

Sector Case Study: Russian pulp and paper industry

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Russian pulp and paper industry

The Russian pulp and paper industry is experiencing a period of strong growth. The pulp output increased by 26.9% in 1999, the paper output by 20.2%, and the board production by 35.7%. At the moment, there are about 160 pulp and paper mills in Russia. Ten major pulp and paper mills (PPM) including Kotlas PPM, Svetogorsk PPM, the Syktyvkar Forest Enterprise and Arkhangelsk PPM (Arkhbum) cover more than two-thirds of the total output, and all are increasing production. This output growth is focussed on foreign markets, already more than half of the production is exported.<1>

Much of this expansion is financed by foreign investments. Some examples of foreign investments in Russia's pulp and paper mills:

The Svetogorsk pulp and paper mill was acquired in late 1998 by the largest pulp and paper company in the world, International Paper Company from the United States. International Paper at present is implementing a major investment programme at the mill, with a total investment of more than US\$ 120 million.<2>

The Austrian Frantschach Company owns about one-third of the shares of the Syktyvkar Forest Enterprise, and the other two-thirds are shared between several European financial institutions and the mill's management. The investment programme of Syktyvkar, which aims at a considerable growth in volume together with product upgrading, is partly financed by the ExIm Bank of the United States.<3>

Arkhangelsk Pulp and Paper Mill (Arkhbum) is one of the largest pulp and paper mills in Russia. It employs over 7,500 people, and its annual sales exceed US\$ 300 million. It accounts for 12% of the Russian pulp production, and its share in the Russian production of container board amounts to over 36%. Arkhbum also produces wood fibre boards, paper and fair-paper products. A large part of production is exported. Important markets are Germany, the United Kingdom, France, The Netherlands, Spain, Italy, Poland, and South Korea.

In 1996 the company was at the verge of bankruptcy. It was taken over by the Titan Group from Russia, Wilfred Henzel from Austria, and two other foreign investors. The management was replaced, and large investments were made in modernisation of production. In 1999, Arkhbum realised a profit of US\$ 40 million, and it is planning to increase output of all its products.<4>

In July 2000, Arkhbum obtained a US\$ 9 million one-year loan from Bank Austria Creditanstalt (Austria) and International Moscow Bank (Russia). The proceeds of the loan were used to finance the import of corrugated cardboard packaging equipment.<5>

In August 2000, Arkhbum obtained a further US\$ 4 million loan from Erste Bank (Austria). The loan is used to reconstruct an unbleached pulp fiber line. The machinery is supplied by the Austrian company Lenzing Technik.<6>

As Russia's forestry, pulp and paper industry is undergoing a privatisation process and since the country is reluctantly recovering from its 1998 bank crisis, it is to be expected that foreign investors will play an increasingly important role in the renovation and expansion of the industry.

Financial incentives

Russian NGOs such as the Socio Ecological Union, Biodiversity Conservation Centre, Greenpeace and their partners in European and North American forest product and capital markets are increasingly

concerned about the rapid expansion of pulp and paper mills in European Russia. Investors could be better off if they considered what these groups have to tell them.

For example, FAO's Advisory Committee on Paper and Wood Products published a paper in 2000 by the All-Russian Research Institute of Pulp and Paper Industry which could present a misleading picture to potential investors when it states that only 15% of Russia's official Annual Allowable Cut (AAC) of 540 million m³ is presently utilised.<7>

Although the author quickly adds that this does not preclude the necessity to consider the entire complex of problems related to sustainable forest management, NGO representatives point out that Russia's ecologically sustainable AAC is closer to around 200-300 million m³. On top of this, regional allowable cuts are easily exceeded when industrial development concentrates in a limited area, such as in Arkhangelsk and Murmansk.<8>

United in the Taiga Rescue Network, NGOs strive to protect Russia's old growth forests from indiscriminate clearcutting and illegal logging. Since financial institutions always tie conditions to their contracts with clients, they could also specify that investment provided should not contribute to the destruction of old growth forests. They could underscore their commitment to responsible forestry by providing financial incentives to their clients to develop for waterproof timber tracker systems combined with FSC-based forest certification.

Notes

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Loanware, Capital Data, London, May 2001.

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