

Good morning or as they say in Arabic...Sabaah al-khair ... and thank you, Peter, for that kind introduction.

Picture, for just a moment, the United States 200 years ago at the start of the industrial revolution. To achieve economic independence, this nation started to invest in all of the elements critical to economic growth ... transportation, manufacturing, communications and technology. This infrastructure allowed the United States to diversify, attract foreign investment, and eventually become the world leader it is today.

The Middle East is experiencing a similar kind of industrial revolution – only on a much more accelerated scale. Unlike previous oil booms, it too is investing its money at home to diversify and grow its economy. And it, too, is attracting significant investment, as companies around the world seek to participate in that growth, and gain access to competitively priced feedstocks.

But given the dynamics of the Middle East, I get asked frequently, “is it too risky for investment?” While I can’t answer that question for you, I can say that everything worth doing involves risk. Some people even say the U.S. is too risky! The trick, to quote the late General Patton, is “to listen to every fear you can imagine. When you have collected all the facts and fears and made your decision, turn off your fears and go ahead.”

This is what we do at Dow every time we invest in a new country, although I admit, we don’t totally turn off the fears.

We call it managing success. To help you manage success in the Middle East, I’d like to share a few insights about the economic landscape and petrochemical trends.

Then I’ll share, at a very high level, a few drivers for success, using our strategy as a template.

First, let’s begin by looking at the economic landscape, starting with “what IS the Middle East?”

For Dow, the Middle East includes those countries west of India, south of Turkey, and bordering the southern coast of the Mediterranean.

For the purpose of this talk, I’ll be referring to the oil-producing countries of the Gulf Cooperation Council – or G-C-C – which include Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Oman and Qatar.

I think everyone can agree on the strategic importance of this region.

- It takes center stage globally as THE holder of the world’s largest known oil reserves.

- It is the only place where all three continents – Europe, Asia and Africa – join together, connecting the East and the West. As such, it provides excellent proximity to the high-growth economies of China, India and Eastern Europe, in addition to Africa.
- Furthermore, with more than 320 million people – most of them young and under 20 – it offers a huge workforce to support future growth.

All of those strengths are good reasons to invest. More importantly, though, the Middle East is committed to a future of sustainable economic growth ... one that provides jobs to its youth and stability to the region, while also providing the world with oil.

To achieve that goal, oil-producing countries are focusing on diversifying their economies beyond oil, building a strong private sector, and developing strategic business relationships worldwide.

So what are the results?

- The region is investing billions of dollars in critical infrastructures to fuel growth.
- It is introducing institutional and social reforms that lower investment barriers, and make it easier to do business in the region. Saudi Arabia's acceptance into the WTO is a good marker of progress being made on those reforms.
- Liquidity for project finance is high, and foreign direct investment has multiplied by a factor of five since 2001.
- New industries are emerging, from petrochemicals and finance to insurance and information technology.
- Billions of dollars are being poured into education to develop a more competitive workforce for the future ... one that meets the needs of international companies.
- And, Middle East investors are diversifying outside the region as well, with most investments now occurring in the East, not the West – demonstrating how they, too, are actively participating in the high-growth economies of China and India.

Simply put, we are starting to see the rise of a “new” Middle East with a promising future ... it's a transformation I see every time I visit the region.

What has become clear to me – and to Dow – is that the Middle East is on a strong course to become an economic powerhouse on several fronts – including petrochemicals.

As you know, the Middle East has some of the lowest natural gas prices in the world ... and low volatility in pricing as well. Using this to its advantage, the region is developing a strong petrochemicals industry, wasting no time in building new crackers and capacity.

This, combined with the economic reforms, is steadily shifting the center of gravity for the global petrochemical industry to the Middle East. Ambitious new players are emerging, too, as Middle East companies seek to diversify downstream and gain access to global markets and technologies.

A prime example, of course, is Sabic, which bought DSM in Europe in 2002...and GE Plastics last May for around \$12 billion dollars. GE Plastics, in fact, is the largest acquisition that any Arab country has made of any foreign competitor ... Sabic not only walked away with products and technology, but also acquired a strong market position in the U.S.

Given such trends, we can expect the Middle East to become a dominant player in the industry...and a producer of most major plastics and chemicals.

By 2015, for example, it should more than double capacity for ethylene, accounting for at least 40% of total new capacity worldwide. It could also triple capacity for propylene during the same time period.

As the Middle East continues to increase capacity and go downstream, trade flows – as we know them today – will change. Historically, for example, North America has been a key exporter of polyethylene regionally and globally, while the Middle East and Europe have seldom exported to our region.

But that is changing, with many industry analysts forecasting an export scenario in which the Middle East is the major supplier to the Americas and Europe.

North America, for example, will become more of a regional player and could – for the first time in history – become a net importer of many hydrocarbons-based products from the Middle East.

These dynamics will have a significant impact on Corporate strategies. Companies will face tougher, lower cost competition ... they'll need to fight harder for domestic market share ... and they'll need to adapt to changing trade-flow patterns. We can all expect to see more consolidation, mergers and acquisitions as companies try to sustain and increase their competitive advantage

On the positive side, many companies will have the opportunity to form strong partnerships for success in the Middle East ... and around 100 petrochemical companies are already there – including Dow.

I'd like to talk for a few minutes about Dow's strategy for success in the region—starting with a business model that is literally transforming our company.

This model is global, integrated and sharply focused on earnings growth across the cycle. It is also designed to maximize the competitive advantage of our Basics and Performance businesses.

On the Performance side, for example, we are investing in higher margin products and Market Facing Businesses. This enables us to bring the full power of Dow's capabilities to the marketplace, driving up margins, even in the trough.

In Basics, we are actively pursuing joint ventures, or JVs, to drive costs down and enable growth, and are especially interested in JVs that give us access to more advantaged feedstocks. These range from our sugar cane “ethanol” venture in Brazil ... to our coal-to-chemicals venture in China ... to our Equate venture in Kuwait.

We call this JV strategy “asset light” because it lightens up our equity contribution and decreases our risk. It also enables us to fund new growth in Performance.

Let me talk about three factors for JV success.

First, the JV must deliver mutual value. Our partners, for example, often bring affordable feedstocks, a regional perspective, and proximity to high-growth markets to the table.

Dow brings capabilities like global reach, technology, products and market channels that enable our partners to diversify, expand their portfolios, and grow globally.

Together, we get the best of both worlds: leadership, profitability and growth to the joint venture, and jobs to the community.

Another key factor for JV success is strong financial performance.

Today, Dow has more than 80 joint ventures worldwide that are making significant contributions to earnings growth. This proves to us at least, that you don't need to own and operate 100% to be 100% successful.

In the Middle East, where we have three decades of success, our JVs take center stage. They include Equate in Kuwait ... MEGlobal in Dubai ... and Arabian Chemical Company in Saudi Arabia.

All deliver excellent value ... and we expect the same performance from our announced JVs in Libya with National Oil Company ... in Saudi Arabia with Saudi Aramco ... and in Oman with the Oman Oil Company.

It's important to recognize, however, that each JV – in any region – will have its own element of socio/political risk.

A third key factor for JV success is risk assessment.

Dow has long participated in regions viewed as risky ... even – believe it or not – Texas. Back in the 1930s, many of our leaders truly viewed Texas as a foreign country! Large, empty expanses of land ... a foreign language where people who managed to make two syllables out of a one-syllable word ... and what back then was a distant place, being all of 1,500 miles away.

But, they had the foresight to take the leap and turn Freeport into what is now our largest integrated site in the world, with 75 plants sprawled over 5,000 acres.

Today, Dow is a global company that participates in every region of the world ... and in every quartile of risk, as measured by the World Bank's "ease of doing business" index. The higher the difficulty of doing business on this index, the higher the overall risk.

Ultimately, though, risk is relative. According to the index, for example, Saudi Arabia has the same level of business risk as the United States. Oman and Kuwait are equal to Mexico ... and Libya is on par with India and Brazil. Some people may disagree with this index, but this is an independent assessment that is well worth considering.

Regardless, you can't cookie-cut how you assess risk or how you form the JV. Your decision will depend on many factors—such as the country itself, your partner, mutual goals, specific needs, and capabilities.

These differences, in turn, will drive different decisions about such things as tax structures ... laws of governance ... percent ownership ... call options ... insurance ... management controls ... security ... financing ... availability of local talent, and even Visas.

In the end, though, success in the Middle East hinges on one key driver – creating long-term relationships, and in that respect, it is very similar to Asia. And here, I'd like to share five key tips that continue to work well for Dow.

First, I often advise our young leaders to develop business relationships early, and foster them frequently. Waiting to do so when you have an issue is too late. But cultivating them early will likely earn you respect and opportunity.

Second, it is critical to treat every country in the Middle East differently. Each is unique, with its own culture and way of doing business.

Third, remember that the local government's first priority is to its people. So try to align your investments and activities with the country's strategic priorities – such as economic development, job creation, education, and quality of life.

In other words, remember that your relationship is a partnership, in every sense of the word. So be visible, get involved, and make a positive difference. At Dow, for example, we are sponsoring many programs aimed at community success—from environmental education to training opportunities. And, we are partnering with local leaders to drive results.

We also get engaged in activities that improve the business environment as well. For example, because GCC countries are looking to the East for their trade ties, we actively participate in the U.S.-India, U.S.-Arab, and U.S.-China business councils... and I encourage any investor to do likewise. As players in the region, we need to be more concerned about JV exports out of the Middle East if we want the region to succeed.

My fourth tip is this ... remember to be "patient." Relationships take time, and so do reforms. While the Middle East is making progress, it is not without its challenges. Unemployment is high, talented labor pools are tight, and unfortunately, the threat of terrorism is always just below the surface.

But, the region is extremely committed to sustainable development and to the triple bottom line of economic prosperity, environmental progress, and corporate citizenship.

This leads to my final tip for success, which is show and share your leadership in sustainable development. Emerging economies, like the Middle East, often look to mature companies – like yours and mine – for our experience. And, it is our responsibility to give it back ... not only to ensure safety and quality of life, but to promote Responsible Care® and best practices worldwide. In the end, society won't judge us for our financial results, but rather for our ability to deliver sustainable solutions to society around the world.

In summary, let me repeat what I said in the beginning ... that the Middle East is in the throes of a modern-day industrial revolution, and is, for the first time, investing most of its money at home to diversify its economy and bring jobs to its youth.

Progress is clearly being made, and is driving the growth of many industries, including the chemical industry. For us, the center of gravity is shifting to the Middle East and consequently, so is much of the investment.

While this will create paradigm shifts across our industry, it also presents opportunities for companies like yours and mine to forge relationships in the Middle East that deliver value to our companies and society alike.

Should you invest or shouldn't you? While that decision is yours alone, we at Dow are committed to investment in the Middle East, primarily through joint ventures that support our asset light strategy. And, we look forward to continued success.

I wish I had a crystal ball to answer the questions around risk ... but as with any economy, there are no certainties beyond, perhaps this one: I am confident that at least for the next decade, the Middle East WILL have the advantage of affordable feedstocks, and it WILL be competitive in virtually every environment and market in which it competes.

With that, I'd like to say, Shukran ... thank you for your time and attention.

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