

## RENE NYBERG: RUSSIAN DEVELOPMENT NEEDS CAPITAL AND SKILLS OF INTERNATIONAL PLAYERS

Over 600 Finnish companies operate in Russia and provide nearly 50 thousand jobs and aggregate investments at the level of 8 billion euro. Over 80 percent of Finnish investments into the Russian economy come from two dozen major companies which since 2008 have been united by the East Office of Finnish Industries. Rene Nyberg, CEO and Ambassador at the East Office, told Amber Bridge about ups and downs in Russian-Finnish economic cooperation, the challenges and opportunities offered by Russian modernization.

*Mr. Nyberg, what is the East Office today, what are its aims and activities?*

East Office of Finnish Industries was founded by leading Finnish industrial corporations to promote favorable commercial conditions in Russia for the founding corporations. East Office collects and analyzes information about Russia and specifics of its economic and political development. East Office actively develops and maintains contacts with leading representatives of Russian business and political circles and helps the founding corporations to detect changing trends on the Russian economic market and in commercial opportunities. A major part of East Office operations includes personal networking with key figures in Russia. We have no public domain and we do not

operate publicly, we are a non-profit organization operating to support the activities of the founding corporations on the Russian market and promote partnership relations between Finnish industrial companies and Russian enterprises. East Office has been operating since the spring of 2008 when it was set up upon the initiative of 19 leading corporations of Finland. Its members currently comprise such distinguished companies, as Atria, Cargotec, Fazer, Fortum, Itella, Kemira, Kesko, KONE, Konecranes, Metso, Neste Oil, Nokian Tyres, Oriola-KD, Outokumpu, Rautaruukki, Sanoma, Stockmann, Tikkurila, UPM-Kymmene, VR-Group – Finnish Railways, Wärtsilä, YIT. The Board of Directors of East Office includes an expert representing the foreign ministry of Finland.

Our tasks include the collection and assessment of information related to the economic and political development of Russia and maintaining a broad network of relations with leading Russian business and political circles at the federal and regional levels, promotion of relations with state agencies, politicians, mass media in Russia, Finland and Europe, holding of seminars, meetings and other events that open interaction opportunities, as well as detailed consultations for our founders. We work for them by analyzing, consulting and helping to find partners. The Finnish business has long expanded beyond the geography of the Russian northwest which has been considered the main foothold for Russian-Finnish cooperation.



Finnish companies are currently operating in the whole of Russia.

*One of the tasks of the East Office which you head is to collect and assess information about Russia. The Venäjä-osaaminen notion which can be translated as "knowledge about Russia" is a specific characteristic of the Finnish policy. Do the Finns succeed to really know Russia?*

We feel Russia at the membrane-cell level which can be compared to a chemical process, to osmosis. The Finnish business is interested in Russia and the Finnish press attentively follows the developments in Russia.

*The results of the latest parliamentary election in Finland triggered concern of some foreign observers also in Russia. At the same time economists say cooperation with the eastern neighbor directly gives Finland close to 70 thousand jobs. Russia is a major trade partner of Suomi and traditional Finnish pragmatism will not allow to ignore cooperation with Russia under any government, will it?*

I believe you are correct. Nobody can ignore major partners.

*Russian economists believe 2010 was the most successful year in the past two decades for the Russian-Finnish cooperation. Do you agree?*

Maybe. Recovery is underway after the decline of 2008-2009. A sharp growth in Finnish-Russian trade has been reported in the past six months. The launch of a high-speed railway train Allegro between St. Petersburg and Helsinki in December 2010 gave a dynamic impulse to the development of bilateral relations. The train promotes tourism development and provides new possibilities for the Finns to visit Russia. I have many acquaintances who got interested in visiting Russia after the train was launched. It is the first international project of a new type that crosses the Russian border. Passport and customs formalities are completed directly in the running train. It is both a test and the first robin and a kind of modernization as the project made Russian bureaucrats change their opinion.

I believe the extremely liberal interpretation by Finnish authorities of the Schengen rules also promotes growing ties between the Finns and the eastern neighbors. Less than one percent



of Russian applications for Finnish visas are rejected. There is a growing dynamic and the Finnish-Russian border is the most developed today also technically.

If we speak about the latest changes, I can say there is more trust and predictability for Finnish investments into the Russian economy. Investments demand trust not only to federal authorities, but also to regional and local ones. The situation became more stable as Russia realized and acknowledged after the crisis that it needs investments. It is a major signal. Before the crisis the situation was different.

Russian development needs capital and skills of international players. Russia needs diversification and cannot accomplish it on its own. The market is immense and foreign goods are necessary to promote high living standards of the population. On the other hand, Russia offers a very dynamic market which is important for Finland and the whole of Europe.

*In March 2011 Russian Deputy Prime Minister Sergei Ivanov and Finnish Foreign Trade and Development Minister Paavo Vayrynen signed a declaration on modernization partnership at a meeting of the intergovernmental commission for trade and economic cooperation in St. Petersburg. The issue of Russian modernization has been recently discussed at the Russia Forum chaired by Prime Minister Mari Kiviniemi. Which challenges and opportunities do you believe the Russian modernization opens for the Finns?*

The Finnish business welcomes Russian government efforts to modernize the country. They offer opportunities for the Finns, mostly a possibility to participate in Russian market development. Definitely, there are core problems, such as education, in which the Finnish party can participate only partially. However even partial involvement opens the wide Russian market for us.

Russian modernization is a complicated issue. The national mentality is partially still in the Soviet period, however new processes inspire, e.g. mobile communications in Moscow are better developed than in London. Such proper development may be explained by the absence of Soviet past in the industry.

Investments and technologies are the two things which the Finns can contribute to modernization. There are numerous positive examples of

changing life in Russia due to Finnish investments and the presence of Finnish business. For example, when the Finnish post company Itella appeared on the Russian market and became a major investor into A-class warehouses in the country, it promoted modernization of the whole trade system as storage of products demanded a completely new level of warehouse operations. Finnish company Oriola-KD, a leader in the distribution of pharmaceuticals, came to the segment of the Russian market which was completely open and unconsolidated. The challenge is the fight against fakes, for the quality of medicines and it is necessary to build up a whole chain from producer to consumer to achieve it. Well-known confectionery Fazer accomplished a genuine revolution by offering to the Russian consumer a completely new assortment of products. The examples demonstrate how foreign investments change the level of products and the life of Russians in the final end.

*Does the Russian-Finnish economic cooperation boil down to Russian borrowing of Finnish technologies or is it a reciprocal process?*

The process can be reciprocal specifically in the sphere of nanotechnologies. The Rosnano Corporation has interesting pilot projects although their number is not big so far. Another example is programming and outsourcing. We can say that Finnish enterprises are willingly consuming the brains of Russian software programmers. It mostly concerns experts from St. Petersburg, however Finnish companies also frequently find valuable employees in other parts of Russia, e.g. in Krasnodar.

The Skolkovo innovation hub in which Finnish Nokia telecom giant has already decided to participate is another important market for the Finns. Besides increasing sales, it is also important for Nokia to win a proper place in the Russian-language Internet space which currently unites over 300 million users. To maintain competitiveness it is necessary to have Russian-speaking experts, first and foremost, software engineers.

*Which sphere would you name as the most successful in Russian-Finnish cooperation?*

Energy. I chair the board of the Russian-Finnish Energy Club where our partner is the Russian Energy Agency (Rosenergo) headed by Timur Ivanov. Since August 2010 the Club has existed as a public association to provide assistance to



Russian-Finnish cooperation aimed at developing energy efficiency and renewable energy sources in Russia. The Energy Club proceeds from the intention of the Russian government to radically improve energy efficiency in Russian industries. Last year during a visit to Finland of Russian Energy Minister Sergei Shmatko and his talks with Finnish Economy Minister Mauri Pekkarinen a memorandum was signed on cooperation in energy efficiency. In December 2010 a memorandum of understanding on energy efficiency and renewable sources of energy was signed between the Russian-Finnish Energy Club and the Russian Energy Agency. It happened in the Constantine Palace in St. Petersburg in the presence of Russian and Finnish Prime Ministers, Vladimir Putin and Mari Kiviniemi.

I would specifically outline the aspect which the Russians believe is of interest for the Finns. It is bioenergy, the use of bio mass which allows to refrain from the use of coal and black oil in heating in the taiga. It is an issue of unilateral export of advanced Finnish technology to Russia. Russia has numerous heat and power plants where coal and black oil can be replaced by the bio mass however a full logistic chain is necessary. There are pilot projects in Sortavala, Tara (Tomsk region), but so

far we see no result as the project got stuck. Late in May we shall meet Timur Ivanov in Moscow to discuss the problem.

Another topic of our energy cooperation is communal heating systems. Finland is a world leader in the development of the technologies. In Russia the communal and housing complex is an issue of tariffs, etc., but it concerns every resident in the country. The Fortum energy company deals with the introduction of modern technologies and analyzes our possibilities for further work.

Not only imports of technologies matter. Their introduction in Russia demands to reform the communal and housing complex however the issue is not in Finnish hands. The communal and housing complex is a fundamental issue as nobody in Russia has succeeded to cope with it so far. The complex demands simultaneous power and heat generation, but the problem of tariffs has also to be settled.

The question is the price of gas and discipline of payers. The problem is not only in technologies. Soviet mentality has to be changed. Investments will not help directly, but they will help little by little. Russia is rich in energy resources but it has to save them and do not allow to squander them as it happened in Soviet times.



I believe the Russian reform of electricity production and distribution is the largest-scale reform of the Soviet industrial heritage. Russia is currently ahead of the European Union in many respects in deregulating and unbundling its power engineering. The reform of the industry aims at creating market conditions to attract the necessary investments.

Power engineering concentrates the biggest amount of Finnish investments. The Finnish Fortum Company operating on the market is the biggest investor with an estimated invested amount close to 4 billion euro. It is the biggest Finnish investment project in Russia in history. Together with Fortum major international investors on the Russian market are Italian Enel and German E.ON. As for today each of the companies invested up to 5 billion euro into Russian facilities.

Fortum's initial investment program planned to increase its stake of 25 percent plus one share in OAO TKG-1, which earlier belonged to Lenenergo Company of St. Petersburg. The deal failed however the Finnish Company was offered a possibility to invest into energy facilities in the Urals and West Siberia. Today Fortum controls former TKG-10, an energy company which was renamed into OAO Fortum.

*Finland has recently participated in the Forestry Forum and Minister Vayrynen said the Scandinavian timber complex could offer an example for Russian colleagues. Which prospects do you see for Russian-Finnish cooperation in the sphere?*

The timber business has to wait for Russia to join the WTO. We naturally welcome the process of Russian accession to the international organization as it is a step that has to be made long ago. For such country as Russia which is greatly dependent on international trade and which exports energy carriers and raw materials WTO

membership is important and I do not see dynamic development without it. After that new development will begin in Russian-Finnish timber cooperation. So far I can say with sadness that timber business has been lost and I do not see



major Finnish investments into the Russian timber industry as financial flows in the sphere mostly go to China and South America. Why did it happen? Errors were committed both by the Finnish and Russian sides.

Actually the dispute between Finland and Russia and to be more precise between the EU and Russia about export duties for raw timber emerged because of the intention to encourage investments into Russia. However the dispute exposed major drawbacks of some Finnish industries in strategic mentality.

Some time ago the Finnish pulp-and-paper industry took a staged approach to Russia. Initially the infrastructure for timber harvesting was created followed by timber sawing facilities and in the final run Finnish businessmen planned to create their own pulp-and-paper production in Russia

however the capital mostly remained on the Finnish side of the border.

Confusion emerged when major players of the Finnish timber industry began to export large volumes of raw timber, mostly birch, for their pulp-and-paper mills in Finland. Finnish plans to invest into Russia were always on the agenda, but the creation of a pulp-and-paper mill from scratch needs immense investments. They require close to one billion euro of initial funds and for the sake of synergy and enhanced efficiency shall be accompanied by a major integrated package of investments after which the construction of the mill will follow. Unfortunately, long-term Finnish

plans did not suit the Russian government completely. Instead the Russian side accused the Finnish industry of dragging the investment process and of exploiting Russian natural resources without any real intentions to invest into added value. The decision to impose high export duties on raw timber resulted in a collapse of the timber industry in the Russian northwest and had serious consequences for the whole region. Finnish timber giants returned home. They switched off the circuit breaker for timber harvesting operations, dismantled the infrastructure on the Russian side of the border, and postponed their long-term investment plans for Russia till better times. Without a permanent inflow of Russian timber some mills in Finland had to shut down and fire the workforce.

As a result, timber resources in Russia remain undeveloped without proper legislation and infra-

structure while the Russian taiga covers one tenth of land on our planet and offers the biggest resource in the world of primary long fibered wood.

The Finnish timber industry has turned towards South America and focused its cellulose supply strategy on eucalyptus. South America and Asia offer the best conditions for investments into timber industry. It is a pity for the Finns and Russians that eucalyptus replaced birch in modern timber industry. Who could imagine it 20 years ago? Today Finnish paper mills import eucalyptus cellulose supplied across the Atlantic Ocean by enterprises in Uruguay and Brazil and change their production standards respectively.

Could we avoid the quarrel? My answer is yes. Without ceding to blackmail and not through forced investments, but through investments into existing mills. Today it looks like Finnish timber giants expected "Scandinavian" conditions in economy before giving a green light to major investments in Russia. The Finnish side looked at dilapidating mills in Russian single-industry towns and saw thousands of workers who could potentially be reduced, as well as expectations of local authorities regarding the development of social infrastructure. They saw it all but neglected the fact that such investments would let them inside the reality from where they would enjoy stronger positions at talks with the Russian government.

I believe timber industry is the less developed part and the most sorrowful chapter of our economic relations.

*However bilateral trade dynamic (in 2010 Russia again became the biggest trade partner of Finland), as well as new large-scale projects show there are more positive pages in Russian-Finnish cooperation, aren't there?*

There are numerous positive chapters. It is important that political relations at the level of national leaders and relations between business representatives are very lively. It is important that we know each other well. Russian business captains know Finnish business captains and vice versa. That increases trust. This reciprocal knowledge can be considered the pillar of Russian-Finnish relations.

**Interviewed by Yulia Andreyeva,**  
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