer – not exporter – of chemical products. "Punishing" the country by banning the trade of chemicals with the EU, therefore, hasn't been particularly well-thought through.

During these difficult times, it is essential for European and Russian companies to maintain a dialogue and continue cooperation in the areas where it's still possible. I believe that political tensions will eventually be overcome, and that it will become possible to restore cooperation and trade in the future. In the short term, we may be able to replace each other's goods, but this replacement will likely incur losses for both sides. Moreover, it's hard to replace relationships that have developed over a number of years and which many people depend on.

Dmitry Konov holds an MBA from the IMD Business School in Switzerland. He has significant experience in the financial sector, where he held positions at MFK Bank, Renaissance Capital, Bank Trust and the treasury department of Yukos oil company. From 2006, Mr. Konov served as CEO of Russia's largest petrochemical company, Sibur, where he oversaw major projects including the launch of Sibur's ZapSib facility for polymer production and the construction of the Amur Gas Chemical Complex in Russia's Far East. In 2021, he was named among the leaders in the Top-40 Power Players ranking of the most influential people in the chemicals industry by market intelligence firm ICIS. Mr. Konov stepped down from his position at Sibur

in March 2022 following the adoption of EU personal sanctions against him, which his lawyers are currently appealing. He remains a board member of the Russian Chemists Unions, a non-commercial association of the country's chemical companies.