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# THE EFFECTS OF FINLAND'S EU-MEMBERSHIP ON THE RAW WOOD IMPORT AND EXPORT BETWEEN FINLAND AND RUSSIA



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This paper's goal is to answer questions about the forestry industry and how Finland's membership in the European Union affected it during the first few years as well as to give some possible reasons for the results.

There has been much research into how the European Union has affected businesses but this particular area has seemingly gone without notice by the academic world, and thus the author has deemed it necessary to conduct a study about it.

Forestry industry is a cornerstone of Finland's economy, due to the large amount of forests in the country, and as such a very interesting topic. Thus it should be studied and researched carefully to help decision making bodies more able to make informed decisions. These decisions will affect, not only businesses, but the state policies as well.

The author will use his own knowledge of the forestry industry, gained with earlier working life within the field, and various sources to conduct the research. In the end the reasons for the results will be explored and recommendations for future research into the field proposed.

The results of this study show that after Finland's EU-membership, the rate of change in the growth of imports from Russia to Finland stabilized markedly, while there was no change in the export patterns.

## KEYWORDS:

EU, Finland, Forestry, Export, Import, Russia

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Tämän tutkimuksen tarkoitus on vastata kysymyksiin Suomen metsäteollisuudesta ja kuinka Suomen jäsenyys Euroopan Unionissa vaikutti siihen ensimmäisen parin vuoden aikana sekä antaa mahdollisia selityksiä tuloksille.

Euroopan Unionista ja sen vaikutuksista yrityksiin on tehty monia tutkimuksia, mutta kyseinen alue on nähtävästi jäänyt akateemisilta piireiltä huomiotta ja kirjoittaja kokee tarpeelliseksi tutkia asiaa.

Metsäteollisuus on Suomen talouden kulmakivi maassa olevan metsän määrän takia ja on täten hyvin kiinnostava aihe. Täten, sitä tulisi tutkia huolella päätöksentekoa harjoittavien tahojen työn helpottamiseksi, jotta valistuneet päätökset olisivat mahdollisia. Nämä päätökset eivät vaikuta vain yrityksiin, vaan myös valtion hallintoon.

Kirjoittaja käyttää aikaisemmasta alalla tekemästään työstä saamaansa tietoa ja erinäisiä lähteitä tutkimuksessaan. Tutkimuksen lopussa pohditaan tuloksia ja annetaan suosituksia jatkotutkimuksille.

Tutkimuksen tulokset osoittavat, että Suomen EU-jäsenyyden jälkeen Venäjältä tuonnin kasvun muutostahti vakautui merkittävästi, samalla kun vientikaavaan ei tullut muutoksia.

## ASIASANAT:

Euroopan Unioni, Metsäteollisuus, Suomi, Tuonti, Vienti, Venäjä

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## LIST OF ABBREVIATIONS (OR) SYMBOLS

EU	European Union
FIM	Finnish mark
RUB	Russian ruble
TUAS	Turku University of Applied Sciences
CS	Combined Nomenclature
HS	Harmonized System
BSE	Bovine spongiform encephalopathy
GATT	General Agreement on Tariffs and Trade
WTO	World Trade Organization
EEC	European Economic Community
EMU	European Monetary Union
ECB	European Central Bank
FDI	Foreign Direct Investment

# 1 INTRODUCTION

## 1.1 Background

Finland has always relied heavily on trade with Russia (or Soviet Union). When Finland became a part of the EU that relationship changed. It was obvious that both countries wished to continue this prosperous relationship, but were faced with the reality of having to state new terms for it.

This change was of fundamental nature with the collapse and splintering of Soviet Union on one side and the unifying Europe on the other. There has been research done of the subject of the economical changes brought on by this time period and Finland's EU membership, but there could not be found much on the subject of how the EU membership affected raw wood trade with such an important trade partner. Wood, as it is said, is "Finland's green gold", so this warrants research into the subject.

## 1.2 Structure and Objective of the thesis

The objective of this study is to find out how the raw wood import and export behaviour with Russia among the main wood types changed from 1992 to 1999 to gauge the immediate impact of Finland's EU membership and give some hypothesis on the reasons for this change or lack thereof. The questions the author tries to answer are:

- 1) Did the amounts of main imported and exported wood types between Finland and Russia change around the time of Finland's accession to the EU, more exactly in the years between and including 1992 and 1999?
- 2) If change occurred, did it increase or decrease and by how much during this time?
- 3) What might be possible reasons for the change or its lack?

I will attempt to answer these questions with a quantitative analysis of the statistical information from customs from that time period and by performing qualitative analysis with theories on analysing economical environment to the changes Finland's EU membership brought to the macro economical system.

The structure of the thesis will be thusly: First, I will tell about the theory of international trade. After that I will do an analysis of the time period from secondary sources. Then I will show the actual numbers and analyze them. After that there will be a discussion part and finally the conclusions from the material collected and analyzed.

### 1.3 A brief look into Finland's politico-economical situation in early 1990's

Finland has long been the country at the border of Europe, treading the tightrope between the western and eastern cultures: yearning for the west while striving to maintain a working relationship with its eastern neighbor. In 1993, Finland was starting to recover from the great depression it underwent in the beginning of the 1990's. The economy was weak, and unemployment was high. The leadership of the country did not yet know how Russia would ultimately turn out from its revolution.

When the opportunity to join EU rose, Finland seized it as a way to consolidate its position with the Western Europe, and to improve its foreign trade. By doing this Finland had to accept that the status in its old economical relationships had changed. Before, Finland had gained much with its raw wood trade with Russia by buying and selling raw wood between each other at terms that didn't have an outside force dictating them. After becoming a member of the EU Finland had to abide by new regulations and political climate. This was paired with the turmoil in the East as Russia tried to come to terms with the collapse of the Soviet Union and its new economical and political system. The air was filled with uncertainty, which must have been one of the reasons for Finland pushing for EU despite the opinions at home being heavily divided on the subject. Membership in the EU promised a degree of stability when the familiar structures were collapsing. Promises were high, but no one knew if they would deliver. A risk had to be taken.

Author's interest in the subject stems from having worked at the Kymenlaakso Polytechnic's forestry department and from his general fascination with primary raw material production and, having lived through the change as a teen, not quite old enough to understand the context of the event, an interest in what the economical situation was like at that time, and how EU managed in delivering its promises of better economical conditions since the issue was hotly debated.



## 2 METHODOLOGY

### 2.1 Research process

This research paper has been done in the following way:

- 1) Collection of the information from varying sources, mainly from books and databases concerning the time period. This information contains much about the political history of the time as well as about the economical conditions back then.
- 2) Analysis of the information collected with the knowledge gained during my studies in TUAS.
- 3) Applying the analysed results into macroeconomical context of the time period and drawing conclusions, again, with the knowledge learned during my studies in TUAS.

### 2.2 Selecting the items for the historical analysis

The selection of the material for the historical analysis presented in chapter 4 has been a process of firstly choosing potential items by using keywords with the search engines for the selections of different libraries and other sources that I could think of containing related information. After that, the material was gone through, and the information related to the subject of the research was added into the chapter concerning it. The sources I have used are mainly secondary sources of information, though some primary sources were used.

### 2.3 Selection of wood species for this research

For this study, I will limit the selection of raw wood species to what I was told were the main species of wood traded between Finland and Russia at the time I am focusing on.

These species of trees are:

- Spruce
- Pine
- Birch

These three species formed the main bulk of wood import and export between Finland and Russia during 1992-1999, with other species being a clear minority (phone conversation with Metsä-group 21.5.2014)

## 2.4 Qualitative and Quantitative methods

### 2.4.1 Qualitative method

Qualitative method of research means using information other than quantifiable information, such as words, as sources of data and analysis. These can be things like books, other research articles and news among other things.

### 2.4.2 Quantitative method

Quantitative method of research means using standardized information, such as numerical information or graphs as data sources.

### 2.4.3 The chosen method for this study

I have decided to use mainly qualitative method for this study with quantitative method used only with the numerical information about the exported and imported amounts of wood.

Qualitative method is the most suitable one for this study as the information is mainly historical reports and thus as words instead of data sources useable with quantitative method.

## 2.5 Data collection

I have collected the data for this study's historical segment from a selection of books about political- and economical history as well as a few phone conversations.

The numerical information in Tables 1 and 2 has been collected from the Finnish customs.

Information used in the discussion section is a collection of information from the earlier parts of the study as well as personal experience.

## 3 DEFINING RAW WOOD, IMPORT AND EXPORT

### 3.1 Raw wood

The types of wood that I have counted as "raw wood" are the ones which the CN- and HS-nomenclatures classify as raw wood, or specifically: "Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared" (Official Journal of the European Union L 290 31.10.2013, Section IX, Chapter 44)

### 3.2 Import

Importing something is the act of bringing that something into the country from abroad for sale, use or re-export. This is commonly the case with foreign trade, though it can be done as a private person. An example of a company could be a paper mill importing wood as a raw material from a country where it is cheap. An example of a private person importing could be a case of beer brought from a trip abroad. (Dictionary.com Unabridged. Random House, Inc.<http://dictionary.reference.com/browse/import>.)

### 3.3 Export

Exporting is the act of moving something abroad from the country you are operating from for sale, use or re-export. This is also common with foreign trade companies, but less prominent with private persons. An example of a company could be a produce company sending grain, fruit etc. abroad for selling there. An example of a private person could be that person sending woolly socks abroad as a gift to relatives. (Dictionary.com Unabridged. Random House, Inc.<http://dictionary.reference.com/browse/export>.)

## 4 THEORIES ABOUT INTERNATIONAL TRADE

### 4.1 General theory about foreign trade

According to Janet Morrison, business is a "vast array of economical activity in which goods and services are supplied in exchange for some payment". (Morrison 2006, 5) Thus, international business is this exchange of goods for payment internationally. Businesses, or companies, operate in an environment outside of themselves, where there are other companies, governments and other parties. This is called a macroenvironment (Kotler, Armstrong 2005, 68).

In this macroenvironment, the company is acted upon by six forces: Demographic, economical, natural, technological, political, and cultural forces.

- The Demographic forces refer to the demographics of the population in the areas the company operates. This means things like the age distribution, gender distribution, amount of people, family structures and so on
- The economical forces are the factors that affect the buying power of the customers, including things like income levels and distribution, spending patterns and the likes
- The Natural forces means the amounts and distribution of natural resources
- Technological forces are the forces that create new technology for use within the economy
- Political forces are the laws, government agencies and lobby groups that affect the society
- Cultural forces are the institutions and other forces that determine basic values mores perceptions and behavior of a society.

These forces together form the environment in which companies operate (Kotler, Armstrong 2005, 69-92).

In the international business environment, the businesses will run into things like tariffs and quotas that force them to pay a tax for bringing their products into the country (tariff) or limit the amount of goods the country accepts within a time period (quota) (Kotler, Armstrong, 2005, 590).

Over the years, as more and more businesses have entered international trade, the legalities of such operations have become increasingly important (Morrison 2006, 276). The transport of goods from one country to another is all done within the legal structures of both countries.

In the 1800's, David Ricardo theorized about a concept of "Comparative advantage" This theory states that every country will benefit from specializing in what it is best at. Its comparative advantage (Morrison, 2006, 316). This led him to conclude that trade is not a zero-sum-game where one side's benefit is the other's loss, but a positive-sum-game where everyone benefits. This was in turn preceded by Adam Smith's "Absolute advantage" from the late 1700's, which was a simpler version.

The theory Ricardo created still doesn't take into account the changes that trade itself will bring forth in the countries participating in it, so called "dynamic gains". This states that free trade tends to give a country more resources, workforce and efficiency, which in turn possibly change what the country is efficient at and at the least increase productivity in the country overall. (Morrison, 2006, 316.)

Further along in time, Michael Porter came along with the "Competitive advantage"-concept in the 1990's. He claims that a nation has four attributes shaping its competitive environment:

- *Factor conditions* is how a nation positions itself towards factors of production, like labour, infrastructure and natural resources
- *Demand conditions* means the homeland demand of products
- *Related and supporting industries* means the supplying industries and other related industries in a country for a product
- *Firm strategy, structure and rivalry*, meaning how a country allows companies to exist within its borders

These factors form an interactive diamond-shape, where they affect each other and are in turn affected by each other and government policies. Porter (see figure 1) further adds that there are two more variables to this model: chance and government. Chance can be a new invention or a natural disaster, for example, whereas government includes laws and policies a government has in place or sets in force. (Morrison, 2006, 318-319.)

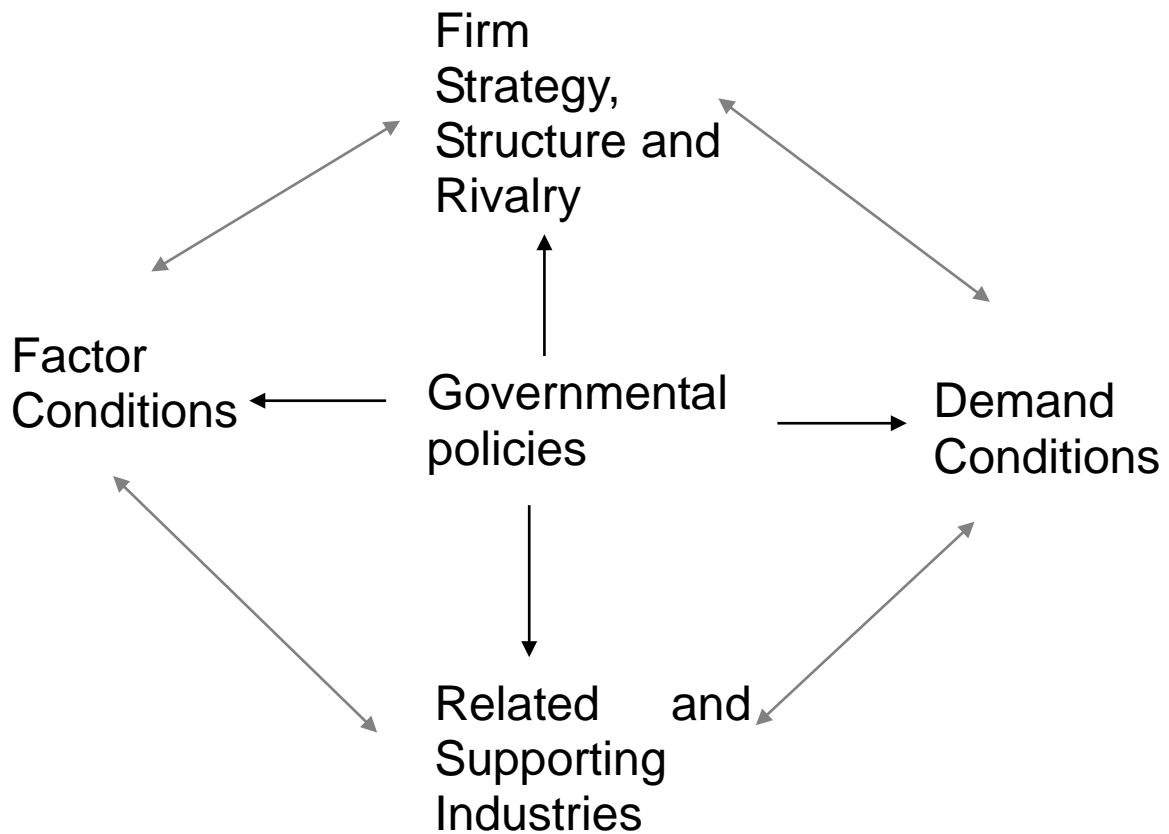


Figure 1. "Porter's Diamond" explaining his theory of "Competitive Advantage" relationships.

International trade allows companies to get these factors also from the country's trading partners to an extent. By 1990's approximately one third of all manufacturers trade for their parts and components. Also, Intra-firm trade (trade between a company's constituent parts) account for one third of world exports. (Morrison, 2006, 322.)

#### 4.2 Changes in the global business environment

Many factors are present in international trade and thus affect multinational corporations. According to Kamal Fatehi, there are 11 major factors to this change in the modern world:

- Decreasing barriers to trade
- The attitude of developing countries towards FDI
- Export oriented strategies exhibited by developing countries
- Spreading regional trade agreements
- Technological developments

- Increasing demand for capital
- Diminishing effects of national borders
- The requirements of R&D investments
- Increasing interdependency of nations
- Internet
- International terrorism

This has led to the focus shift in national rivalries into the economical battlefield instead of a physical one. (Fatehi, 2008, 7.)

#### 4.3 Reasons for trade barriers

There are many reasons for countries to set different barriers for trade, and it's normally not as black and white as the advocates for either side express. Those in favour of free trade (trade without government intervention on imports and exports) argue that free trade promotes competition between companies, which is one of the pillars for the capitalistic economical model. Their view also is, that all countries gain greater benefits if trade is allowed to flow freely, and that it can become costly for a nation to protect industries. Though it may be defensible in the case of protecting industry sectors that are in a development phase of their existence, it is often extended to industries that are either too set in their ways to develop further or too out dated to survive. According to free trade supporters, measures taken to regulate trade between countries can also lead to "trade wars" that are highly disruptive to economies and damaging to a country as a whole. (Morrison, 2006, 325.)

Opponents of free trade say that protection of a nation's own industries promotes independence and security for the nation, it protects the employment within the nation and also that industries that are supported by the state can bring more wealth to the country, because other countries certainly will protect and support their own industries. Also, they argue, regulation of trade can protect the consumers from things like BSE disease in beef, which without regulation would've flowed freely around the globe. (Morrison, 2006, 326.)

Some industries are considered too sensitive to be allowed to be freely traded in. These generally include the defense industry and food production. It is argued that national

security and survival is at stake in these fields and thus they should be regulated and protected so most of the things related to these fields can be done 'at home'.

Despite or because of the above reasons, there has been a reduction of international trade barriers. During the last 25 years, world trade has expanded to more than 19 times its previous amount. (Fatehi, 2008, 8.)

#### 4.4 GATT and some other treaties on international trade

GATT-negotiations begun in 1947, and refers to a series of multilateral agreements that were aimed at reducing trade barriers. It was used as a basic building block for developing a global trading system, carried into the WTO after it was formed. Morrison argues that the most important principle from GATT to be carried into WTO was the non-discrimination, or the "most-favoured-country"-principle. This principle means that a favourable tariff negotiated with one country can be extended to include all other countries on similar goods and that imported goods are treated the same as domestic goods. (Morrison, 2006, 331.)

WTO came in to being from the ideals of GATT in 1995 to help develop international trade among nations. From the start, it was designed to be a strong, rule-oriented community with strict organizational structure. It has for example a Ministerial conference as it's main policy making body, which meets bi-annually to make decisions. There is also a dispute settlement body to solve trade disputes between members. The dispute settlement body's aim is to solve trade disputes between countries before they escalate into full-blown trade wars. (Morrison, 2006, 332.)

#### 4.5 EU as an operator in international trade

Before the EU, there was the Treaty of Rome in 1957, that established the EEC with a vision of economical and political integration of Europe. Later on, the Single European Act in 1987 aimed to dismantle all trade barriers between member states and establish a single market by 1992. This would've meant that all the member countries would've been considered like a single country had been before the treaty, with harmonized legislation and other trade-related factors to help businesses move seamlessly between nations (Morrison, 2006, 340). This didn't succeed in the time frame visioned in 1987 and is still a work in progress at the time of writing this study (in 2014).



Proposals for one part of the integration, the EMU, were agreed in the Maastricht Treaty of 1992. ECB was established to have oversight the monetary policies and to control the common interest rates within the EMU. The EMU was planned to commence in 1999 as it did. A common currency, the Euro, was introduced on 1<sup>st</sup> January that year, and the physical coins and notes came to use in 2002 (Morrison, 2006, 86). To join the EMU, a candidate country must meet the requirements set forth in the Maastricht Treaty. Of the then 25 member states, 11 joined the so called eurozone from the beginning. Maastricht criteria for joining the eurozone are mainly to ensure the level of stability of a nation's economical situation and its economical health so to be compatible with the already member countries.

The Treaty of Rome has been expanded over the years and after the Treaty of Amsterdam, the articles were renumbered and formed into a law of the EU. Through this, EU has a growing amount of law which the member states entwine with their national legislations. (Morrison, 2006, 286.)

The EU's legal system focuses among other things on:

- Elimination of trade barriers between member states
- Common commercial policy
- Common transport policy
- Harmonization of competition law
- economical and monetary union

These are steps to help the ease of trade between member states (Morrison 2006, 287). A combined Europe could produce a market that would be larger than USA (Fatehi, 2008, 8).

#### 4.6 Why businesses go international

For one reason, if they have a good enough product, they'll want more and bigger markets for it. Once the home country's market is fully saturated, the next option is to go abroad. Currently, going international with a company is still normally an extension of domestic operations, or a requirement for competitiveness. (Fatehi, 2008, 18.)

International trade theorists maintain that nations gain from doing trade internationally, and that competitive advantage is gained by importing and exporting. Opportunity costs also play a part. Opportunity cost means that you could do something or another with your time

and resources, and what you decide to do, the cost is that you can't do the other. In this case, countries that specialize in doing something they do well, forego the production of other products that they then will import (Fatehi 2008, 18). Thus governments will encourage the companies to act in this manner to benefit the country as a whole.

FDI-theorists see the pressure to go international this way: When companies grow, they begin to see new opportunities that they couldn't previously see in their smaller state. This in the end reaches the level they see that international operations would benefit them and they go grab those benefits. These benefits include company's strategic advantage gained from internationalization, the rationalization of this advantage through company's internal markets (selling licenses to subsidiaries etc.) and the target country's locational advantage. (Fatehi, 2008, 20.)

Product life-cycle-theorists argue that at a certain point in the life cycle, there comes a point where the things like increasing R&D costs and heavy competition on the home market start pushing a company abroad to maintain its operations and cover the costs of future developments. (Fatehi, 2008, 21.)

## 5 FINLAND'S SITUATION IN THE 1990'S

There are several challenges when looking at the time period between 1992-1999 when Finland and Russia are involved. Soviet Union had collapsed in December 1991 and Russia was still coming to grips with it, and Finland also had to adjust for this as Soviet Union had been one of its main trading partners since before the beginning of its independence.

Finland's situation with the Soviet union had been hard to maintain at times as Finland had been advocating neutral policies between the west and the east, and both other sides has tried to pull Finland towards themselves. (Aunesluoma, 2011, 405.)

Due to Finland's economical difficulties, the Finnish mark had been set afloat in Autumn of 1992. This had been preceded by Finland's Central Bank's so called "Strong mark policy", which had collapsed in Autumn of 1991 and had forced the devaluation of the currency. The weakening of the mark's external value had eased the export industry, but increased the loan burden of domestic companies and households. (Aunesluoma, 2011, 460.)

In 1993, Finland's Central Bank took "inflation goaling" into use to fight the raging inflation of the mark. This was a sign that low inflation levels became the main goal of the fiscal policy in the country. The main goal of 2% annual inflation was reached in 1995. As Finland was preparing joining into European Monetary Union, the exchange rates finally stabilized. (Jalava et al 2007, 279.)

Finland's internal politics were a power struggle between the parties that opposed EU-membership and those who were for it. The same division was storngly present among the general populace as well. This tension exploded in April 1993 with the then foreign minister Paavo Väyrynen resigning and announcing that he was running for presidency. In response, primeminister Esko Aho nominated MTK's chairman, Heikki Haavisto as the new foreign minister, a man that was one of the most vocal opposers to EU. This was to bind him to the official government line that was pro-EU, even though Haavisto told Aho that he'll not be tied to be pro-EU, but that he will try to negotiate the best possible agreement for the Finnish agriculture. (Aunesluoma, 2011, 460.)

In February 1994, the final stretch of the negotiations about Finland's EU membership began. The negotiations were intense and the Finnish delegation was especially agitated by the comments of EU's then chairman country's, Greece's representative Theodore

Pangalos. At one point the Finnish delegation almost up and left the negotiating table after Pangalo's comment that the Finns are "negotiating like Russians". He had already earlier had several outbursts against the demands of the Finnish negotiators, and thus had risen a lot of bad blood between the negotiating parties, and the same behaviour continued all the way through to the end. (Aunesluoma, 2011, 460.)

Toward the end, the German foreign minister, Klaus Kinkel started giving support to the Finnish delegation, and shortly thereafter also the Belgian representative, Willy Claes started a more accommodating approach. Finally, 1<sup>st</sup> of March 1994, the paper was signed and Finland would be on its way to joining the EU. (Aunesluoma 2011, 479-483.)

In 1997, the Finnish Cabinet of Ministers said in its report, that the recession in the early 90's was a "shock to the base of the Finnish fiscal system", the stabilization of which was the primary goal of the adaptation of a heavy fiscal policy in the early 90's. (Valtioneuvosto 1997, 48.)

By 1997, it was seen that the Finnish economy is much more stronger and stable than back in the beginning of the decade, and the frailty of many sectors of industry and financial institutions has been repaired, as well as the financial situation of average households despite the unemployment figures. The ministers who wrote the report also stated that the strict adaptation period has "raised the productivity of businesses to a whole new level". Level-headed cost-developments were seen as the main reason of maintaining Finland's competitive ability. (Valtioneuvosto, 1997, 48.)

The same report further states that the national debt-ratio had started to level and slowly drop in 1997, and there was need to reduce the amount of interest paid on the national debt so that the state would have some maneuvering room in case there would be further disturbances. It was surmised that since the whole public finances as a whole, including municipal-, and social security funds were stronger sources of financing than the national economy, there would be challenges to these parties in the future. (Valtioneuvosto 1997, 48-49.)

In its report "Talous- ja Rahaliitto – Suomen Vaihtoehdot ja Kansallinen Päätöksenteko" to the parliament on 20<sup>th</sup> of May, 1997, the Finnish ministers deemed the forestry sector as central to export. According to the report, more than a quarter of Finnish exports come from products of the forestry industry. According to the ministers, the main markets are in the EU-region, which takes approximately 70% of all forestry exports. (Valtioneuvosto 1997, 28.)

Joining the monetary union was not seen as a threat to the forestry sector unless major export countries would be left outside of the union. It was further stated that the main growth regions for forestry exports were in the South America and Far East, and that the removal of the currency risk of the mark would make exporting easier for smaller companies.

There were some problems seen to the monetary union as well. Mainly, that with no control over the exchange rates, the rates could turn to be unfavourable to exports. The rates between EUR and USD were felt as particularly problematic.

As the forestry sector had been more reliant on domestic production, it had benefitted more from the earlier devaluation of the mark, which had been used to recover lost marketshares and competition capabilities. The devaluation had, in essence, moved operating risk and investment cost on the nation as a whole, instead of being beared by the companies alone. (Valtioneuvosto 1997, 28-29.)

The ministers further stated, that forestry sector was more sensitive than other industry, to demand and price fluctuations, and in historical context, had been very easily disrupted by changes to any market situations. The new wood trade arrangements made in the mid - nineties were thought to stabilize the sector to more level development.

If Finland would stay outside the monetary union, the ministers mused that it would force the sector to develop in the same way, and there would be no room for independent monetary policy. This is said to be due to the freeing of the capital markets, as that event had started to shape the way parties co-operate and do business. In the event of Finland staying outside the monetary union, it was feared that Sweden, with its stronger economy, could out-compete Finland in the forestry sector

In general, the report states that joining the monetary union would bring stability to the Finnish economy, and would mitigate any external fluctuations and disturbances (Valtioneuvosto 1997, 27).

By the end of the 1990's, Finland's export value was double the value of the late 1980's (Jalava et al 2007, 49). It is worth keeping in mind when studying these numbers, that foreign trade globally increased by 6,5% annually in the 90's (Morrison, 2006, 314). Only slightly over half of Finnish exports go to EU-countries. In the early nineties, due to the

collapse of the Soviet Union, the amount was greater. The main growth areas for Finnish exports are in Russia and Asian countries. (Kiander, Romppanen et al 2005, 45.)

By the turn of the millenium, the amount of forestry and woodworking industry had dropped to 1% of GDP, when in the early 1900's it had been 25% (Jalava et al 2007, 63).

Agriculture- and forestry sector grew their productivity greatly between 1995-2004. This was mainly due to the reduction of workers. (Jalava et al 2007, 64) This likely led to more machines being used to compensate for the lack of workers. By 1999 the agriculture- and forestry sector's productivity index was ~130 with 1993 being index 100. (Kiander, Romppanen et al 2005, 67.)

While Finnish economy has opened up in the 1990's, the change in foreign trade has been small. Natural resources were responsible for 19% of the growth in import, while wood and paper alone were responsible for 16% of the growth of export between 1990 and 2003. (Kiander Romppanen et al 2005, 210-211.)

## 6 FINDINGS

### 6.1 Amounts of raw wood imported and exported

The amounts of raw wood imported and exported from and to Russia from Finland's perspective between 1992-1999 are included in the table 1 and 2 (Customs ULJAS-database, [uljas.tulli.fi](http://uljas.tulli.fi)).

Table 1: Raw wood import and export 1992-1994

	1992		1993		1994	
	Import	Export	Import	Export	Import	Export
Spruce	92980	28313	118934	1054	421010	0
Pine	759493	0	431522	1214	1053401	0
Birch	2943766	0	4315529	0	4807675	0

Units are in cubic meters

Table 2: Raw wood import and export 1996-1999

	1996		1997		1998		1999	
	Import	Export	Import	Export	Import	Export	Import	Export
Spruce	738325863	5335	880837302	1300	1082382676	0	1613807566	129848
Pine	1177885958	31528	1153287044	1023794	1260819494	0	1336392384	0
Birch	2877684705	30580	3182955744	69632	4847999489	122080	5087095958	26000

Units are in kg

N.B. There were no separate values available for 1995 amounts due to the overhaul of the system because EU-membership changed regulations, and thus the year has been

omitted (Phone discussion with Finnish customs, 6.5.2014). The measurement unit changed mid-year 1995 and thus the units are different for both tables.

## 7 DISCUSSION

7.1 Did the amounts of main imported and exported wood types between Finland and Russia change around the time of Finland's accession to the EU?

There is a definite change in the development in the growth trend of the amounts that were imported. With export there was not much change as it stayed very sporadic and random. After Finland's accession to EU, the rate of change stabilizes greatly. If change occurred, did it increase or decrease and by how much?

7.1.1 Before Finland's EU-membership (1992-1994)

I have calculated the changes in percent in Import from Russia to Finland between the years during the pre-EU-period, and the results are as follows:

1992-1993: Spruce +28%, Pine -43%, Birch +47%

1993-1994: Spruce +254%, Pine +144%, Birch +11%

The export amounts to Russia from Finland are marginal at best and vary so greatly a trend is infeasible to attain.

7.1.2 After Finland's EU-membership

Here I will make a similar analyses of the changes in percent from year-to-year after Finland's EU-membership to deal with the change of units in the data from customs. Again, the export amounts vary wildly and are negligible to the import amounts.

1996-1997: Spruce +19%, Pine -2%, Birch +11%

1997-1998: Spruce +23%, Pine +9%, Birch +52%

1998-1999: Spruce +49%, Pine +6%, Birch +5%



## 7.2 What might be possible reasons for the change or its lack?

### 7.2.1 Before Finland's EU-membership

The amounts in 1992 can be seen as kinds of "baseline amounts" as the year was right after the Soviet Union had collapsed and practically all trade with Russia had come to a halt until the new government there had been established. From here on, until Finland's EU-membership, the development in import and export with Russia can be seen as a recovery process, most likely returning towards the amounts previously traded with the Soviet Union as the revolution didn't likely change the industry base as it was more or less a velvet revolution without much destruction of property.

Worthy of note is the change for the amount pine imported from 1992 to 1993. This is an oddity in the otherwise growing trend among the other species. Other noteworthy thing is the huge increase in the import of spruce. Both phenomena are inexplicable with the data I have found and might warrant further study.

The large increase in pine imports from 1993 to 1994 might be the industry catching up and compensating from the decline in the previous year if the reason was something happening in Russia, thus leaving Finland's industries suffering from lack of raw materials.

One possibility is also that the exchange rates between the Finnish and Russian currencies fluctuated between this time as the FIM was set afloat in late 1992 and thus would vary in value quite much. If FIM compared to RUB was unfavorable to the Russians, they would of course shift their trade to other countries whose currency exchange rates would be more favorable, and if the rate comparison was the other way around, they would trade more with Finland.

Reason for these oddities might also be changes in the exports of processed wood products, but given the situation during the time period I find it unlikely, and surmise that the reason is some event(s) in Russian forestry industry. This also might require further research into the subject, but I found it difficult to get any information from Russian economical history at the time in any other language than Russian and thus have restricted my analyses strictly to events in Finland.

### 7.2.2 After Finland's EU-membership

After Finland's accession to EU, we can still see that the amount of growth in spruce imports stays high. It is generally noticeably higher than the other species, except for the change in birch imports between 1997-1998 to which we will return shortly. The amount of pine imported is growing very slightly, and in general, the changes seem to have steadied out from the pre-EU period.

The reason for this stabilization might be the access to the inner EU-markets for Finland, and thus the general stabilization of the economy, as well as the cheaper wood from elsewhere in the EU area. Another reason could be that Russian production has reached its equilibrium point, and the amount Russian forestry industry can export has reached its limit without further investment into developing it.

The anomaly in this data set is the sudden jump for birch imports between in 1998. This is, again, an inexplicable event without further investigation into further usage statistics for these types of wood.

### 7.2.3 Usage of the different wood species and their possible effects

All three species are used mainly by the paper industry to manufacture different types of paper. As Finland has a large amount of paper mills, it is likely that the wood being imported is going to these plants for further refinement into paper products (like regular writing paper, cardboard and packaging string). Thus it is likely that the developments in the paper industry are reflected heavily in the amounts of imports for these three species of wood.

All of these three wood species are ill-suited for construction, except for interior decoration, as they have poor natural protection against weather, fungi, insects and so forth. With this in mind, I would not place much emphasis on construction industry in regards of determining possible sources for the changes in the figures above.

All three species are used in furniture making, however, especially birch. Furniture industry does not use the amount of wood as paper mills do in Finland. This makes also furniture making unlikely to be heavily present in the numbers mentioned in this and the previous chapter.

Mechanical wood product industry (different from chemical wood product industry which among others includes paper manufacturing) sector is about the same size in Finland as

the paper industry and might also be a factor in noticeable changes in import numbers for raw wood. Products for this field include materials such as veneer and plywood (especially from birch), planks for different further uses (especially from pine and spruce), fiberboard of various types and so on. Due to the size of this type of industry in Finland it might warrant further investigation to determine how much the production numbers might be reflected in the amounts imported.

### 7.3 Reliability of this study

The amounts and their changes are very reliable, as they come straight from the Finnish customs, which keeps track of everything significant crossing the borders. This can be seen from the detailed amounts presented by the numbers. Also, the changes to these values are quite accurate as I did the calculations to 0,1% accuracy before rounding.

The conclusions from the numbers are pure speculation and combine my personal knowledge with wood industry to what I learned while doing research for this paper. They should be considered as broad lines only and not as clear cut facts. The amount of data available about the time period was very limited and I had to skip practically the whole Russian side because I simply couldn't get material in a language I could understand.

## 8 CONCLUSIONS AND FUTURE WORK

### 8.1 About forestry

I realized just how huge sector of industry forestry is where ever there are trees, and like all base raw material industries, supplies a huge amount of different types of industries in a country. As such trying to get a view of the reasons for import and export of its products by looking at even as few as three types of materials it produces, becomes a huge and daunting task in short order.

For a country as rich in forests, like Finland, the importance of forestry and wood products is great and it is a supporting pillar of the economy. This is visible in the state-issued papers about economical structure and planning, as forestry has large sections on it in them. As such, forestry and wood processing should be intensively researched and studied in detail.

One could go through dozens of books and an archive full of statistics about the different uses of just raw wood and try to get it into some perspective and relative amounts used in different sectors and industries, but it would take years of intensive work, and likely still leave gaps in the results.

### 8.2 Future Work

There were several questions raised by this study that require future research. Why did the growth in the imported amounts of certain types of wood change so differently? Why is the exported amount so random? Which of the different types of wood processing industry affect the amounts of import and export the most? What are the ratios of usage for imported wood and ratios of export for products in different fields of wood processing industry? Where did the anomalies in the trends for the different species actually come from? I know this was a question this study should've answered, but the amount of data required and the lack of it available on the observed period of time made the reasons so much guesswork.

I find this study to be a partial success as it did find answers to most of the objectives I set for it, though it still left some answers unreliable at best. Further research into the questions above would help future work on the subject greatly.

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