



Nordic Countries

REFERAT WESTLICHE INDUSTRIELÄNDER

4 - 2008

Caravan capitalism in the North? – The Case of Stora Enso Dismissals in Finland

by Antti Alaja

The decision of Nokia to shut down its factory in the city of Bochum caused a wide-reaching political uproar in Germany last year. The concept of caravan capitalism, which was firstly used by the German minister of finance Peer Steinbrück, was consequently also used in the Finnish discussions. The German political protests encouraged thinking in Finland that maybe there are other possibilities than just adjusting to unfair decisions by the companies.

In October 2007 the Finnish forest industry giant Stora Enso published its plans to shut down offices and factories in Finland and Sweden. This “case of Stora Enso” has ever since become a controversial and a symbolic theme in the political debates in Finland. A significant reason for this lies behind the fact that the Finnish state is the largest single owner of the company.

In many European discourses the Nordic countries are often being portrayed as the winners of globalization, because of their ability to produce economic growth and do well in comparisons that measure economic and social development. The case of Stora Enso proves that globalization, understood here as opening international competition and accelerating industrial restructuring, should be considered to be a contradictory process even in a Nordic country like Finland. Stora Enso dismissals will have negative consequences to a balanced regional development. The limits of employees’ flexibility also limit the possibilities of active labour market policies.

The discussion around Stora Enso has also raised the question of democracy. It has revealed a situation, where politicians avoid taking responsibility over economic matters that shape peoples lives.

In October 2007 the Finnish-Swedish forest industry multinational Stora Enso published its plans to close down factories and offices in Finland and Sweden that would mean the loss of a total of 1400 jobs¹. Ever since the Stora Enso

redundancy notices were made public, they have become a more and more controversial theme in the Finnish political debate. One significant underlying reason is that the Finnish state has the largest single stake in the company. To be more

¹ The Finnish Act on Coparticipation obliges companies to negotiate with the representatives of the personnel on redundancy notices. At Stora Enso these negotiations concluded in January 2008. Altogether 985 jobs will be lost in Finland. 450 in

Summa, 214 in Kemijärvi and 170 in Anjala. The paper mill in Summa was already closed in the beginning of February and it is planned to close Kemijärvi mill in May.

exact, its shares give it 35.1% of the votes² in the company. Secondly, the Finnish centre-right government has consistently refused to take action to prevent the production cutbacks. One outcome of this “Stora Enso case” has been the emergence of a visible social movement named Kemijärven Massa, which is working to prevent the planned pulp mill closure in the small eastern Lappish city of Kemijärvi. At a more general level the dismissals have politicized the discussion of the possibility of political influence on multinational companies. The Nokia dismissals in the German city of Bochum offer an interesting international parallel to the Stora Enso case, because the German reactions against Nokia have been simultaneously noticed in the Finnish discussions. According to Risto Uimonen, chief editor of the newspaper Kaleva the reactions in Bochum have prompted ideas that there may be other possibilities in Finland than mere adjustment to global market forces. Interestingly enough, the concept of caravan capitalism³ was recently incorporated into Finnish political vocabulary through the influence of Bochum and Stora Enso dismissals. In the Finnish context this is a notable change, because it has not been common to use the conflictual concept of capitalism, when debating globalization in Finland.

The Nordic countries as a reference

In many European discourses the Nordic countries have been portrayed as the winners from globalization, because they have been able to produce economic growth and do well in international comparisons that measure economic and social development. On the other hand, in the Nordic debates it has been

characteristic to stress that the welfare state must be seen as a precondition for success in a global economy. In this context the welfare state’s ability to invest in people’s capabilities and to produce human capital is often mentioned. The Nordic model of collective risk sharing is seen as a key factor in maintaining a favorable public opinion to free-trade and globalization-friendly policies that are important for export-oriented industries⁴. In this article I wish to use the example of the Stora Enso dismissals to point out that globalization, understood here as opening international competition and accelerating industrial restructuring, should be regarded as a contradictory process even in a Nordic country like Finland. As my analysis in this article will show, the Stora Enso dismissals, in particular, will have a negative impact on balanced regional development. Secondly long distances and natural limits to employees’ flexibility limit the possibilities of active labor market policies. It is issues like these that should be taken into consideration when discussing “the Nordic model” as a successful model of globalization. The Stora Enso dismissals also call into question the legitimacy of democratic institutions in Finland, because it has revealed a situation in which politicians avoid taking responsibility over economic matters that shape people’s lives.

The forest industry as an aspect of Finnish industrial identity

The forest industry has traditionally been one of the core elements in the Finnish economy. It had a central, even decisive, role in the Finnish industrialization process and many industrial towns were in practice built around paper factories. In a historical perspective, the forest industry has also

² The votes linked to the shareholdings of the Finnish Social Security Institute are included in this figure.

³ The concept of Karawanen-Kapitalismus was used by German finance minister Peer Steinbrück, when he referred to Nokia dismissals in Bochum.

⁴ Implemented through its universal welfare state model. See for instance the Research Institute of the Finnish Economy study:
http://www.etla.fi/files/1892_the_nordic_model_complete.pdf

linked Finland more closely to Western Europe as most of the paper industry products were exported to the “west”. Considering this background, it is obvious that deep symbolic meanings, in addition to the economic and social considerations, are attached to the recent crisis of the Finnish forest industry. In the past years the discussion around the Finnish forest industry has centered on the question of whether the Finnish forest industry factories have a long-term competitive future. The availability and price of timber, digital predominance in offices and media, a weak dollar, the shifting balance in the world market and Russian plans to implement high timber tariffs have been some of the factors taken into account.

A shift in state ownership policies

When the Stora Enso board announced the mill closures in Kemijärvi and Summa, and production cutbacks in Anjala, it cited rising costs and long-term profitability plans. Later on Stora Enso has also mentioned the uncertain availability of cheap timber and impending Russian timber tariffs in 2009 as reasons for the production cuts. In any case the claim that there is a shortage of cheap Finnish timber has been widely contested in the Finnish public debate. A forestry professor, Matti Kärkkäinen, has stated that Stora Enso has not declared its true reasons for the pulp mill closure in Kemijärvi and that the company’s argumentation has not been consistent. Therefore Kärkkäinen has proposed a 10-year extension period for the mill. Stora Enso’s argumentation has also been strongly rejected by the Finnish Paper Workers Union. It claims that it has shown most of the company’s arguments to be false, and all of the arguments can at least be strongly contested. First and foremost, critics of Stora Enso see exaggerated profitability expectations behind the mill closures. After all, Stora Enso is trying to raise its profitability rate to 13%, and production cuts in Finland are

seen as a part of this strategy. In particular the Kemijärvi pulp mill closure has been widely criticized, because the mill has been undoubtedly profitable. This was shown by the purchase offers received by Stora Enso for the mill, which have been refused offers to avoid further competition.

Exaggerated profitability expectations have also been criticized in parliament. In November 2007 several Social Democrat and Left Alliance politicians demanded that as an owner the Finnish government should define more moderate (7%-8%) rates of return for Stora Enso. More moderate rates of return would make it possible for the closing paper and pulp mills to carry on, and this would mean taking regional and employment aspects into consideration in the state’s ownership policies. In his answer to opposition parliamentarians the minister in charge of government’s ownership policies, Jyri Häkämies, referred to Stora Enso’s board and experts, who according to Häkämies are capable of evaluating the long-term competitiveness and profitability of the company. Political intervention in company decisions would only scare off investors. According to Häkämies’s technocratic view, state ownership policies should not even be considered to be political.

In response to opposition criticism, the government has claimed that it is only implementing the ownership policies that were shaped by the previous governments, in which the main opposition party, the Social Democrats were involved. The question of continuity stands at the centre of party political confrontations in the Stora Enso case as citing continuity enables opposition criticism to be branded as populism. The social democratic demand for a shift of policy seems valid in the light of the new Act on ownership steering and the government’s lack of action in relation to the Stora Enso case. The new Act on ownership policies came

into force on the 1st of January 2008, and in contrast to previous legislation it does not consider active ownership policies if the state possesses less than half of the votes in the company. Secondly, the government resolution on active ownership states: “The state does not accept or require any exemptions, and ministries do not intervene in the decision-making of the board of directors and executive management of the companies”. The government’s stated objective of active ownership seems contradictory, if it simultaneously follows the policy of non-intervention.

The President of Finland, Tarja Halonen, referred to the Stora Enso dismissals in her formal address at the official opening of Parliament on February 6th. Halonen raised the question of whether the state’s current ownership strategy paid sufficient regard to employment and regional aspects. She also emphasized parliament’s role in determining state ownership policies. The case of Stora Enso was in fact taken to a parliamentary level when the opposition moved a motion of no confidence in the government on February 12th. The opposition claimed that the government had acted in a passive and contradictory way when negotiating with Stora Enso. The Act on active ownership requires employment and regional aspects to be considered in ownership policies. The opposition’s view is that the government has failed to act according to these principles, and that it has also refused to give an open and detailed analysis to the parliament of its involvement in Stora Enso.

Far-reaching regional consequences

In the public discussions on the Stora Enso dismissals, the eastern Lappish city of Kemijärvi has been at the centre of attention. Kemijärvi is a community with a population of 9,759 situated 896 kilometers north of Helsinki. In 2003 a

decision by the mobile phone charger manufacturer Salcom to move its production from Kemijärvi to China led to the closure of a factory in Kemijärvi. The tendency of companies to shift industrial production to countries with lower labor costs and closer to potential markets has been called “*the China phenomenon*” in Finnish public debate. It was in fact the Salcom dismissals that established the concept of the China phenomenon in Finnish public consciousness.⁵ So, for the second time in five years, the community of Kemijärvi has ended up symbolizing wide-ranging changes in Finnish society.

The Stora Enso mill closure is estimated not only to have a catastrophic impact on the community of Kemijärvi but on the economic region of Eastern Lapland as a whole. According to a study by the Government Center for Economic Studies⁶, the GDP of Eastern Lapland would be 31% lower, there would be 1866 jobs fewer and the unemployment rate would be 22% higher, if the mill had never been built in Kemijärvi. Against this background, it is hardly surprising that the mill closure plans prompted a broadly-based social movement, *Kemijärven Massa*, to oppose them. The movement has, for instance, opened an online petition against the closures, which was handed to the key cabinet ministers on February 4th. A considerable number of demonstrators gathered in front of the Finnish parliament to hand over the petition.

The mill closure in Kemijärvi has received most of the Finnish media attention, but the 450 employees dismissed from the Summa paper mill in Hamina will also be facing difficulties in finding work in the area around their homes. Luckily Hamina’s geographical position between Helsinki

⁵ Kipeä Kiina-ilmiö. Suomalainen ay-liike ja kansainvälistymisen haasteet.
<http://www.sask.fi/info/Raportit/Kiina-ilmi%F6.pdf>

⁶ http://www.vatt.fi/file/vatt_publication_pdf/k368.pdf

and St. Petersburg should offer greater possibilities for economic development than the position of Kemijärvi in Eastern Lapland. Stora Enso sold part of the Kemijärvi pulp mill to the Anaika Group, which is planning to run engineering and gluelam beam operations in the factory. Stora Enso has a more optimistic approach to the employment possibilities and future perspectives of this production than the local population in Kemijärvi.

Reaction from the unions - Are globalization funds needed?

The Central Organization of Labor Unions, SAK, has demanded an extension period for the Finnish mills. SAK emphasizes that other solutions must be considered before cutting back on production. A study which would analyze timber availability and the prevailing market situation in depth should be conducted before any decisions are made. In this context, the president of SAK, Lauri Ihalainen, pointed out that so far globalization has been largely favorable for the Finns, because it has benefited the Finnish export-oriented industry. It is exactly this kind of case, however, that demonstrate the vulnerability of employees in the times of change. Exaggerated profit expectations also undermine the good work and commitment offered by the employees. According to Ihalainen, the Stora Enso case has proved that Finnish society has not been adequately prepared to face these kinds of radical changes. In future Finnish society must prepare far-reaching plans on how to act if structural changes occur. Ihalainen concludes that the closures undermine the trust of citizens in democracy because politicians seem to be powerless to assert their democratic mandates against international market forces. This could in future seriously weaken the central pillars of political trust and co-operation that have been so central to the success of the Finnish system.

The president of the Finnish Confederation of Salaried Employees, STTK, Mikko Mäenpää, proposed in reference to the Kemijärvi dismissals that Finland should consider developing national globalization funds which would help the areas and regions that have lost jobs to global restructuring. According to Mäenpää, the present unemployment benefits and flexicurity⁷ measures are good systems, but they are not extensive enough to meet today's challenges. In today's global economy even profitable units can be closed down, which is exactly what the Kemijärvi case has shown. Mäenpää sees that the compensation offered by the state to areas suffering from restructuring are often lower than expected. Secondly, the principles of the European Union's globalization funds are problematic, because if dismissals take place some regions receive compensation and some do not. This is why Finland needs a national globalization fund to support the prevailing systems. The fund could be financed by the companies and the state, and employees could also bear their share.

Consequences for Finnish political culture

The Stora Enso case started a far-reaching debate in Finnish society, and it is still difficult to evaluate its political consequences. It has been assumed by different commentators that the dismissals would put the ruling Centre Party under pressure. It has agrarian roots and its strongholds are still situated in areas like eastern Lapland. This clearly implies a possibility that the party could find itself in serious conflict with its traditional supporter base. An expert on civic movements, Professor Esa Kontinen, compared the conflict in Kemijärvi to the birth of "The Finnish Countryside Party" SMP. SMP was a successful, but short-

⁷ The closest Finnish to flexicurity, "muutosturva", refers to security and change.

lived protest party from the 1960's until the 1990's which consisted of a fraction that had left the Centre Party. The former chief editor of the centre-leaning newspaper *Ilkka*, Kari Hokkanen, also draws comparisons between SMP and the Kemijärvi movement. Both of the movements reflect changes inside Finnish society. The Centre Party is under pressure because globalization and the European Union have weakened the scope for regional policies. The municipal elections next fall will tell whether the predictions of the Centre Party's downturn in the countryside will be realized.

The Stora Enso case has also revealed two opposite reactions and political positions. Firstly, the Kemijärvi pulp mill closure has become a symbol for the impotence of democratic politics in an era of a globalized economy. The Kemijärvi mill symbolizes this change of industrial policies perfectly, because the mill itself was built in the 1960's through a regional policy initiative from the Centre Party President, Urho Kekkonen. The question of lack of power has been problematized by numerous politicians, labor unionists, activists and citizens. The alter-globalization network, Attac Finland, has probably been the most prominent participant in discussing this issue. It received a great share of media attention when it demanded a Finnish boycott of Nokia after the Bochum dismissals. According to Attac Finland, consumer boycotts seem to be the only effective ways for citizens to oppose such injustices. The network has also demanded a stricter Europe-wide dismissals legislation that would protect employees from such acts of caravan capitalism. Social Democrat MEP Riitta Myller also sees common caravan capitalistic characteristics in Kemijärvi and Bochum. According to Myller, this sort of business logic has a negative impact on the will of citizens to participate. How can citizens be expected to have an interest in politics, if politics can not influence

questions that concern their welfare and income.

The second political position portrays the dismissals as unfortunate for the employees concerned, but then again it sees Schumpeterian creative destruction at work as old factory jobs are being lost. This perspective does not problematize the diminished power of politicians and mainly emphasizes the need for the individuals to adjust and be flexible, when conditions change. Consider, for example, the views of the former Centre Party Prime Minister, Esko Aho, on the Stora Enso and Nokia dismissals. In his article with John C. Kornblum⁸ in the *Frankfurter Allgemeine Zeitung* Esko Aho offered this analysis: *“Politicians may be mad. Workers may demonstrate. From the perspective of global integration, these angry protests are useless. The problem is not companies such as Nokia or Siemens, even though they have much to learn about gaining political acceptance for their investment decisions. It is about the new logic of global competition in the information age. Aho continues: “The public debate too often still focuses on wages and job security. But they are no longer the main problem. The new paradigms concern market creation, mobility of resources and risk taking as well.”* Aho's and Kornblum's perspective solely emphasizes the progressive sides of Schumpeterian creative destruction, and in their article they state without hesitation: *“The success of Europe in this process cannot be measured by the traditional industrial jobs saved, but by the number to be created.”*

All the major political parties in Finland like to be associated with the idea of the welfare state. This characteristic together with a consensus-oriented political culture often leads to criticism of the small

⁸ John Kornblum is former United States ambassador to Germany. At the moment he works as a business advisor in Berlin.

differences between the major political parties. The Stora Enso case has in any case shown that there are clear differences of opinion over the question of whether legitimacy can be found for industrial production cutbacks in the new rules of global competition. The Stora Enso case has revealed the passive and acquiescent position of the governing centre-right parties, but the Social Democrat position has not yet been clear enough on this issue. This is something that the Social Democrat Party will be discussing in the coming months, as they elect a new party chairman in June.