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Current market situation in Russian forest industry

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TIIVISTELMÄ

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Tutkimus tehdään suomalaiselle Case yritykselle, joka tarjoaa konsultointi ja laboratoriopalveluita biojalostuksen ja selluloosan regeneroimisen alalla. Tutkimuksen taustana toimii yrityksen halukkuus lähteä viemään palveluitaan Venäjän markkinoille, joka on jokseenkin tuttu markkina-alue heille. Pää tavoitteena tutkimukselle toimii Venäjän markkina-alueen kartoitus, kannattavuuden kannalta tärkeimpien hankkeiden etsiminen ja seulonta, sekä valtiovallan suhtautuminen hankkeisiin. Tutkimuksen edetessä kartoitetaan käynnissä olevat ja tulevat projektit.

Työn teoriaosuudessa kuvataan venäläisen biomassahankkeen kulkua maakaistaleesta tehtaan rakentamiseen asti sekä muun muassa mitä prosesseja, lupia ja toimijoita se pitää sisällään. Työn empiirisessä osassa taas selvitetään tällä hetkellä Venäjällä sijaitsevat hankkeet, sekä niiden kannattavuus case yrityksen kannalta. Työn empiirisessä osassa haastatellaan alan asiantuntijoita. Tutkimus tehdään kvalitatiivisena tutkimuksena, sillä siinä vastataan kysymyksiin miten, millainen ja miksi.

Avainsanat: Biomassa, Puuteollisuus, Paperiteollisuus, Laboratoriopalvelut, Vienti

ABSTRACT

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The Case company is a technology development based company, which provides consulting – and laboratory services in biorefining and in regenerated cellulose. The company were formed in 1983. The background of this thesis is case company ambition to venture their business forth into the Russian market, in which of they not have much experience on few smaller projects excluding.

The main goal for this research was mapping out the Russian markets, to search for the most important and profitable ongoing projects in Russia and examine government policy on the projects.

The theoretical study of this research was done by explaining step by step, how projects in the forest industry are done from the very single plant of trees to a factory. It gave us answers to questions such as what permissions and regulations there are and which companies are behind them, Russian governance for these projects and how it works there. In the empiric research I will find out what different ongoing- and future projects there is in Russian rural area and which of them are potential for a company venturing into Russian markets. The research is done as qualitative research, as I will be doing a questionnaire for the experts in this business area.

Keywords Biomass, Forest Industry, Russia

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1 INTRODUCTION

This type of subject fits into the area of international business. The subject has taken many forms before finally evolving into this particular subject. I have been considering a suitable subject for a long time and I always wanted it to be about business environment in Russia. Russia has huge business potential in many different industries and acquiring the available knowledge about it would produce a lot of value not just for me personally, but also for the company.

The case company provides consulting services in biorefining and in regenerated cellulose. They provide services by researching paper or cloth material in laboratories or also by giving consulting with years of experience in pulp and biomass industry.

The country of target market is Russia. It has enormous potential in pulp- and paper industry because of massive amount of forests and rural areas, which means that there is many ongoing or future pulp-and paper industry projects. Case company has already somewhat experience in Russian markets, but this could be a perfect chance to expand their business and get a firmer foothold on to Russian business soil. I will research the potential projects and will make clear investigation, which of them could be the most profitable targets for case company.

This thesis will consist of three different sections. The first section of this thesis is theoretical study. In it, I will explain the business environment in Russia and, especially the forest industry in the country. I will put the pulp and paper factory process under a magnifying glass. The work will describe to the reader, how the development forces behind these processes, for example what permissions are needed to set up a factory and how the government policy is attached to these. Also what third party businesses are required to have in the process all the way from the forest plant to set up a factory will be explained.

The second part of thesis is the empiric study. I will research all ongoing- and future processes thoroughly and it will give insight to case company, which give them answer to question which of the processes are profitable. The research is

done as qualitative research and by providing a questionnaire to the experts of the forest industry.

The third and last section of the thesis consists of analyzing the results and conclusion.

1.1 Research questions and theoretical structure of thesis

The empirical research of this thesis can be traced back to one major research question “Is the current situation of Russian forest industry profitable for a foreign company?” The answer to this can be solved by answering two minor research questions:

1. Which ones at from the ongoing- or future projects are the most profitable for Case company?
2. What is the future sights and government policy in paper- and pulp industry about foreign companies taking part in domestic projects?

The theoretical framework of this thesis supports the empirical research and it consists of two different main headings:

1. Russian pulp- and paper industry
2. Russian business environment

In the empiric research, I will go through the theoretical framework and different research methods. I will research, how many different projects there are planned. Afterwards I will gather data from each projects to find out answers for questions such as: “Which point the project is going now?” and “Which other businesses are involved in the projects?” By mapping out the projects with certain factors, it is possible to define, which of the ongoing projects are most profitable and worth the risk for company venturing Russian market.

The Research is mainly lined for Case companys own area of expertise industry which is the pulp- and paper industry. The potential projects are in the center of this thesis but I will also research depending background factors for it such as the

whole industry meaning for Russia and what potential it has to Finnish companies. It is also good to evaluate the general way of doing business in Russia.

2 RUSSIAN BUSINESS ENVIRONMENT

In this chapter, I will describe Russian business environment in general, in the governance level and its potentiality for Finnish companies. The main goal of this chapter is to give information to support the actual research itself.

2.1 Russian forest sector present

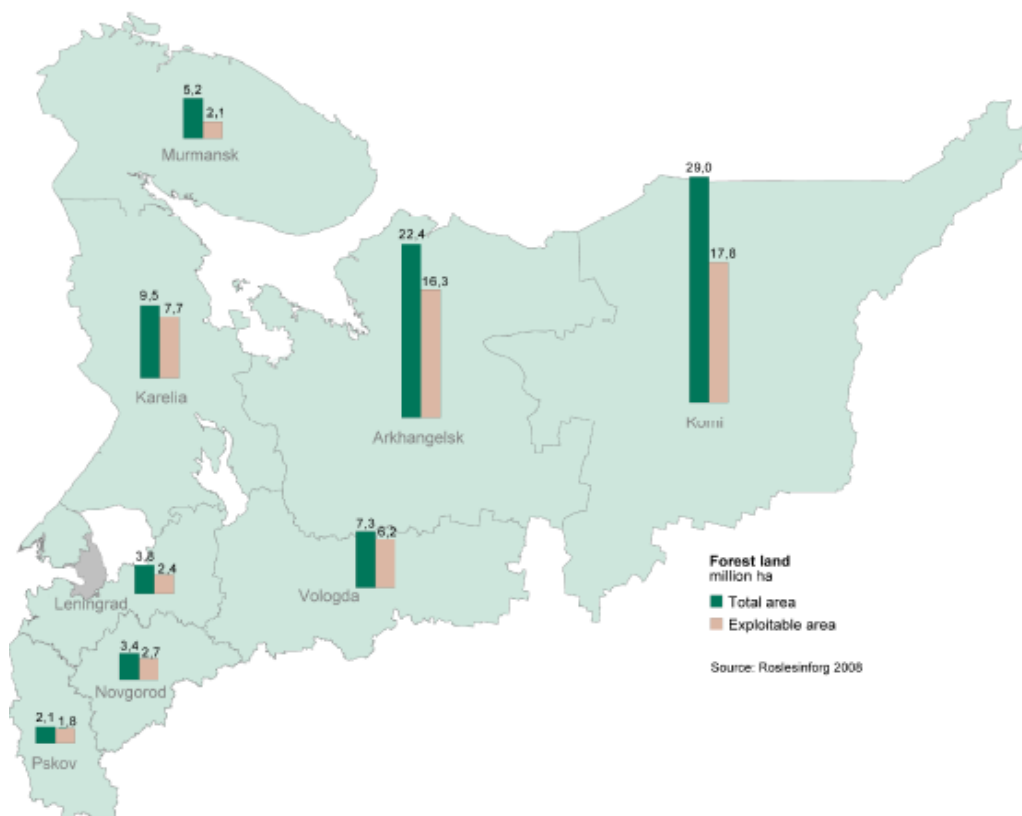
A lot has happened in the forest industry after the Soviet Union fell. Russia has been in an economic boom for eight consecutive years now, especially in the forest sector. Prices for all forest products are strong, margins for the larger players at least, are good. If anything, the industry is now becoming supply-constrained. (Clive Suckling and Loren Gerlach, 2006).

Despite the good overall look of the industry, Russia has not been able to use the full potential of export possibilities in the forest sector. This is one reason why it is not profitable for foreign and domestic investors. “However, despite having over 20% of the world’s forest resources, Russia accounts for only about 3% of global supply and demand for forest products” (Clive Suckling and Loren Gerlach, 2006). We can see the blooming now in forest sector as more and more new pulp- and paper factory projects are surfacing in vast Russian rural areas.

“For pulp and paper manufacturers facing overcapacity and tightening margins elsewhere in the world, Russia represents an important target market with robust demand and vast natural resources” (Clive Suckling and Loren Gerlach, 2006). It is unfortunate to think that Russia with vast natural resources is lacking the quality of infrastructure and operations, which is a major issue in maximizing the full potential of the forest sector.

Demand is huge, but Russia can not answer fully to it. “Much of the installed manufacturing base in Russia is old, energy-inefficient, overstaffed, and in need of major overhaul. As a consequence, the sector’s average return of approximately 3% is half the Russian industrial average” (Clive Suckling and Loren Gerlach, 2006).

Thus, recent studies studies have shown that while the Russian pulp and paper sector's capital needs are great, well-placed investment can yield an attractive return.



Graphic 1. Russian forest sectors and areas. (Yuri Gerasimov, Sari Karvinen and Timo Leinonen. 2009. Atlas of the forest sector in Northwest Russia)

2.2 Room for improvement

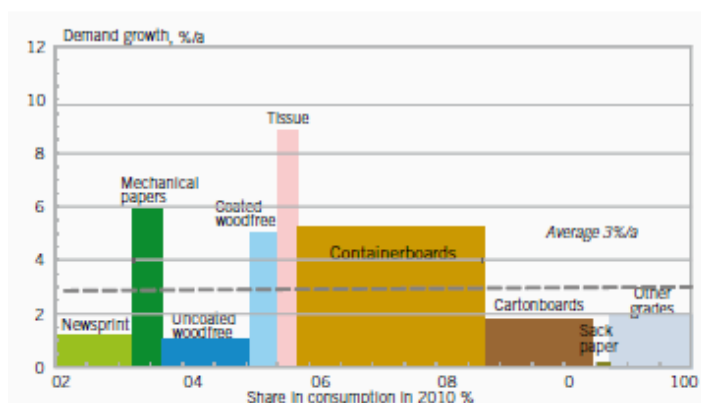
In order for Russia to regain competitiveness, the industry needs to invest in new and modern machinery. The questionable quality of domestic machinery is the main reason why many forest companies are forced to switch from skidding to cut-to-length operations and purchase imported harvesters and forwarders.

Forest industry in Russia continues with investment plans even though the world is under general economic crisis. The volume of investments in pulp and paper industry was more than 2.5 billion euros in 2015-2016. China and India exports

will be the factor that makes sure that pulp and paper industry in Russia will flourish in the years to come.

Because of today's economic situation, the investments have been readjusted to support savings in the factories. First of all, plants and projects need to update their structure of machinery and methods for making sure that new projects will be innovative rich and modern. The actual focus will be in finding the right sub-contractors and service providers.

“The pulp and paper market in Russia is highly consolidated. There are less than ten main players, most of which belong to international industry leaders, such as International Paper, Pulp Mill Holding or Mondi Group. Russian market leader, Ilim Group with three plants in Russia, is 50% owned by International Paper. Andritz and Valmet implement the vast majority of large investment projects in the industry” (Anna Vetrova. exportfinland.fi. 2017)



Graphic 2. Long-term paper demand growth in Russia through 2015 (www.poyry.fi. 2015)

2.2.1 Business opportunities for Finland

Despite Russia's massive export markets such as China and India, there are also other countries, which benefit from one another such as Finland. “Russian producers are constantly in search for subcontractors for smaller projects of maintenance, support and adjustment of new equipment or production lines. Finnish

companies are well-known and have a good reputation in Russian paper industry”.
(Anna Vetrova, exportfinland.fi)

In the years 1990-2009 Finnish forest industry invested to Russia approximately one billion euros in factories, machinery and woodcollecting infrastructure (Jordan 2009). If we think closer about the decision of case companys to venture across the Russian markets, it certainly is a good decision, at least if we look at the numbers. (Thomas Rimmler, Ilkka Pirhonen, Timo Leinonen. www.metla.fi.2017)

Looking at the previous years, Russia has been one of the most important export countries of Finland. In the years 2008 - 2013 the forest industry export value was approximately 575 million euros in a year, which is only 10 percent of the whole forest industry value of Russia. (metinfo tilastopalvelu.2014)

Because of the massiveness of the domestic market and because Finland and Russia are neighbors, the forest industry has risen to be a point of interest for Finland. There are numerous indicators, which prove this statement right, such as the number of organized wooden house conventions in Russia, the beginning of new projects, and increased Finnish consulting services in the various area of expertise in forest sector. (Thomas Rimmler, Ilkka Pirhonen, Timo Leinonen. www.metla.fi.2017)

Russian producers are looking for new subcontractors to smaller projects of maintenance, support and adjustment of new equipment or production lines. All the time finnish businesses are recognized for having a good reputation in the Russian forest industry. (finpro.fi. 2017)

2.3 Governance

All the forest resources are owned by Russian Federation. The actual administration of the areas is shared between the Federations and the regions, while with the forest and the whole management of them is the responsibility of all regions in Russia. Authorities of the regions are responsible for forest management, protection and utilization, as the authority of the federal parts of government focus

mainly on policymaking, forest relations with laws and regulations and on some specific problems, such as planning out a region forest inventory. (Sari Karvinen, Elina Välkky, Yuri Gerasimov, Alexander Dobrovolsky. www.metla.fi)

Forest resources are divided by into two groups: a forest fund, and forests that do not belong to the forest fund. The forest fund is for the land area that could, be potentially be covered by forests.

2.4 Procedures and permissions

There is lot of different phases in setting up a factory in Russia, but what does it actually consists of? First the decision is made by the forest area official and after that in Moscow.

The procedure consists of many phases. The development of priority investment projects in the field of forest development and their preparation for approval, are carried out in accordance with federal laws, regulations of the Government of the Russian Federation and these regulations.

“The concept of the investment project is developed in accordance with the guidelines approved by the Ministry of Industry and Trade of the Russian Federation in coordination with the Ministry of Natural Resources and Ecology of the Russian Federation and the Ministry of Economic Development of the Russian Federation” (Government Decree, Russian Federation, 2007)

The selection of applications will be carried out in accordance with the procedure laid down in the law of the parties to the Russian Federation and in the event that the federal executive body acts as the relevant body. (Government Decree. Russian Federation. 2007)

2.5 Oligarchs

“An oligarchy, is a form of government by a small group. In its current meaning in Russia, the term “oligarch” denotes a businessman who controls sufficient re-

sources to influence national politics” (Guriev and Rachinsky, 2005. *The Role of Oligarchs in Russian Capitalism.*)

Russia is divided into business sectors, which are controlled by oligarchs. These oligarchs usually have a business in which they are pulling the strings. The businesses could be banks or companies, but there have also been a few oligarchs, who are just politically powerful.

Not all industries are controlled by oligarchs. The only large sectors, which are not controlled by them, are natural gas, energy and manufacture of machinery. The gas and energy sectors are run by federally owned monopolies Gazprom and Unified Energy Systems.

2.6 Government support

When the Soviet Union collapsed in 1991 through the mid-2000s, the Russian forest sector diminished. Under the centrally-planned Soviet Union, the production, consumption, and allocation of all goods “took place under a different social, political, and economic regime; this is to say that in a market economy, prices and costs perform allocative roles as opposed to simple monitoring roles in a centrally planned economy” (Backman, 1998. p7). Strong Soviet Union forest practices led to high outcomes and sustainable production relied heavily on the presumption that their forest resources were inexhaustible and forestry practices and levels of production were neither, ecological or economically sustainable (Barr and Braden, 1998).

3 RUSSIAN FOREST MARKET

The key factor for Case company is finding the most potential projects for them, so that the entering a new market would be smooth and as risk-free as possible. There are numerous projects in Russia rural areas, so it would be impossible to list them all here in this writing. Some of them are smaller projects, some bigger. The real question is which type is more preferable and in which stage of procedure the project is at the moment. The project must be in a very early stage to have the best potential for Case company

How the projects is analyzed are shown in chart below.

Project Name	Location	Factory Size & Products	Engineering	Machinery Producers
Project 1.	A	B	C	D
Project 2.	A	B	C	D
Project 3.	A	B	C	D
Project 4.	A	B	C	D
Project 5.	A	B	C	D

Analyzing these factors will give enough information for case company to plan their venture into foreign markets. The most potential projects are the ones which are in very early stages.

3.1 Segezha Group in Krasnoyarsk area

President of Segezha Group, Sergei Pomelov, told the media about Lesosibirsk LDK 1 –mill investmentplans. The facility could have enormous strategic meaning and its production is considered to broaden in time. Segezha Group has started to delineate a timeline development plan for Siberia, which is brand a new area for the company. (Sergei Pomelov. Segezha Group acquires lesosibirsk LDK No.1.Sistema)

Huge forest supplies of Siberia and the markets of the Asian countries including, China being near the area, has made Segezha Group to make strategic moves to move their business to the Krasnoyarsk area. (Sergei Pomelov. Segezha Group acquires lesosibirsk LDK No.1.Sistema)

“The Lesosibirsk plant has favourable conditions for further successful growth: a significant forest resource base and modern logging and sawmilling capabilities. With the acquisition of this asset, Segezha Group has expanded its presence in Russia, and is diversifying its business geographically. By more than doubling the raw materials volumes processed at its sawmills, the group has become a leader in the production and sale of sawn timber in Russia. The product range offered to customers has been expanded by adding new types of wood that are in demand on the market: Larch and Angara pine.” (Sergei Pomelov. Segezha Group acquires lesosibirsk LDK No.1.Sistema)

3.2 Svetlogorsk Pulp & Paper

The mill is is planned to be located in Belarus. According to the schedule, the first product sulfate bleached pulp on production lines Svetlogorsk is planned to arrive at the beginning of November. The mill in Svetlogorsk will recycle about 2,5mil.m3 the wood per year with total price at 260million dollars. . (JSC. “Svetlogorsk pulp & board plant”. 2014. p3)

All equipment is provided by Andritz Group (Austria) which is the leading company in the world as supplier of equipment for pulp-paper enterprises. (JSC. “Svetlogorsk pulp & board plant”. 2014. p3)

The following statistics of producement are considered in the aforementioned factory:

- Capacity of 400 thousand tons/ year
- Bleached sulphate pulp
 - NBSK- Northern bleached softwood kraft
 - NBHK- Northern bleached hardwood kraft
- Sulphate rayon pulp (viscose pulp)
- 300 thousand tons / year of the factory capacity is exports to China



Graphic 3. Location of Svetlogorsk Pulp and Paper mill. (JSC. “Svetlogorsk pulp & board plant”. 2014. page 6)

3.3 Nord Star, Amazarskij Pulp and Paper industrial site.

The project “Nord Star” agreed to construction in 2004, so it has been quite a long time in production. More than 13 years since the first stone was laid on the construction site, since then both parties the China and the Russia have only disagreed on various issues, (Dimitriy Pluyhkin. 2017).

The following statistics of producement are considered in the aforementioned factory:

- Design capacity – 243.5 thousand tons of commodity sulphate unbleached cellulose / year including products mentioned under.
- Cellulose from coniferous species (larch – $87.5 \pm 5\%$, pine – $12.5 \pm 5\%$) – 183.9 tons/ year
- Cellulose from hard wood (birch 100%) – 59.6 thousand tons / year
- Nomenclature of marketable products. Project capacity commodity sales market 100% China. (Alexei Goncharov. 2013.)



Graphic 4. Location of Amazariskij Pulp and Paper industrial site. “Nord Star” (Alexei Goncharov. Amazariskij official plan.2013)

3.4 Sveza Zeus

SVEZA wood processing group has signed an agreement with the Vologda Oblast government for construction of a pulp mill valued a \$2 billion and with an output power of more than 1 million tons a year (sveza.com. company publications.page 7).

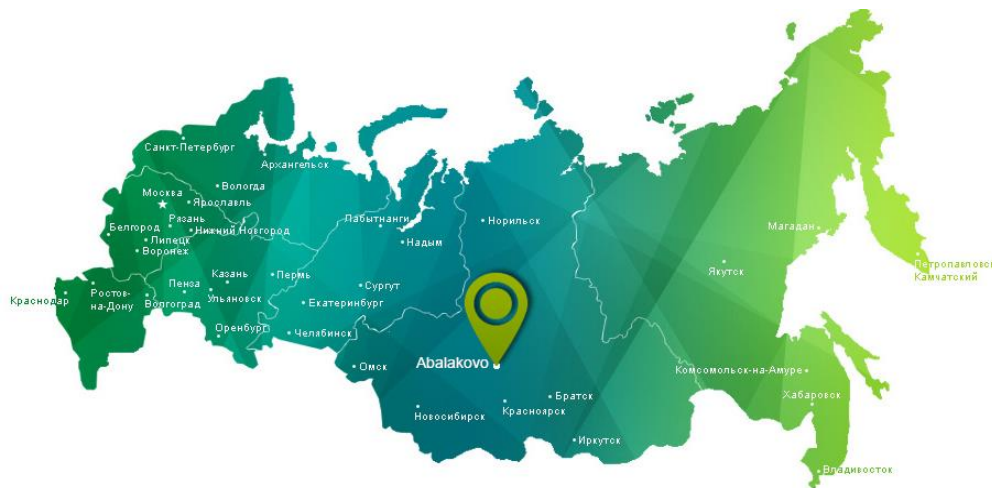
Sveza has a wide experience in big industrial project construction. Project executives visited Finland where similar pulpmills are operating almost in the heart of big cities. They also have a contract with a Finnish company, one of the world’s leaders in cleaning system production. The main advantage of this mill is, that the facility located in the Vologda Region is environmental friendly. (sveza.com. company publications. page 7)

3.5 Siberwood

The company was founded in 2012 by an initiative of investors and professionals with immense experience in the area of investments in Russia and also in the other parts of globe. Its goal is to realize a greenfield project of a pulp mill construction

with modern technologies which will also occur as an environmental friendly solution.

The partners in this projects consists of people who have experience in realization of such huge complex of projects. The project will create approximately 3000 available jobs. At the current stage, the project engages approximately 20 experienced professionals or different backgrounds as well as acquires serevices from the leading international engineering and consulting companies of forestry and pulp and paper sector (woodbizforum.siberwood goes ahead with a new pulp mill project in Russia.2015)



Graphic 5. Location of Siberwood Pulp mill. (siberwood.ru.2017)

3.6 TLPK- Tyumen Region

TLPK project is a massive factory complex construction project in the Tyumen region. Tyumen region of Russian Federation based on most recent investment attractiveness evaluation is placed at the top of the most potential project- list in Russia.



Graphic 6. Location of Plywood factory in Tyumen region. (Construction of Modern Forest Processing Complex in Tuymen Region in Russian Federation. Tuymen LPK LLC, 2017.)

Because of the dominating wood species, mainly birch and the location of Tuymen region, focus for value-added wood processing is mainly on quality plywood for global market and high quality dissolving pulp for the manufacturing textile industry of North-West China.

The project consists of three different phases. Plywood mill, Pulp mill and Bio-Refining.

In the first phase, the focus is mainly on construction of plywood mill where:

- 108 000 m³/ year of quality plywood is produced
- Its mainly exported
- Capital expenditure: 100 million €
- Internal rate of return: ~18%
- Construction takes place in the timeline of 2016-2019

In the second phase, the focus is mainly in the construction of the pulp mill where:

- 400 000 tonnes of dissolving pulp /year
- It's mainly for exportee
- Capital expenditure: 900 million \$USD

- Internal rate of return: ~17%
- Construction takes place in the timeline of 2019-2022

In the third and last phase the focus is mainly in Bio Refining

- 50 000 tonnes / year of chemicals (lactic acid, butyl propylene glycol)
- It is mainly for export
- Capital expenditure: 150 million \$USD
- Internal rate of return: ~25 %

Aforementioned statistics is from (Construction of Modern Forest Processing Complex in Tuymen Region in Russian Federation. Tuymen LPK LLC, 2017.)

3.7 Amursk Pulp and Paper mill

A new pulp and paper mill construction site is located on the site of Amursk in the territory of advancing socio-economic development (TOR) “Komsomolsk” by 2019. “ A sawmill with a capacity of 250 thousand cubic meters of lumber per year, the construction project which implements the resident THOR Komsomolsk, will be commissioned in December 2017” (Yuri Chaika. Deputy Chairman of Khabarovsk Krai government- Minister of Investment and Land and Property Policy. Pulp and paper mill will be launched at the site Amursk thor Komsomolsk in 2019. 2016. www.freenews-en.tk)

On the basis of Amur it is planning to organize a center of an added-value wood processing. Subsidiaries of RFP Group Holding Amur Timber Company Ltd. and JSC Amur industrial center are residents today. According to investments and technologies applied the enterprise would be unique in a country. Production volume is 500 000 tons/g of dissolving pulp and 15 000 tonnes of crude tall oil.

At the moment, there is preparation of documentation for obtaining resident status for the PDA, which must be completed by the end of 2016. For the next three years, here is a plan to build workshops, equipment installation and adjusting of them.

According to the latest articles, a huge manufacturer of paper products in China the China Paper Corporation has declared its willingness to make an investment more than \$1 billion dollars in the construction of the mill. According to Russian Ministry of the Far East Development, stated that “ an agreement was reached at the day of Chinese Investor held in the city of Khabarovsk. The company will sign a preliminary protocol on intentions with Russian co-investor in May this Year” (construction.ru.2017)

3.8 Kraslesinvest in Krasnoyarsk area

Russian development bank Vnešekonombank is planning to build pulp- and paper factory to the Krasnoyarsk rural area in the village of Bogutšan. The bank already has its subcompany Kraslesinvest’s sawmill in that village. (A timber processing industrial complex opens in the Krasnoyarsk territory.2014).

A softwood factory with a capacity of 800 000 tons has already been in Kraslesinvest’s plans earlier, but in 2014 the plan was suspended. Now the activation of plan was decided by the company’s new chairman. The investment can raise up to 1.5 billion dollars. (A timber processing industrial complex opens in the Krasnoyarsk territory.2014).

If the Factory is going in to production, it would be the bank’s biggest investment ever in the forest industry. All in all the bank is participating in nine different forest industry factory funding, but mostly as a credit giver. Kraslesinvest is the only company, which owner the bank is. (A timber processing industrial complex opens in the Krasnoyarsk territory.2014).

Part of the mill construction is an investment for expanding the Kraslesinvest sawmill capacity from 400 thousand cubic meters to 600 thousand. (whatwood.ru. Kraslesinvest launched a sawmill at Boguchansky LPK.2014)

The new complex manufactures 440 000 cubic meters of sawn timber per year. The project was implemented with Vnešekonombank’s subcompany CJSC Kraslesinvest.

The project is instrumental in socio economic development of the Krasnoyarsk area. Nowadays, the overall number of employees exceeds 500 people, but under the project another hundred jobs are to be created (A timber processing industrial complex opens in the Krasnoyarsk territory.2014).

4 EMPIRICAL RESEARCH

To ensure the quality of this research, several comparizations were made about the research- methods. The best option was qualitative method, because of nature of that certain method matches the subject of this thesis.

4.1 Qualitative Research

Qualitative Research is mainly exploratory research. It is used, when the writer is gaining an understanding of the very base of reasons, opinions and motivations. It provides the problem or helps to develop ideas for potential quantitative research. Qualitative data collection methods vary into usage of unstructured or semi-structured methods, such as group discussions, individual interviews and participations. In this case I will be using semi-structured methods. (Johnny Saldana. Fundamentals of Qualitative Research. 2011)

The goal of this empirical research is to answer the question:

- How Case company could venture into the Russian market?

The research question is divided into two sub-research questions:

- Which of the planned or on-going projects are suitable for Case company
- In what phase are the projects going right now?

4.2 The collection of data and information

To prepare myself for this empirical research, I was given multiple sources of data specifically about the projects from a directly from source which works intensive-ly with the ongoing projects. I also used dozens of sources from internet researches about the subject and studied them to base my empiric research.

To support the theory – and empiric research part of this thesis, I formed a 5-question questionnaire about the Russian markets. The questionnaire is targeted to the Finnish and Russian experts and specialists in forest industry.

The questionnaire is done for approximately 2 – 3 experts and the identification of the answers is always secured.

The questions, were divided into four categories. The categories are: what are the prospects on the Russian market, the forest industry there, which are the future available locations and what is the most potential way of venturing into the Russian market.

I interviewed two experts from the industry. With all the experts there was an agreement that the questionnaire answers are kept anonymous.

The first interviewee was an expert from the Natural Resources Institute Finland, who has worked as researcher for the organization for over a decade and she has studied closely the subject of this research

The second interviewee was an expert from the same position as the first one but on the Russian side. He works closely as researcher for Russian Institute of Forestry.

The interview was made via teleconferencing services with a recording. The When asking questions by me, and i made extra questions as well, when there was need of such. The interview took about an hour and later the answers were checked the tape from recording machine to minimize the amount of mistakes.

4.3 Analysis of the research and the results of the questionnaire

The first matter, which can be concluded from both interviewees was that the future of Russian forest industry looks bright and fruitful. The market of Russian forest industry are growing all the time and it has done so over the last 20 years, especially when talking about hardwood production. The development has made this possible and it will keep on growing for at least the next ten years. This matter has also been a topic of many researches.

In general, the current situation is very favorable for Russian pulp and paper industry, despite the slow growth rate of global economy and falling forest-product

prices on the world markets. Export- oriented forest industry of the country still gathers extra profits in rouble terms. However, as there is rapid growth, there is also downsides. Over the past 15 years, the Russian government has done lot to move away from the export of roundwood to post-processed products.

4.3.1 The current status of forest industry in Russia

The research shows, that lots of the actions will focus on the rural areas of Siberia, and the end markets are in China. There are tens of thousands wood processing enterprises in Russia, which most of are small private businesses. However, studies show that there seems to be two major businesses, Ilim- and Segezha group which are considered the most potential when considered which projects will be taken to the end.

Forest industry will continue consolidation and private forest business will be under more pressure. Because of the massive outcome which Russian forest industry can provide, it may be possible that sometime Russian forests will be controlled by the government itself. For example, the revenue of the 100 largest companies is 60% of the total revenue of the forest industry. Time will tell what will happen in the next years.

4.3.2 Finnish wood and paper industry export to Russia

It may be concluded from the questionnaire that Russia is the probably the most important market for export products for Finnish wood and paper industry export to Russia, but mostly for the Finnish machinery industry. The area of laboratory and consulting services is yet to have a breakthrough, because its very difficult to point out and acknowledge which of them has more potential and minimize the risks of the venture. It seems the markets are at that point, where Russia buys from any other country, not the other way around.

4.3.3 Government policy for foreign forest industry companies

A company venturing into the Russian market, more specifically a forest industry company, should remember that the actual access into the foreign market is easy,

but Russia wants to keep the money in the state. The state supports foreign companies that are trying to enter the Russian forest sector market, especially, European or Japanese companies. If we are talking about another new company, then the company must be registered by Russian legislation and this means that this company will have the same benefits and support measures as any other company from Russia. However, if we are venturing only consulting services the case may be different.

4.3.4 The future sights for Russian forest sector

The forest sector is mainly controlled by giant forest industries and experts seem to be very sure that nothing major will happen in the next 10-20 years. This is because of the economic stability of the big industries is much better compared to small ones. In addition, the risks are much bigger for small ones as the forests are owned by the Russian state, and protectionism for it is considerable in Russia.

If looking at the subject from the environmental aspect, logging will go deeper into reserve forests as there will not be enough raw materials and the will to develop virgin forests. At the same time, intensive forestry will be developed in the European area of Russia.

4.3.5 Effect of the expertise of Finnish forest consulting, service and production companies for Russian forest market

Over the years, Russian forest science and research has advanced immensely in the global scale, and lot of it has come from, the Finnish companies as the result of exporting their business.

For Finland is known to have high technological knowledge about forest machinery, which ensures the efficiency and productiveness of harvesting the materials from forest sites. Not only that, the Finnish forest machinery also ensures that nature preserved at the same time, so that it may grow again and not harm the soil while harvesting. This has had major impact on Russian forest industry. It can be concluded that it would have the same impact well in the forest consulting services, as Finnish researchers and consultants have acknowledge on the industrial

side on how to make most nature preserved and profitable machinery and recipes for biomass and cellulose for industrial factories

The questionnaire showed that if Finnish companies were to export their technologies to the Russian market, it would will be good for Russia and advantageous for increasing the efficiency of the Russian forest industry in the world.

5 CONCLUSION

The study shows that the venturing into Russian market might seem easy. The problem is, how a company, which offers consulting services finds the correct target area or market where to make their venture. The number of suitable projects is about ten to thirteen, and very few of them are potential. The questionnaire showed that the most probable successful projects are driven by the major companies in Russia. The others contain business risks, as they will probably never will see materialize, because of the economic stability and governance of the Russian state.

Many may have lot of prejudice against Russia and it may seem very difficult for Finnish companies to venture in the Russian market. Just by looking at the amount of documents needed for foreign companies, we can draw the conclusions, that the Russian government wants to make sure about the profitability and quality of service and products.

However, the future of is very bright economically in the Russian forest market as the Siberia has such favorable conditions for global forest industry. Especially, if a company manage to get foothold of it, then the doorway to China may be open as well.

This research can be considered as trustworthy, because the research material collected from reliable sources and the questionnaire was distributed to persons, who are experts in the area of this subject. They work closely in the research of the Russian forest sector and have over decade of experience in it. However, we must consider the fact, that if there would have been more interviewee, the results of the research may varied from this one.

6 DELIBERATION

The main objective for this thesis was to map out the current market situation of Russian forest industry and what different procedural processes and permissions affecting by it. In addition, the theoretical part of this study contains information about the governance of Russian state. The empiric research contains valuable information for the main objective as I interviewed experts of forest industry from very different perspective. One interviewee was part of a Finnish forest industry research -organization and the second interviewee was the opposite half from Russian organization. The questionnaire maps out, what is the current state of the market situation in Russia, and what is the future insights. These are very import measurements on how and when a foreign forest consultation services offering company should venture into Russian markets.

As research method, I used qualitative research method, as I provided the questionnaire questions for the experts using substantive questions about the subject. Research was done in the year 2019 spring, although the theoretical sources of this thesis is from the years 2014- present. There was vast amount of research material from literature, internet and the material provided from the case company. This is one of the reasons as well, why some of the material is classified.

When a research is done, it is always an objective to minimize the amount of false information. However, the reliability and competence may vary, and it is measured by reliability and validity concept. In qualitative research, the reliability concept consists the usage of material and analysis. Validity consists of how well the material was used on comparison of the research subject. The Empiric Research of this thesis can be classified as somewhat trustworthy. The study didn't necessarily give enough versatile material, and all the theoretical material was not from this date. However, by studying some of the material it may be give enough essential information for the case company. For the reader of this study, it was pointed out all the conclusions from the research, so it can be understand, criticize and believe the results of the empiric and theoretical research. (Hirsjärvi ym.2009, 231-233; Anttila 1998a.)

Validity measures the competency. This research is trustworthy by validity. The research included only the most important part considered the Russian forest industry market situation to Russia and this was noticed from whole time as I was writing this research from beginning to start. The interviewee was correct when thinking about the subject and the material got from it was substantial. The material could connected to the theoretical frame. (Anttila, P. 1998)

The subject of this thesis was very difficult, because of the available validity of material and because of the information given about the potential projects. As all of the projects, which are informed, are already incompetent for the case company. The research may be useful for every foreign company, especially Finnish companies, which are considering to venture into Russian forest market.

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ATTACHMENTS

Liite 1. Questionnaire

Attachment 1

QUESTIONNAIRE

1. Miten kuvailisit Venäjän puu- ja paperiteollisuuden markkinoita? Minkälainen tämän hetkinen tilanne on?
 - How would you describe the Russian wood- and paperindustry markets. (in generally). What is the situation right now?

2. Arviolta kuinka monta puu- ja paperiteollisuuden tehdashanketta Venäjällä on? Ja mille alueelle tulevaisuudessa hankkeet voisivat sijoittua
 - In your estimation, how many projects and factories there is currently in Russia? And in what area in Russia will the projects be located in the future?

3. Venäjälle.
 - Can you explain what kind of Finnish wood and paperindustry products especially are being exported to the Russian Markets?

4. Mitä Venäjälle konsultointipalveluja tarjoavan yrityksen tulisi muistaa. Esimerkiksi Miten valtio suhtautuu ulkomaisiin yrityksiin.
 - What is the government policy in Russia for foreign companies venturing into Russia Markets. More specifically in the Forest Sector?

5. Minkälainen tulevaisuuden näkymä näet Venäjän puu- ja paperiteollisuuden menevän seuraavien vuosien aikana (10-20v) ja onko Suomessa konsultointipalveluja tai muilla vientiyrityksillä tulevaisuutta siinä
 - In your opinion, how do you see the Russian wood- and paperindustry future (approximately 10-20 years). Do you see that Finnish forest sector companies have place in it?

6. Minkälainen vaikutus suomalaisilla metsäteollisuuden tai konsultointipalveluja tarjoavilla yrityksillä on Venäjän metsäsektorin markkinoille (esim. Ympäristön tai Teknologian näkökulmasta)
 - What kind of effects (ie. Technological or Environmental) would it be for Russian forest sector, if Finnish companies would export their products to Russian markets. (Laboratory consulting, forest machinery etc)

