

Paper cuts leave Finnish economy hurting

HELSINKI, FINLAND: In the wake of mobile giant Nokia's spectacular fall, another pillar of the Finnish economy is struggling to adapt to the digital age: the paper industry.



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by Naypong

As the distribution of everything from magazines to airline tickets shifts online, major Finnish paper suppliers are scrambling to find new sources of revenue.

The industry employs some 40,000 people, a figure that has dropped by more than a third over the past decade, but which still accounts for between 1.5-2% of employment in the country.

Paper plant closures have become commonplace across Europe as consumers use the internet and digital devices for a growing range of services, sending demand for printing paper tumbling.

Despite the fall in demand, the Finnish paper and forestry industry maintains an advantage: an abundance of resources. Finland boasts four hectares of forest per inhabitant, around 10 times more than the European average.

But companies still struggle to find ways to make this advantage work for it in the global economy of today and tomorrow.

UPM-Kymmene, the world's biggest maker of magazine paper, in January announced 850,000 tonnes in capacity cuts this year. The seven percent reduction affected plants in Finland, Germany and France.

Another industry heavyweight, Stora Enso, in February lowered its capacity for newsprint paper to 475,000 tonnes, resulting in the shutdown of two facilities in Sweden.

A quick fix is unlikely to be around the corner. "There is no significant change within sight," said Harri Taittonen, an analyst at Nordea.

The industry is hoping growth in other market segments will offset the inexorable decline in printing paper. Stora Enso and Metsä Board (formerly M-Real) is betting on the packaging sector.

"There is still potential, because digital devices can't compete and cardboard is a good alternative to plastic," said Taittonen, noting that demand would rise in line with economic growth.

Stora Enso is focused on investing outside Europe. The group is pouring 1.6 billion euros (\$2.1 billion) into a combined pulp and cardboard plant in the Chinese region of Guangxi. In Uruguay it's investing 1.3 billion euros with Chilean partner Arauco in a giant pulp plant.

The strategy will "increase the packaging and pulp sector as a part of revenue, but not quickly," Taittonen said.

Industry observers doubt packaging will become a significant source of growth.

China, for example, needs more packaging for its consumer products, but "at the same time industrial production is moving to Asia, so it's a question (for Finnish companies) of maintaining their production levels" rather than growing them, said Lauri Hetemäki, director of the European Forest Institute in the eastern town of Joensuu.

Meanwhile, UPM has its sights set on bioenergy, combined with a strategy of expanding into markets where paper demand is still growing.

The company has invested 400 million euros to build a paper and labelling plant in the Chinese city of Changshu. At home, it's spending 150 million euros on the first refinery in the world that produces biofuels from crude tall oil, a byproduct of pulping coniferous trees.

Henri Parkkinen, an analyst at OP-Pohjola, sees energy and pulp as the two sectors "with the biggest growth potential" for UPM.

The global economic crisis has contributed to the sector's woes, wiping billions off its value on the Helsinki stock exchange.

Since May 2007, shares in Stora Enso, UPM Kymmene and Metsä Board have lost more than half their worth.

After posting mixed results in the first quarter, the stock has traded sideways. Stora Enso is at its highest in more than a year since releasing its results on April 23, but the rise came against a backdrop of low expectations, Parkkinen said.

How to use the Finnish forestry resources and find the products of the future are the two crucial questions facing the industry in the years ahead, Taittonen said.

Hetemäki of the European Forest Institute suggested it might follow a path similar to Nokia, which once shed blue collar jobs as it moved away from manufacturing.

"Maybe Finland's strength will be in services linked to different forestry products," he said.