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Policy Exercise for
Stakeholders in the
Forest Sector in the
Murmansk Region

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Preface

This report consists of materials on presentations, group-work and discussions during a policy exercise for stakeholders in the forest sector in the Murmansk Region. The exercise took place in Murmansk City during the three days 23 - 25 October 2000. Approximately 20 representatives from the forest management units and forest companies gathered with the representatives from the regional administration and NGOs. The policy exercise was initiated by the research organisations: Institute of Economic Problems (IEP), Kola Science Centre in Apatity, Russia, International Institute of Applied System Analyses (IIASA) in Vienna, Austria, together with Norwegian Institute of Urban and Regional Research in Alta, Norway. These researchers organisations has conducted a study of the institutional changes in the forest sector in the Murmansk region, and wanted to initiate a process in which stakeholders are engaged to make contributions towards the development of a regional forest policy.

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Project Leader

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1 Background

With its limited size the Murmansk forest sector has not gained much attention, neither from the regional authorities nor from researchers. The stakeholders of the sector have until now had little contact and discussions with each other concerning common problems and challenges.

The International Institute for Applied Systems Analysis (IIASA) in Austria has been coordinating an international research project on sustainable forest management and forest use in Russia. The institute has compiled an extensive database and developed tools for analysing the conditions in the Russian forest sector at the regional level. Case studies have been conducted in order to understand the institutional embedding of the forest sector in eight Russian regions, including Murmansk.¹ The study of the forest sector in Murmansk was conducted in collaboration with the Institute of Economic Problems (IEP) at Kola Science Center, Apatity, and the Norwegian Institute of Urban and Regional Research (NIBR), Alta, Norway. The report presenting the result of this study is largely based on interviews with forest enterprises, the forest management and other authorities in the region.²

After collecting and analysing the data from the Murmansk forest sector, the project moved on to a second phase; to make the results of the research known for the regional forest sector stakeholders with the hope that they would be interested in using the new knowledge. The three co-operating institutes therefore agreed to arrange a so-called “policy exercise” for stakeholders in the Murmansk forest sector. The exercise took place on October 23 –25, 2000, in Murmansk. The Murmansk region was the second place to host such an event, the first was Tomsk (in June 2000) and Karelia later followed at the end of November.

A policy exercise should be seen as a means to initiate a process in which stakeholders are engaged to make contributions towards the development of a regional forest policy. Stakeholders are, for example, representatives of forest enterprises, forest management, the regional administration, environmental NGOs, and researchers. The number of regional participants in the exercise is limited to allow a discussion where all can easily participate. The goal of the exercise is to identify the main obstacles for a sound and sustainable forest sector development and a consensus on possible ways to solve the identified problems. Policy exercises are a tool for stakeholder participation in the formulation of public policies. As such it has been recommended by the international forest community as the primary means for establishing strategies for the long-term development of the forest sector.

¹ Other regions in the study were Arkhangelsk, Karelia, Moscow, Krasnoyarsk, Tomsk, Irkutsk, and Khabarovsk.

² Cf. Ivanova, Lyudmila and Vigdis Nygaard (1999). *Institutions and the Emergence of Markets – Transition in Murmansk Forest Sector*. IIASA Interim report (IR-99-07). International Institute of Applied System Analysis, Laxenburg, Austria.

2 Preparations for the policy exercise

The three institutes responsible for the policy exercise formed an organising committee to prepare the program and take the necessary contacts. The Institute of Economic Problems (IEP) was responsible for all practical arrangements before the seminar, for finding suitable premises and participants. Invitations were sent out in September to forest companies and local forest management units, as well as to regional administrative bodies. The local organiser, Lyudmila Ivanova of IEP followed this up by regular contacts with the stakeholders and registration of the participants.

Most of the participants were from forest villages outside of the City of Murmansk, many with 5–6 hours' drive to reach the conference location. For practical reasons, therefore, the seminar started after lunch on October 23, so everyone would be able to travel to Murmansk on the same day. The exercise also ended after lunch on October 25, so that everyone might get back home before the end of the day. All outside participants were accommodated at Hotel *Polyarnye Zory*, where the exercise took place. The hotel has good conference facilities with access to a business centre, a restaurant and cafeterias for meals and snacks. All the plenary sessions took place in the Conference Room, while group discussions were held in smaller rooms.

3 The Selection of participants

There was never any intention to have an open seminar with a large number of participants. Rather the idea was to find a group of people that was interested in making an active contribution to the discussion. It was, however, a goal to have participants representing different groups of stakeholders. In the earlier phase of the project, interviews had been made with several stakeholders. It was therefore considered appropriate to invite the respondents in the earlier survey to take part in the policy exercise.

There were many representatives of local forest management units present at the seminar.³ There were also representatives from the regional forest management and the Regional Committee on Environmental Protection. The regional administration was represented with two participants; one who has been actively working with the forest sector for several years, and the other a newly appointed Head of Department. In addition to the representatives of the research organisations hosting the meeting, there was one more forestry researcher. There was also a regional from a regional environmental NGO. The seminar had six enterprise leaders participating (two of them representing state/municipal enterprises). More enterprise leaders would have been welcome. And, indeed, more business people had been invited, but for various reasons they never showed up. It was also very positive with the large number of participating women. Almost half of the participants were female, mostly representatives of local forest management units (*leskhozy*).

The number of participants changed during the three days, since not all of participants stayed during the whole seminar. Apart from the organisers (6 persons), there were about 20 Russian stakeholders participating. The number was high during the whole program on the first day –somewhat smaller on the second and third day (about 15 people).

³ See the full list of participants in the attachment.

4 The first day

The first day of the exercise was dedicated to different presentations forming the background for the next day's discussion⁴. The seminar started with a small welcoming speech and with short presentations of the organising institutes.

- Short welcoming speech by Vladimir S. Selin, Director, The Institute of Economic Problems (IEP), Apatity, Russia
- Presentation of IIASA by Mats-Olov Olsson, IIASA, Laxenburg, Austria
- Explanation of the goals and means of the exercise by Peter Duinker, University of Dalhousie, Canada

Mr. Alexander Alimov from the Murmansk regional administration ended the first session with a presentation of the Regional program of socio-economic development. The program has been adopted by the regional Duma, but there is still work going on to find the financial resources for its implementation. Alimov said that previous programs had been unrealistic, like a list of wishes without any co-ordination. This time, he claimed, the program could really be put into action. He admitted that, in the present program, there is no special emphasis on the forest sector. He listed some general initiatives that can also be used for the forest sector. One is the regional law establishing "Zones of economic development," where special companies and sectors can have reduced taxes and delayed tax payments. He mentioned the problems of getting bank loans, and the possibility to get credit from the regional budget. There is also a possibility of making state orders of forestry products. Alimov pointed out how important it is that the forest sector can come up with good projects as inputs in the program.

The second session was dedicated to presentations of the results from the IIASA project. Lars Carlsson made a presentation of the IIASA study on the institutional embedding of the Russian forest sector. The IIASA team had made overhead slides in Russian where the general trends from all the analysed regions were put together. Some main trends and findings from the Russian survey of companies were presented and compared with similar figures from Swedish companies. (See attachment for copies of the overhead slides)

Lyudmila Ivanova and Vigdis Nygaard presented the results of the Murmansk study. This study consists of a survey of 24 interviewed forest companies and forest management units. In the report emphasis is put on the privatisation process and on how the sector has managed to adapt to the changing conditions. (See the attached article "The Murmansk forest sector – a future in the market economy?")

There was no time for a debate after each presentation, but the participants could ask questions. What came up after the presentations of Alimov and Ivanova/Nygaard, was a discussion of the role of the Regional administration. The participants were complaining

⁴ See attachment for full programme.

about too little attention and practical work to solve the problems of the sector. Mrs. Zimina responded to these complaints on behalf of the regional administration listing what she herself had been working on through the years. Among other things she said that two regional forest companies had been given loans that had already been paid back. She also mentioned that the administration had been actively trying to establish an association, but that this never succeeded. In spite of her explanations, it seemed that the exercise participants still wanted to stress the need for a more profound attention from the regional administration.

The first day ended with Peter Duinker giving the participants homework to think about till the next morning. He wanted all participants to list the three most important and difficult problems that the forest sector in the Murmansk region have to solve.

5 The second day

The second day started with Peter Duinker giving an introduction, in which he summed up the presentations from the day before and added instructions for the coming group work. He stressed the importance of an active contribution by the participants in the discussion. Then the participants started to uncover the problems. Each participant listed one problem. This continued around the table as many times as needed to get all problems presented. The foreigners were not participating, as it is essential in an exercise like this that the participants identify the problem areas themselves. Duinker wrote down all the problems in English on one flip-over as the participants presented them, while Lyudmila Ivanova wrote the Russian translation on another. This way it was possible to follow the presentation in both languages and make sure that the misunderstandings through translation were corrected. All together the participants came up with 38 problems:

1. The Federal re-organisation has confused forest utilisation and protection
2. The Murmansk administration has abandoned the forest sector
3. Regeneration problems, especially in areas suffering air pollution
4. Shortage of professional foresters and forest engineers (low salaries)
5. Focus is too narrow, on timber only (need broader conception)
6. Forest resources being exhausted
7. Inability to use Group I forests to earn income
8. Ill-defined private property rights related to all forest uses (legal problem)
9. Too much central control on regional budget, including taxation
10. Inappropriate allocation of forest land to the 3 groups (should be all Group I)
11. Lack of economically attractive forest resources
12. Lack of money
13. Lack of co-ordination of forest industry at the regional level
14. Suburban forests are highly littered
15. Lack of managers who are energetic, highly skilled, of high ethical/moral standard, patriotic
16. Taxes are too numerous and high
17. Contradictory forest laws
18. Obsolete machinery
19. Inability to cut the AAC in Group I forests because of access problems
20. Inability to attract both domestic and foreign investment of sufficient size, for project implementation
21. Lack of skilled machine operators (old work force, young people need training)
22. Too low status for conservation officers
23. Inability to “secure” a loan

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24. Lack of trust in business deals
 25. Poorly developed stock market
 26. Poorly developed mechanisms for implementing leasing arrangements
 27. Burden to enterprises to support forest-based communities
 28. Lack of compensation/concessions for road building
 29. Lack of appropriate regional regulations on harvest methods, both intermediary and industrial
 30. Lack of institutional support for development of forest regulations
 31. Undeveloped mentality for market economy
 32. Too high obligations of employers to employees upon termination
 33. Economic instability, especially rising fuel prices
 34. Lack of programs to care for forest-based communities where main enterprise has gone bankrupt
 35. Finished products customers stopped buying because of high prices
 36. Lack of “union” of forest interests to lobby the regional Duma
 37. Future problem - inability to serve export markets if not certifiable (e.g. FSC)
 38. Lack of publicly available information about forests

This set of problem covers many topics that are intertwined and must be discussed in relation to each other. The organisers discussed different ways of dividing the participants for the group work, but came to the conclusion that groups would have to be established in accordance with topics. The participants were divided into two groups that were given, respectively, the responsibility of the following topics:

Financial, technical and ecological problems (this group was chaired by Mr. Dennis Smirnov, environmental NGO representative and researcher at the Institute of Environmental Problems, Apatity); and

Legal, personnel and social problems (this group was chaired by Mr. Igor Biryukov, individual businessman, Murmansk).

6 The group work

The groups had a second session before lunch and the rest of the day to discuss the particular problems that they had been assigned. This was enough time to have a good discussion, but it was not enough to get into all of the problems to the same extent. The groups had to concentrate on some selected issues.

Group 1 discussing financial, technical and ecological problems

The group consisted of eight people. One participant left after lunch, but another one, who was absent before lunch, joined the discussion instead. The work went fine, the discussion was interesting and everybody took part on equal terms. In the beginning the participants wanted to identify what was the main focus of the seminar – the forest industry or something broader. It was decided to discuss problems relating to the forest management as well as problems relating to the forest industry, since all problems are, in fact, intertwined. Financial issues, however, were discussed separately, since the forest management and the forest industry have different ways of funding their activities. Technical problems are common and closely connected to financial issues. That is why the group participants did not spend much time to discuss them.

An interesting discussion of ecological problems started when the group chairman showed some pictures of clear-cut areas where he believed nature had been seriously damaged. Neither the foresters nor the industry representatives shared his opinion. They claimed that the forest could be easily reproduced on those areas. Foresters and forest industrialists often act on a united front if they disagree with the opinion of environmental organisations when discussing ecological problems. It is probably because they are in a way connected to the same business. They were also not very excited when ecological certification was mentioned as a necessary condition for the future. Even though its importance is quite obvious, everybody realised that under the present conditions it would be just one more burden on the shoulders of a sector that is already heavily problem-laden.

Group 2 discussing legal, personnel and social problems

The discussion started with a rather heated debate between one company director and Mrs. Zimina from the regional administration. It was mainly a continuation of the discussion on what the administration has done and what it has neglected. Mrs. Zimina defended herself pointing to lack of money and lack of personnel who might work on the issues. But she stressed that much could be done if only sector people would come to them with good proposals. The company director meant that whatever they did, they always got negative answers. After this hot discussion, things calmed down and the other participants took a more active part. It was a good exchange of information and experiences as some of the problems put forward in one company had been solved in another. Information on different programs and funds (national, regional and international) were given. Mrs. Zimina of the regional administration also made some good recommendations on how forest sector representatives could present the problems to

the administration and other regional and state organs. By the end of the session, the group leader played an active role in structuring the results of the discussion under various topics. The group leader and the secretary, who had been taking notes during the discussion, were working after the session to prepare presentations for the final plenary session.

7 The third day

The last day started with the presentation of results from the groups. The group leaders made good presentations with figures explaining the various clusters of problems. They were both concentrating on 3–4 main problems that most of the other identified problems are connected to.

The discussions of Group 1 resulted in the following proposals:

*Leskhoz*y should be given a clearly defined juridical status. If it is a state service it should get 100 % funding from the state budget. In this case they will have no commercial activity and only have control and protection functions.

The existing “Law on Northern territories” should be implemented, i.e., the extra-payments for working in the North must be paid from the Federal centre in accordance with the law, and not have to be covered by the companies as is happening today.

The scope of the regional law on “Zones of economic development” (which offers exemption from some regional taxes) should be extended to those districts where the forest industry is being developed.

Investors should be exempt from taxes for the first years of the company’s activity.

Forest companies should be granted privileged loans (from non-budget funds) by the regional administration to renew their fixed assets.

Obligatory certification of timber is considered as a problem for the seller when you sell on the foreign market.

The discussions of Group 2 resulted in the following proposals:

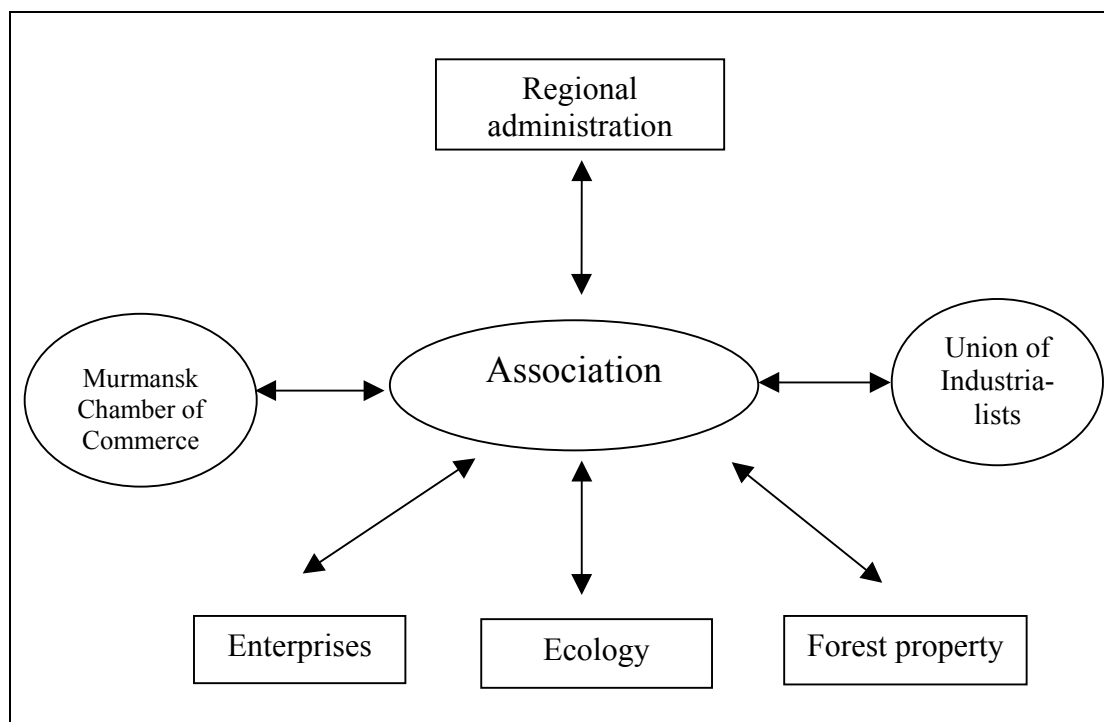
Training of personnel for the forest industry should be improved. Solution: Preparation of an application to the Committee on Labour and Employment of the Murmansk regional administration with a list of specialists needed.

Representatives of the forest management and the forest industry together with regional researchers should develop regional rules for selling standing timber.

There is a need to form a regional information centre. To do so an application should be sent to the Centre for Scientific and Technical Information with the request to develop a program for the compilation and dissemination of information on the situation in the

Murmansk forest sector (through mass media and the Internet), the goal being to create and maintain a database.

The participants finally agreed on the need to establish an association of forest sector stakeholders (representatives of forest industry, forest management, and environmental organisations). Such an association would be set in the following context (cf. Figure).



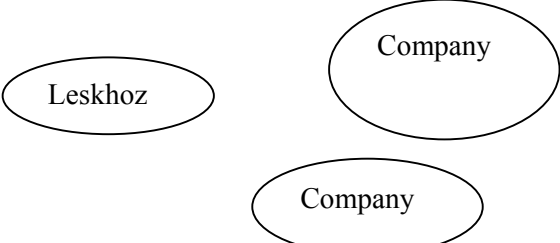
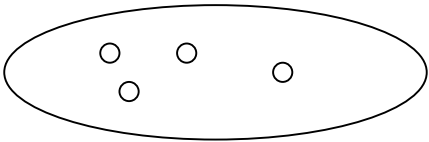
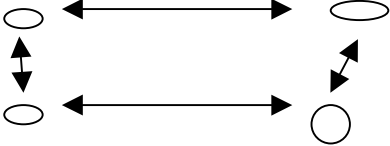
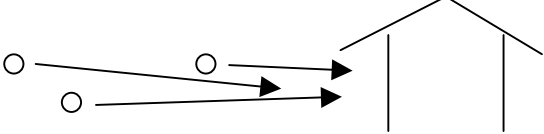
The two presentations triggered a lively debate among the participants. Most of it was devoted to a discussion about a possible association for the stakeholders of the forest sector. Alimov from the regional administration made a long speech about different existing organisations under which this might be set up. It was clear from the discussion afterwards that the participants had different opinions about this and that there is a need to discuss it more in detail.

Peter Duinker stressed the need to clarify:

- Who shall be the members?
- What shall be the mission?
- Who shall take the initiative?

Should it be an independent organisation or should it be part of an already existing organisation?

Lars Carlsson summed up the discussion about associations by outlining 5 possible organisational models.

<p>1</p> 	<p>Changes within existing stakeholders</p>
<p>2</p> 	<p>Union</p>
<p>3</p> 	<p>Network: companies keep their independence, but agree to work together</p>
<p>4</p> 	<p>Incorporate the stakeholders in an already existing organisation</p>
<p>5</p>	<p>Continue the discussion</p>

Peter Duinker closed the seminar by thanking the participants for their good work and patience. Some of the participants expressed their gratitude towards the organisers who had made it possible for the sector stakeholders to meet. This was the first time that so many stakeholders of the Murmansk forest sector had met and discussed common problems.

8 After the seminar

When the seminar was officially ended (with lunch) the Russian participants met for a further discussion on how to follow up the results. This initiative was solely Russian, and without any influence of the foreigners. They captured Lyudmila Ivanova, and elected her organiser of their next meeting planned to take place at the end of November. A summary of the seminar was worked out after the seminar by Ivanova, and accepted by the group leaders (see attachment). This summary has been delivered to the Murmansk regional administration for information purposes.

9 Media

As far as we know, there were no announcements of the policy exercise in the regional newspapers before its start, even though the organisers had sent out both articles and other information describing the event and the situation to be discussed. Only during and after the seminar were there some notes, a small one in *Polyarnaya Pravda*, and a larger one on the first page of *Murmanskii Vestnik*. The heading of the latter was “The forest sector is looking towards the future”⁵. The regional television filmed the seminar and a sequence was broadcast on Monday, October 23.

⁵ See three press clips attached.

Appendix 1

Participants

LIST OF PARTICIPANTS TAKING PART IN THE MURMANSK EXERCISE

№	Name	Organisation	City
1	Lars Carlsson	IIASA/Luleå University	Vienna/Luleå
2	Peter Duinker	Dalhousie University	Canada
3	Vigdis Nygaard	NIBR	Alta
4	Mats-Olov Olsson	IIASA/Umeå University	Vienna/Umeå
5	Alexander Alimov	Administration of Murmansk region	Murmansk
6	Nadezhda Zimina	Administration of Murmansk region	Murmansk
7	Nikolay Pekush	Murmansk Forest Management	Murmansk
8	Evgeniy Olesik	Committee on Nature protection	Murmansk
9	Valeriy Sokolov	Committee on Nature protection	Murmansk
10	Vladimir Selin	IEP	Apatity
11	Lyudmila Ivanova	IEP	Apatity
12	Tamara Malkova	IEP	Apatity
13	Dennis Smirnov	Kola Nature Protection Centre/ INEP	Apatity
14	Svetlana Chukareva	Kolskiy leskhoz	Kola
15	Ekaterina Krasilnikova	Murmanskiy leskhoz	Murmansk
16	Valentina Nakhaeva	Lovozerskiy leskhoz	Revda
17	Alexander Pavlov	Kovdozerskiy leskhoz	Zelenoborskiy
18	Tamara Serebrovskaya	Monchegorskiy leskhoz	Monchegorsk
19	Igor Biryukov	Private company	Murmansk
20	Alexander Dvoryankin	CSC «Priroda»	Verkhnetulomskiy
21	Igor Ivaniv	MULP «Belomorles»	Umba
22	Kari Tahtinen	CSC «Eurotiivi»	Kola
23	Alexander Tesalovskiy	OSC «Kovdorskiy lespromkhoz»	Kovdor
24	Margarita Tilikova	CSC «Kovda Timber»	Zelenoborskiy

Appendix 2

Programme

SCHEDULE FOR THE POLICY EXERCISE

Monday, 23. October

- 13.00-13.30 Hotel “Polyarnye Zory, Murmansk”
Registration
- 13.30-15.00 Introduction and welcome of leading participants from IIASA and Russia (30 min.)

Lars Carlsson, IIASA forest project, speaks about IIASA and its research on forestry (30 min.)

Peter Duinker, main facilitator of the meeting, explains the goals and means of the exercise (20 min.)
- 15.00-15.30 Alexander Alimov, Murmansk regional administration speaks about regional development of Murmansk oblast
- 15.30-16.00 Coffee, tea
- 16.00-17.00 The IIASA study on the institutional embedding of the Russian forest sector is presented by Lars Carlsson and Mats-Olov Olsson, IIASA research team
- 17.00-18.00 The IIASA study on the institutional embedding of the Murmansk forest sector is presented by the researchers Lyudmila Ivanova, IEP and Vigdis Nygaard, NIBR
- 20.00 Dinner at hotel restaurant

Tuesday 24. October

- 09.00-11.00 Plenary session lead by Peter Duinker
1. Short summary of first day.
 2. Discussion. The purpose is to identify what the Russian participants see as the main problems besetting the forest sector in Murmansk
 3. Peter Duinker presents a synthesis of the problem set and establishes working groups in which the Russian participants will discuss the

-
- problems.
- 11.00-11.30 Coffee, tea
- 11.30-13.00 Group work/discussions among the Russian participants
- 13.00-14.30 Lunch
- 14.30-16.00 Group work/discussions among the Russian participants continues
- 16.00-16.30 Coffee, tea
- 16.30-18.00 Group work/discussions among the Russian participants continues
- 20.00 Dinner at restaurant *Inari*

Wednesday 25. October

- 09.00-11.00 Plenary. Representatives of the groups inform about the outcome of the discussions in their respective groups (“debriefing”). Discussion.
- 11.00-11.30 Coffee, tea
- 11.30-12.30 Closing of the policy exercise. Forming of working groups for continued work on solving identified issues
- 12.30-13.00 The IIASA team meets with representatives of the various working groups (one at a time) to discuss the plans for their work, working out final document
- 13.00-14.30 Lunch
- 14.30-15.30 Excursion to *Kolsky leskhoz*

Appendix 3

Presentation of the IIASA project on institutional changes

Appendix 4

The Murmansk forest sector – a future in the market economy? Article presenting the results of the Murmansk study

Article presented at Policy Exercises in Murmansk 23. – 25. October 2000

Lyudmila Ivanova, IEP

Vigdis Nygaard, NIBR

THE MURMANSK FOREST SECTOR – A FUTURE IN THE MARKET ECONOMY?

Introduction

Together with the Norwegian Institute of Urban and Regional Research (NIBR) in Alta and the International Institute for Applied Systems Analysis (IIASA) in Vienna, the Institute of Economic Problems (IEP) has made a study of forest companies in Murmansk Oblast⁶. The aim of the study was to find out how the forest companies have responded to institutional changes during the 1990s. Institutions are legal, administrative and customary arrangements for repeated human interactions. The major function of institutions is to increase the predictability of human behaviour (Pejovich, 1998). The changes in the Russian forest legislation and system of management have been considerable, and the new arrangements for selling and buying forest products have challenged the forest companies. These institutional changes have taken place in the period when companies moved from a planned economy to a market system.

⁶ The Murmansk study is one among a number of case studies dealing with institutional aspects of the Russian forest sector that have been published by the project (see Carlsson and Olsson, 1998a, 1998b; Carlsson, Lundgren and Olsson, 1999; Carlsson et al., 1999; Kleinhof, Carlsson and Olsson, 1999; Efremov et al., 1999; Fell, 1999; Jacobsen, 1999; Lehbruch, 1998, 1999; Malmlöf, 1999; Piipponen, 1999; Pappila, 1999; Ivanova and Nygaard, 1999; Blam, Carlsson and Olsson, 2000; Sokolova, 2000; Carlsson, 2000a; Nysten-Haarala, 2000; Mabel, 2000).

The Murmansk forest sector is marginal in comparison with the more forest intensive neighbour regions of Karelia and Arkhangelsk, but also in relation to other sectors of the economy in the Murmansk region. The forest resources in the Murmansk region are scarce and the sector has a low productivity due to the harsh climatic conditions. The industry is limited to harvesting companies and sawmills with some processing industry producing furniture, windows and doors. The paper and cellulose industry, which is so important in Karelia and Arkhangelsk, is entirely absent on the Kola Peninsula. The mining, metallurgy, energy and fish industries are the most important branches, with the forest industry contributing less than one per cent of the industrial employment and production value. The forest industry has never played an important role in the overall development of the regional economy and, therefore, it has not got much attention from the regional government nor from the research establishment.

Nevertheless, the Murmansk forest sector has gone through the same institutional changes as the sector in other regions and is struggling with the same kinds of problems. It is therefore legitimate to compare the development in Murmansk with that of other Russian regions. A questionnaire developed by IIASA has been used in all the eight Russian regions included in the project,⁷ and most forest companies in the Murmansk region were interviewed using this questionnaire. Twenty-four interviews have been made with companies and *leskhozy* in the Murmansk region. The questions that company leaders were asked to answer focus on company characteristics, inputs and outputs in the production process and their attitude to various rules and laws. Through this questionnaire we obtained quantitative measures of production and employment as well as personal views on questions related to institutional changes affecting companies' activities. The interviews were made in the Murmansk region during March–April 1999, at a time when the August 1998 rouble-crisis had brought production to an all-time low and pessimism was widespread in the sector. Prior to this, harvesting and production output had gradually dropped during the 1990s. Industrial harvesting in Murmansk Oblast fell from about 1,000,000 cubic meters at the beginning of the decade to less than 100,000 in 1998. A similar decline was experienced in all Russian regions included in the IIASA study. From this bottom, it could only turn upwards. Figures for 1999 are showing that industrial cutting on the Kola Peninsula reached 160,000 cubic meters.

Distinguishing features of the Murmansk forest sector

It might be interesting to see what distinguishes the Murmansk forest sector from that of other regions. The Murmansk sector is characterised by its remote location in relation to central Russian markets and its closeness to export markets in Scandinavia. This is both a disadvantage and an advantage for the sector. The possibility to expand on the national market is restricted by competition (both in prices and quality) with products from other more central regions. The Murmansk companies also have the disadvantage of high transport costs from the production site to the national market. However, the nearness to the western border and the demand for forest products in Scandinavia has opened new possibilities for this region.

Forest companies traditionally had their main market inside the Murmansk region, where they served the regional industry. The activities reaching out of the region were limited to some companies in the southern parts that sold their products to processing industries in Karelia. When the privatisation process started and the economic crises developed in all industries of the region, the demand for forest products dropped. The old customers partly disappeared or reduced their orders from the regional forest companies. The distance to

⁷ Murmansk, Arkhangelsk, Karelia, Moscow, Irkutsk, Tomsk, Krasnoyarsk and Khabarovsk. Company interviews are also made in Northern Sweden.

other national markets was too large. Companies that kept their old customers often experienced problems with payments.

The Privatisation process

Due to regional specificities the forest industry in the Murmansk region has never been profitable. During Soviet times the work of the forest enterprises was based on regular government subsidies. Enterprises did not have to look for business partners or find ways of earning money.

But a successful operation under market conditions is based upon entirely different principles. Company leaders had to start taking business decisions themselves. The situation required a rapid restructuring of the whole forest sector, including a profound change in the mentality of company leaders. Practice has shown that for many reasons the forest sector enterprises did not manage to adapt to changing economic conditions. Decentralisation of the decision-making system, breaking traditional economic links and the drastic reduction of financial support from the centre negatively influenced the forest sector and led to a long economic crisis. In 1996, the territorial production association *Murmanles* was liquidated due to insolvency. This meant that in reality all control over the forest sector was lost at the regional level. This was followed by the bankruptcy of all large harvesting and wood-processing enterprises. One of the most important reasons for this development was the necessity to keep social responsibilities in the region. Enterprises' bankruptcy resulted in serious economic and social problems for the settlements.

The privatisation of Russian enterprises started in 1992. Forest enterprises were also involved in the process. In our study we considered privatisation of the enterprises as an indicator of their adaptation to the new economic conditions. The privatisation process was long and complicated. The analysis of its consequences is based upon the interviews we made at 18 harvesting and wood-processing companies in the region. The results are given below.

According to their juridical status the interviewed enterprises were distributed as follows:

- Open joint stock company - 4
- Closed stock company - 4
- Individual private company - 3
- Private company with limited liability - 5
- Municipal - 1
- State - 1, (*Verkhnetulomskiy lespromkhoz* which went bankrupt and has been transformed to "Yavrles Ltd.")

Our analysis has shown that privatisation has not always meant that the company turned to a more effective functioning. For most of the enterprises the changing forms of ownership did not bring about any positive changes. They still encounter the "old" problems, such as out-moded equipment, lack of investments, high production costs and low demand for their products.

The changed forms of ownership did have some positive effects as well. It gave a chance to individuals who wished to realise their entrepreneurial talents. New private companies were established during the period 1992-1998. The character of the forest sector in the region determined the size of its production units: most of them were small and medium size companies. Some of them entirely or partly work using production facilities

purchased from old enterprises after they went bankrupt. However, there are small companies that harvest production basis was entirely created by their owners.

Despite their different juridical status all forest companies encounter a number of common problems: an imperfect tax and customs legislation, a lack of financial means and skilled personnel. Perhaps establishing a holding company or a union of forest industrialists, as has been done in other regions, could help solving some of the problems and restoring efficient management of the forest sector in the Murmansk region. Such an initiative was proposed some time ago and got different responses from the companies. However, it did not have much progress, it did not even lead to a general discussion, much less to any concrete actions.

In general, it can be concluded that privatisation of the forest industry in the Murmansk region has had both positive and negative results. Against the background of the total production decline and the strong need for investments in the region, there are companies that can be called successful. In our opinion the main reason of their success is their partnership in one form or another with foreign business. These are foreign firms operating on the territory of the region and having their main market abroad, joint ventures or companies exporting their products. Probably one of the ways out of the crisis lies in considering possibilities to attract foreign investments into the industry.

What prevents the sector from developing in the right direction?

It is impossible to pinpoint one single factor that can explain the difficulties of the forest companies. The problems are interrelated and connected to each other. Anyway, we want to stress the importance of the lack of a market demand. The former buyers, the mining and fishing industry and the local building and construction businesses, are currently experiencing huge problems themselves. The general difficult economic situation has prevented the companies to produce at full capacity. Their production has decreased, and they do not need the same amount of timber and forest products anymore. The national industry has experienced an upswing after the rouble-crisis, but it will take time to reach the former level, and some companies will never recover. This has put the forest companies in a dilemma, should they wait for the regional market to recover, or try to switch to the export market? Our survey shows that 50 % of the interviewed companies are engaged in export. This does not mean that they have export as their main activity. Most of them still have their most important customers on the regional market. The share of exporting companies is rather high compared with other regions. Only Karelia exceeds Murmansk where 60 % of all companies have export, while companies in other regions are more dependent on their domestic market. Some Murmansk companies see the export as a short-term solution to a weak regional demand, but hope that the industry will recover in some time so that they can continue to produce for the regional market. Other forest companies see the export as the future and have made the necessary changes to meet the foreign requirements.

Closely related to the market problems is the lack of money in the sector. It seems that many companies have problems in affording to buy the timber that is offered on the market. Lack of financial resources prevents them from operating important links in their production process — the raw material supply. One of the reasons for the lack of money is that companies have problems to get payments from their customers. Payments are often delayed and that causes extra work to enforce contract arrangements. One fourth of the forest companies in the Murmansk region is involved in non-monetary payments like barter, offsets or veksel. Compared to other Russian regions this number is low. The barter economy prevails in the huge integrated companies, and since small companies dominate in the Murmansk region and half of them are involved in exports, they have a

higher degree of cash economy. The lack of cash is anyway a big problem that exerts a negative influence on investments in the companies. Only 42 of the Murmansk companies invest in their own production (machinery, equipment and buildings). This is mainly money earned through their production. Few of the owners have invested private money. As we have seen from the privatisation process, little money was put into the companies when new owners took over. This behaviour was especially typical after the bankruptcies that many of the companies experienced. Bank loans are too expensive and hard to obtain, and external investors are absent.

There are also other external factors that limit the economic freedom of the companies. Those are related to the high costs on transport, the energy needed in the production process, and the heavy tax burden. Only a few companies still have social responsibilities towards their workers and the local communities in sponsoring housing and other services. This kind of sponsoring is now happening on a more voluntary basis, and is not a heavy economical burden on the companies.

One factor that must be mentioned is the company leaders' attitudes towards the restructuring of the sector. Those who have invested in new technology and are engaged in export have started on a necessary reform. There are still many companies that have done nothing to adapt to the new market economy and are still hoping for more state control. This is partly due to the tradition of heavy subsidies of the sector during Soviet times, and enterprise managers have never been used to think about profitability. Half of the company leaders in our survey have an attitude that can be defined as a wish to go back to the "good old days" when production output and customer relations were set by the state. There is little new thinking among those leaders, and few have the management skills that are needed for a market economy. They have more or less given up their efforts to adapt to the new conditions, and are waiting for the state to come and rescue them.

What does the sector need?

The most important need the sector has now, is a market that demands their products. If the market is not there, they have to find other markets (export), or they have to change the production to fit the present market needs. As we have seen, the traditional customers have problems to pay for the products, so the most reasonable reaction for the forest companies is to look for new markets. One should not forget that there is a new market emerging for individually adapted products in Russia. Here we think about furniture, house decoration, building materials for private houses and datchas, etc. Although this market is still small, the new rich Russians have a potential to switch to domestic producers if those can provide the quality and style that are requested.

All companies should strive to get all their payments in cash. This is a difficult requirement if they only have customers with payment problems and no possibility to change to another market or alternative customers. The payment problems are not isolated to the forest sector, but a characteristic of the whole economy. Use of non-monetary payments is a step back towards the planned economy and gives it the companies involved extra high transaction costs. Payments in cash would have given the enterprises a better opportunity for investments. An up-to-date machinery and production is necessary if companies are to become competitive on the new markets abroad and at home. And this would, as a consequence, give the company more cash.

The forest sector needs competent leaders that can make companies' activities profitable. Most leaders are well qualified in forest engineering with long experience, but few have an education that is fit to meet the new requirements of market economy. There are no state organs that will rescue enterprises from bankruptcy, they have to manage entirely on

their own. Many leaders still think they have a responsibility to keep their workers to avoid unemployment even if they do not always need the workforce and have problems to pay them properly. Many things have to be changed in the minds of the leaders, but we also see examples of good leadership and knowledge about the market mechanisms.

The forest sector in Murmansk Oblast has not been given much attention from the regional administration. Other sectors are more important and the administration has worked out special programs for them. The sector also lacks a political lobby that can back them in important political decisions. What the sector needs is a more active administration that can give political support and stand up for them. One important task is to attract foreign investors and buyers by a better investment climate in the region. The unstable economic conditions and the rapid changes in tax laws and other legislation connected to imports and exports scare foreign investors. Most of these problems must be solved on the federal level, but the regional and local level can also contribute with practical support.

Changes needed on the federal level are more general and valid for all business activities. The most important external obstacle for the forest companies in the Murmansk region is taxes. This is also perceived as the most important problem in all forest regions in the IIASA survey. Second in importance is the forest legislation. The activity of the forest companies is dependent on transparent rules and laws that make it possible to enter a long term planning process.

Conclusion

The question for most of the companies is how to survive until the domestic market recovers. We have found two main strategies: *a survival strategy* that is a “wait and see” attitude. The companies in this group have not made any changes in their production or management, they produce more or less for storage, accumulate debts and are not taking any initiatives to find new markets or customers. The future for these companies is very uncertain, and they can not, we believe, survive. Nobody will come and rescue them, subsidise their production or find new customers for them.

The second strategy is to *restructure and develop* the industry for the export market. New management, development of new market strategies and contacts, adapting production to new standards of quality and efficiency, follow this strategy. There are 4–5 companies in our sample that can be placed in this group, and they have already taken the necessary steps. They have used the income from exports to invest in new machinery and technology, which has made them more competitive on the market. This will enable them to meet the domestic market with many advantages if and when it recovers.

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Appendix 5

Summary of the seminar

SUMMARY FROM THE SEMINAR “INSTITUTIONAL CHANGES IN THE MURMANSK FOREST SECTOR”

On 23–25 October 2000, the Institute of Economic Problems of the Kola Science Centre, RAS, in co-operation with the International Institute for Applied Systems Analysis (IIASA) and the Norwegian Institute for Urban and Regional Research (NIBR) conducted a seminar for representatives of enterprises and organisations related to the forest sector of Murmansk Oblast and stakeholders in sustainable regional forest use.

Representatives of the Murmansk Oblast Administration, the forest and forest processing industry – heads of enterprises and owners of private business companies, forest management, non-governmental environmental organisations and scientists from the Kola Science Centre, RAS, took part in the seminar from the Russian side.

In the plenary session, to which the first day of the seminar was devoted, participants were given a lecture by a representative of the Murmansk Oblast Administration (A.N. Alimov) on ways to achieve economic development in the Murmansk region. Then participants were given information (by Mats-Olov Olsson) about the International Institute for Applied Systems Analysis (IIASA). Representatives of the research project on sustainable forest use in the North conducted at IIASA (Lars Carlsson and Mats-Olov Olsson) made a presentation of their research. A study of the forest sector in Murmansk Oblast has also been conducted within the framework of this comprehensive project. The researchers responsible for this study, representatives of IEP and NIBR (Lyudmila Ivanova and Vigdis Nygaard) reported on the results of their work.

Peter Duinker, director of the School for Resource and Environmental Studies, Dalhousie University, Halifax (Canada), who chaired the general discussion, suggested that participants should identify what they believed were the main problems for the Murmansk forest sector. In order to have a structured discussion of the identified problems and a search for possible ways to solve them all problems were grouped in the following way: financial, personnel, juridical, social, technical, and environmental. The further discussion was conducted in two working groups. The first group discussed financial, technical and environmental problems. The discussion in the second group concentrated on juridical, personnel, and social problems. Participants were divided between the two groups in accordance with their interests.

The first group made the following suggestions resulting from the discussions.

Concerning financial and technical problems:

1. The status of *leskhozy* should be carefully determined. If this is a state service it should not be allowed to conduct business activities with the purpose to obtain profit. To be able to fulfil its planned work the entire funding (100 %) should be provided via the federal budget.
2. The regional law on zones of economic development should have a wider applicability entailing taxation privileges in those districts of Murmansk Oblast where the forest industry is well developed.
3. The Law on Northern Territories should be followed, as it applies to payments of northern wage bonuses from the federal budget.
4. Possibilities should be investigated to allow taxation privileges for investors during the period when an enterprise is being established.
5. Credit privileges for forest enterprises should be given by the regional administration from non-budget sources for investments in production capital.

Concerning environmental problems:

1. A transfer to compulsory forest product certification by independent state organisations should be introduced. Here it should be noted that, according to the forest management and forest industry representatives, this process entails certain difficulties, for which many enterprises are not ready.

The second group had the following suggestions:

1. An appeal should be sent to the employment agency of the Murmansk Oblast Administration containing a listing of special professional qualifications that are in demand on the labour market.
2. An appeal should be sent to the Centre of Scientific-Technical Information asking for help to develop a program for the compilation and distribution of information on the situation in the forest sector (summoned through SMI, and subsequently through Internet). This would mean the creation of a database for the forest sector.

Common for both groups was the proposal to develop and introduce changes in the rules for harvesting standing forest, taking regional characteristics into account, engaging in this process the Oblast administration and scientific organisations.

The participants of the seminar reached the conclusion that one of the fundamental problems of the forest industry is the lack of co-ordination at the regional level. The creation of a co-ordinating organ might facilitate the solution of many problems that are shared by enterprises.

The main result of the seminar was that an agreement was reached by the participants to create a regional organisation (an association) of forest users in Murmansk Oblast, in which forest industrialists, representatives of forest management and environmental organisations would take part. Such an association should be a voluntary union of enterprises and organisations. Within the framework of this organisation a closer collaboration between members is assumed to be established, here common problems should be discussed and solved, members' interests should be defended, and it should lead to interactions with the regional administration and other organs.

Seminar participants agreed to continue their work to create a regional association and they agreed that it would be necessary to have regular meetings to discuss the issues that were raised. The next meeting is planned for the end of November 2000.

Appendix 6

Press clippings

