

Oikos case writing competition 2009

Proactive sustainability in Russian wood supply chains: Just another CSR fad or institutional change in the makings?

Case Narratives

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Overview of the Russian forestry sector

Russia has the largest forest reserves in the world, which are equivalent to 22 % of the global total of forest resources, making them the single largest national forest resource.¹ The forest administration is responsible for the management of 851 million hectares of forest, of which the productive forest area is 763 million hectares. This is 40 times more than in Finland and 80 times more than in Germany. The growing stock amounts to 81.9 billion m³, with an annual increment of 970 million m³ and the annual allowable cut of 550 million m³.² Russian forests are classified into three categories, according to their location and economic significance. In group I, constituting 22 % of forest area, the forest use is restricted due to protective or recreational functions. Also, in group II, the forest use is strictly controlled due to the proximity of densely inhabited or industrialised areas. Finally, the group III forests form the timber reserve for the forest industries. They are usually located in sparsely inhabited areas.³

Stora Enso's mills use almost 50 million m³ of wood per year, of which in 2005, 7.7 million m³ were procured in Russia, to be used in Stora Enso's mills in Finland, Sweden, the Baltic States, and Russia.⁴ The Russian forest industry is primarily centred on raw timber (round wood) exports. To contrast, Russia's share of global paper and paperboard production is only 1.4 %.⁵ In 2003, Russia was the world's largest round wood exporter with 38 million m³; a volume that equals one third of the total round wood exports in the world, and depending on the scenarios, the volume of Russian forest industry production might increase from 30 % anywhere up to 200 % by 2015.⁶ The greatest round wood exporters in Russia were the Republic of Karelia and the Vologda region, and in some regions the exported round wood can comprise up to seventy or eighty per cent of the region's total production. In 2003, the major markets for Russian round wood were China (37%), Finland (32%), Japan (14%) and Sweden (6%).

Russian history in forestry spans over 200 years. Before Soviet time, some 40% of forests were privately owned, but all land was transferred into state ownership during the Soviet period. After the collapse of Soviet Russia, the forest land remained under state control, and was allocated to 1.759 Leshozes, or Forestry Centres, where the civil servants carried out forest management at the local level.⁷ The main document for governing the protection, management and utilisation of forests is the Forest Code of the Russian Federation (lesnoy kodeks).⁸ This code defines issues concerning the ownership, administration, and leasing of forests, as well as financing forestry and compiling forest planning and management. The first forest code in the post Soviet Russia, called "Principles of the Forestry Legislation of the Russian Federation", was first confirmed in 1993. The third and latest forest code came into force on January 1st, 2007, replacing the first revision in 1997.⁹

The objective of the Forest Code is to enhance the economic utilisation of forests by promoting investments in forestry related infrastructure and developing forest utilisation towards long-term leases. In addition to the Forest Code, the Land Code and the Federal Law on Environmental Protection also regulate operations in the forests, and together the collection of stipulations concerning the Russian forests comprises of over 300 documents.¹⁰ In order to operate in Russia,

¹ Food and Agriculture Organization of the United Nations (2003): Geneva Timber and Forest Discussion Paper 27: Russian Federation Forest Sector Outlook Study. See <<http://www.unece.org/trade/timber/docs/dp/dp-27.pdf>>

² Finnish Forestry Research Institute METLA (2006): Northwest Russian Forestry in a Nutshell. See <<http://www.metla.fi/julkaisut/workingpapers/2006/mwp030.pdf>>

³ Axel Springer AG (1999): Tracing Russian Wood Imports. See <http://www.axelsspringer.de/inhalte/umwelt/pdf/wald_papier/tracing_wood_imports_klein.pdf>

⁴ Final project report (2006): From Russia... with Transparency. Sustainability and Transparency of a Wood Supply Chain

⁵ Finnish Forestry Research Institute METLA (2006): Northwest Russian Forestry in a Nutshell

⁶ Finnish Forestry Research Institute METLA (2006): Northwest Russian Forestry in a Nutshell

⁷ Finnish Forestry Research Institute METLA (2006): Northwest Russian Forestry in a Nutshell

⁸ Finnish Forestry Research Institute METLA (2006): Northwest Russian Forestry in a Nutshell

⁹ Taiga Rescue Network (2007): TRN Briefing Note January. See <http://www.taigarescue.org/_v3/files/pdf/201.pdf>

¹⁰ Finnish Forestry Research Institute METLA (2006): Northwest Russian Forestry in a Nutshell

companies have to buy felling licences at auctions or from local forest district offices (leshozes) administered by the Regional Committee for Natural Resources. The felling instructions are clearly specified in the license, including the felling period, the location, the identification of the site boundaries, the felling volume, and the treatment of residues; any violation of these instructions can result in a penalty to the feller. Previously, there were no limitations on the size of clear-felling, but currently the maximum size is 50 hectares.

Despite having vast renewable high quality forest resources and good quality labour sources with enough scientific and technical potential, many negative factors prevail in the Russian Forestry sector. Some of the more prominent being: low technical levels of domestic production in the majority of forest sector branches; high level of wear and tear of basic production facilities and imperfect structuring of forest industry production, resulting in the ineffective structure of exports; low level of innovation activity related to creation and introduction of new machines, equipment and technologies; and critical social situation in many regions.¹¹ One area in particular, which is also among the most difficult ones to address, is the illegal logging and corruption prominent within the Russian forest industry.

Since it is virtually impossible to grasp the full picture of illegal activities in forest operations, the estimates of the scale of illegal logging in Russia vary considerably. **Greenpeace Russia** estimates that 20 % of logging is illegal, whereas **WWF Russian Programme's** estimate is 30 %.¹² It has been estimated that, worldwide, illegal timber trade may comprise over a tenth of the total global timber trade, and the annual market value of losses from illegal logging of forest is placed at over \$10 billion. **Transparency International** compiles an annual corruption perception index through opinion surveys from around the world. Out of the 180 countries evaluated, Russia currently ranks 143rd, falling behind countries such as Colombia and Iran. For instance in 2007, on a scale of 1 to 10, Russia's index was 2.3, while Finland, Denmark and New Zealand held the first position with an index of 9.4.¹³

Illegal logging is undertaken at many levels of the forest business, and it can happen in any part of the supply chain.¹⁴ For example, illegalities occur in the occupation and use of forest lands, during transport and trade where smuggling is often involved, and there are often criminal operations in terms of pricing and accounting. Illegal operators, in turn, range from the local people taking wood for their own needs to final timber product manufacturers. Although Russian regulations regarding logging methods are very strict, the corruption within the Forest Service, municipal administrations, and the police force have allowed these rules to be easily circumvented by timber companies. As a result, illegal logging has become commonplace and widespread, leaving the possibility for numerous different infractions in a single wood supply chain (for an example of a supply chain, see appendix 2).

(A) 1992 – 2002: Incorporating social and environmental responsibility work into Axel Springer AG business model

The beginning

The beginning of conscious and proactive sustainability work at Axel Springer AG (hereinafter referred to as Axel Springer) can be traced back to year 1992, when Mr. Florian Nehm began his work as the Corporate Sustainability Officer at Axel Springer. At that point, corporate social

¹¹ Food and Agriculture Organization of the United Nations (2003): Geneva Timber and Forest Discussion Paper 27: Russian Federation Forest Sector Outlook Study

¹² Taiga Rescue Network (2003): Taiga Rescue Network Factsheet: Illegal Logging in the Boreal. See <http://www.taigarecue.org/_v3/files/pdf/56.pdf>

¹³ Transparency international (2007): Corruption Perceptions Index Press Kit. See <<http://www.transparency.org/content/download/23972/358236>>

¹⁴ Taiga Rescue Network (2003): Taiga Rescue Network Factsheet: Illegal Logging in the Boreal

responsibility was just beginning to gain ground in the corporate world in Europe, and issues like environmental performance and sustainability were new to most companies. The publishing sector was no exception. While the European publishing sector is primarily constituted of small and medium sized enterprises (SMEs), among which the concept of corporate social responsibility (CSR) has not yet gained similar popularity overall as with larger companies; even the large publishing houses have, to date, only expressed modest interest in it, having only rudimentary CSR reports, if any at all.¹⁵ Axel Springer, however, wanted to be an exception. They desired to be among the early adopters of the upcoming demands for CSR, leading the way for the whole industry, when the board of directors hired Florian Nehm with a vision in mind. He explains the rationale of the company:

“In the management culture of this company is the understanding that the editorial credibility is important – and doing our homework in the areas of sustainability and integrity and in the areas of ecology and social standards is important for editorial credibility. [...] It is important that the company [the journalists] work for tries to do its homework as early as possible. This paper product – with our name on it – is the delivery form, when it comes to the reader, so we have a chain of responsibility; the readers trust us that we take care of the standard they expect.”¹⁶

Florian Nehm was given total freedom in looking for problems and solutions in sustainability and social responsibility within Axel Springer operations, as he explains the job he was given:

“My job description was something like: *We want to get an outstanding organization in sustainability. You have to explore our way in getting there.* – And what we would have to do; no one really knew. In the beginning, even I didn’t know exactly how the business model would look like.”¹⁷

Florian Nehm quickly took upon this challenging task. As his first assignment, he began mapping the current processes within Axel Springer's facilities, trying to understand what occurs during and who the responsible persons for each process are. These processes were described in depth and thoroughly discussed with the responsible managers, with whom Nehm tried to identify the sustainability problems, the possible solutions, and the steps to be taken in order to reach them. Nehm, having spent months familiarising himself with the processes and interviewing various people, all the necessary information was gathered, and a thorough analysis completed. He processed the findings into an internal document, where he identified the relevant processes to be improved in terms of their ecological and social impact. The document was then handed over to the board of directors, to be used as a development tool for assessing and improving the CSR policies within Axel Springer:

“Our board of directors [...] worked through the documentation and went to each responsible manager and asked if they had read the document, if they supported the basic assumptions [in the document] and if they agreed on the proposed actions and solutions, or if they were able to present alternative approaches. There, the responsible managers could say something about their attitude concerning the documentation. Finally, our board of directors made their decisions on the working packages [we had] developed during the discussions.”¹⁸

After initiating the company’s internal sustainability work, Florian Nehm soon turned his attention outside the company. He began to think about how they could learn more about their supply chain; about the sources of their products, i.e., the paper from which their magazines and newspapers were made. He asked himself: Do we know where our suppliers’ paper-mills are located? Where do they get their wood from? How far is the forest from their factory? Do they replant? Do they have a

¹⁵ European Commission (2004): Publishing Market Watch – issue Paper 1: Corporate Social Responsibility in Publishing. See <<http://www.rightscom.com/Portals/0/Corporate%20Social%20Responsibility%20Report.pdf>>

¹⁶ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

¹⁷ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

¹⁸ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

spokesperson or a manager for environmental issues? Do they talk to NGOs?¹⁹ Such questions were unheard of at the time. Nobody had considered going all the way to the source of the wood that was being used in the magazines and newspapers, let alone providing such information to the public. But this was exactly what Florian Nehm wanted; and the answers to these questions were published in 1993, in a revolutionary document, titled “*Publication paper and the Environment: Questions to Paper Suppliers asked by Axel Springer*”²⁰; making Axel Springer the first publisher worldwide to disclose the name and contact data of their paper suppliers.

Nehm's hard work started to pay off, and in 1994, Axel Springer produced its first environmental report. Then in 1995, after implementing a voluntary eco-management and auditing scheme EMAS in their magazine and newspaper printing facility in Ahrensburg, Germany, it became the first publisher in Europe to provide EC Eco-audits in their operations. Furthermore, life cycle analyses (LCAs) were having a lot of attention among scholars and business professionals alike at the time, so Axel Springer began to look for ways of developing LCAs in their operations as well. Since Nehm had already gathered a wide network of colleagues – inside and outside Axel Springer – during his years working in the editorial department, it was relatively easy for him to internally bring in and coordinate the necessary people for the projects he began to initiate.

After searching for a good project, Nehm found two large and prominent partners, Canadian **CANFOR** and Swedish **Stora**, with whom he began his first sustainability project: to analyze the ecological footprint of 1kg of their newspaper “Bild” and of 1kg of their television guide “Hörzu”. During the project, Nehm also had his first experience operating with external reviewers, as **the Fraunhofer Institute** wrote the critical review on the project. The project was entirely new, compared to their current business practises in Axel Springer, and proved to be a good lesson on how to run sustainability projects. He explains:

“This project was a perfect training for our purchasing department, which plays a key role in Axel Springer’s general business model. Now we have a purchasing director and his team who are equipped with all the necessary knowledge on dealing with sustainability issues. Today, we can hardly surprise him with new ideas, because he is that up to date with sustainability.”²¹

The project would take almost three years to complete, and the results were made public in 1998, in a report entitled: “*Evaluation of the Ecological Life Cycles of Newspapers*”.²² The project proved to be a success, as it would later be used as an example during the second round table discussions on the **Kyoto Protocol** in Buenos Aires.²³ During the project, in 1996, **The Otto Group** – a leading international trading and services corporation and an important customer to Axel Springer – approached Florian Nehm with an idea to analyse their supply chain. After analyzing the chain-of-custody for their cotton chain, the Otto Group now wanted to do the same with the paper chain for their catalogues.

The Otto Group had selected Axel Springer out of the four initial candidates, as they believed Axel Springer would be the only one capable of the job. After searching jointly for nearly two years for suitable partners, the pilot project for Axel Springer and the Otto Group saw daylight in 1998. The project was set up with the Norwegian paper supplier **Norske Skog** and 8.900 different Norwegian forest owners, and was coined “*Ökologische Verbesserungen in der Papierkette*” [ecological improvements in the paper supply chain].²⁴

¹⁹ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

²⁰ Axel Springer AG (2005): Sustainability Report. See <http://www.axelspringer.com/inhalte/umwelt/pdf/reports/sustainability_report_2005.pdf>

²¹ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

²² Axel Springer AG (1999): *Ökologische Verbesserungen in der Papierkette*

²³ Axel Springer AG (1998): *Bewertung ökologischer Lebensläufe von Zeitungen und Zeitschriften* (In German). See <http://www.axelspringer.de/inhalte/umwelt/pdf/service/lca_studie.pdf>

²⁴ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

Collaboration with an independent consultant

During the project, Nehm met **Dr. Reinier de Man**, an independent consultant for sustainable business development, who was consulting the Otto Group at the time. De Man became the key advisor and moderator for the project, and would become an important partner in Nehm's future sustainability work. The project proved to be an excellent learning opportunity for Axel Springer,²⁵ and would change the general attitudes in the paper industry as well:

“In the beginning, [when] there were some direct talks between Axel Springer and the forest owner associations, [it] created some panic because it was not normal that the end user of the paper would directly talk with the wood suppliers. So there were some conflicts, some confusion and some telephone calls and so on. If you then saw the same people one and a half year later in a press conference talking to each other, it was normal already – paper users talking to timber suppliers was normal by then.”²⁶

Now, the contacts between the wood producers and paper users had become commonplace, bringing more transparency into the overall operations in the industry. Florian Nehm and Reinier de Man also quickly found mutual understanding, and even though it was at first difficult for Nehm to understand why it would be necessary to have an external advisor for his projects, the necessity for putting the projects on a more neutral platform soon became clear. It was hard enough to coordinate different partners inside one company, let alone different partners from different companies, as Nehm explains:

“It is extremely important for the success of such a project to have someone neutral – an “iron fist”, if you will – but diplomatic moderator, asking all these uncomfortable questions, such as why are you in this project, and what is the benefit to be expected out of this project and so on.”²⁷

Soon after finishing the project in Norway, Nehm and de Man began working on their second mutual project for Axel Springer: how to improve transparency in Russian wood imports. Ever since first collaborating, the two had been looking for the next challenging and more complicated issue to engage in. Then after completing projects in Sweden and Norway, which had been relatively simple in terms of forest management issues, the next logical step for them was to address transparency issues in Russia. The new project got the name “*Tracing Russian Wood Imports*”,²⁸ and the results were made public in 2002. The aim of this project was to produce a report showing how **UPM-Kymmene** monitors wood delivered to their mills from Russia. Axel Springer's role within the Otto Group project was to provide experience in communications and media, while UPM-Kymmene had the responsibility of coordination and implementation. Also present were two external reviewers, **Greenpeace Russia** and **Det Norske Veritas**.

(B) 2002 – 2006: The Tikhvin-Chalna project

Planning and organizing the project

The project in Russia with the Otto Group and UPM-Kymmene was finished successfully – it even won the Sustainable Development Partnerships Award from the International Chamber of Commerce (ICC) and the United Nations Environment Programme (UNEP)²⁹ – but Florian Nehm

²⁵ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

²⁶ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

²⁷ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

²⁸ Axel Springer AG (2002): *Tracing Russian Wood Imports*

²⁹ Axel Springer AG (2005): *Sustainability Report*

felt unsatisfied; the current state of Russian forest operations demanded further exploration. After giving it some thought, he decided to call Reinier de Man and suggest they start planning another project. This time they would have a more holistic view on the forest sector in Russia. First, however, they needed to harness the company's internal experience which they had gathered during the earlier projects, and Nehm began searching for the right people to involve. Since the examination and integration of people and functions at Axel Springer had been done previously, his team could now build on that knowledge and quickly incorporate the people they needed into the Tikhvin-Chalna team. He soon found the right buyer with profound knowledge on sustainability and their wood supply chain, who was also able to start working with the team immediately:

“The job of my team is to initiate and conduct such projects. Internally we needed informed and motivated people willing to participate in the project and a paper purchaser who knew about sustainability and his supply chain and who had a lot of routine. Thus, we searched for such a person and found this purchaser.”³⁰

After discussing the project, it became clear to Nehm and de Man that the aim for the project should be set high, since, for this project to really have credibility and communication value, it should not be just about “solving a little problem here and there,”³¹ but instead about creating innovation in the supply chain that could later be applicable in other supply chains and have the potential of becoming an industry standard. Nehm has also always thought about the projects in terms of their information and communication value, and thus began the project planning by thinking about the future press conference:

“It is important what you can communicate – how you can transmit your commitments and this tangible quality of your product to the media, NGOs and the larger public. [...] The motivation is fitness for debate, and no-one should know more about the details of our supply chain than us.”³²

When beginning these projects, Nehm had thought that the paper companies would have the best knowledge about sustainability and the possibilities of how to integrate sustainability into the wood supply chain processes – but this assumption had proved to be wrong; it was actually Axel Springer who knew a lot about these issues. In reality the paper industry knew very little, since their projects dealt mostly with the paper technology, rather than the supply chain and flow management. Thus, a project ‘Terms of Reference’ document, with a detailed list of project goals, benefits and responsibilities, was created to serve this purpose.³³ The project goals were set between Nehm and de Man, as follows: (1) to create a reference model with benchmarking value, regarding the traceability of imported wood, information on worker safety and forest ecology with online and stakeholder-friendly availability of relevant data; (2) to strengthen the transparency and credibility of wood imports within publication paper and printed media; and (3) to contribute to the sustainable success of the forest industry sector in the Russian Federation with the vitalisation of corporate governance and responsible free and social market economy practices.

Such bold goals would require a carefully selected project partner, and the selection process would take well over a year to complete. For this project to be successful, Florian Nehm and Reinier de Man thought, it would be necessary to make the partners apply for the project and not vice versa. It would not be Axel Springer asking the wood suppliers to this project, but instead allowing them to understand the advantages that partnership would bring. The chosen selection process for the partner proved to be a good idea, as Nehm points out:

³⁰ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

³¹ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

³² Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

³³ Axel Springer project Terms of Reference document, April 3rd, 2002

”In the beginning, the paper producers felt like being victims of our projects. When our suppliers and project partners recognized the opportunities in terms of learning and reputation, and also saw the business case of such project, we changed our behaviour [...]; they now have to apply for being our partner – we have the idea and they have to concretely present what and how they can contribute to the project. And we choose the best fitting partner.”³⁴

Nehm and de Man first looked at the list of Axel Springer suppliers with the three objectives in mind, and found three applicants that met the requirements; these were **Stora Enso**, **UPM-Kymmene** and **Metsäliitto**, all three Finnish forest operators who import wood from Russia. In April 2002, Nehm contacted them and presented the documentation and a time limit for providing a proposal to Axel Springer. Metsäliitto soon declined, and Stora Enso also expressed doubt on whether or not they should take part, but UPM-Kymmene on the other hand was eager to join, and the discussions with UPM-Kymmene were initiated.

It soon became apparent, however, that UPM-Kymmene would not have the enthusiasm and commitment necessary for this type of project, and the initial discussions did not lead much further. Disappointed, but optimistic, Nehm turned his attention back to Stora Enso. Much to his surprise, there had been changes in Stora Enso’s staff and the new team expressed great interest in picking up the project. As the project’s ‘Terms of Reference’ had been carefully determined beforehand by Florian Nehm and Reinier de Man, representing in detail what was expected from each participant, Stora Enso knew what to bring on the table and could quickly begin to plan concrete steps for the project. Holding a key position in the supply chain, between the paper users and the wood producers, Stora Enso’s role was set as the project driver and manager and **Anna-Liisa Myllynen** from Stora Enso was appointed as the project coordinator. During that time, **Helena Jantunen** from Stora Enso was also brought into the team, as a result of her Russian language skills and established knowledge working in the field with the Russians.

Stora Enso proved to be a good partner: they are a big player in Russia – if not the biggest – and the Finnish part of the company, Enso, had been buying wood from Russia for a hundred years. Moreover, due to their own procurement office network in every region and daily contact with their suppliers, Stora Enso had substantial knowledge of the Russian forest sector. They also had a long tradition within traceability, tracing the wood and controlling the wood, where it comes from and how it has been produced, and the traceability system in Russia had been third-party verified already in 1998 (see appendix 3). Also, ISO 14001 and ISO 9001 verification for the traceability system and FSC controlled wood verification had been established, and they were working on getting FSC chain-of-custody certification.

Next on the agenda was to find a suitable Russian wood supplier, in order to have access to hands on knowledge of the affected processes in further Russian upstream supply chains. From what Nehm and de Man had learned from the earlier projects, the careful selection of project partners would be of utmost importance – and for this purpose, a set of 19 questions were created to analyse the potential suppliers.³⁵ Nehm describes the process:

“It is important to know, that the systematic approach of doing such analysis was absolutely not in the mind of our Finnish partner. They said: *Hey, you there in Germany, you don’t know our partners; we know them and we will pick this one or that one because our gut feeling tells us*. So we said: *Great, you know them better – but tell us why do you pick them?* The mistake would have been to say: *Ok, you know it all, you pick – without asking these questions*. That would have been a very critical error. Because we know that the gut feeling often results in catastrophe.”³⁶

³⁴ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG), November 8th, 2007

³⁵ Project internal document: Criteria-Options for the identification of partners among wood suppliers. September, 2003

³⁶ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

It was not that the team did not accept the potential partners Stora Enso had suggested, but they all – Stora Enso included – discovered that some of the initial candidates were not adequate. In autumn 2003, after analysing all the candidates and discussing with the representatives of three of the companies, **Tikhvinsky KLPKh** in the town of Tikhvin, 200 km from St. Petersburg, was selected as the best choice. In addition to analysed results, it was relatively large independent supplier to Stora Enso with several assortments of timber. Additionally, they were a steady supplier, regularly supplying substantial volumes and employed knowledgeable manager who could communicate in English.

The perception among Russian logging companies is that the Russian legislation is set with relatively strict requirements for their harvesting operations and that the operations are very closely controlled by Russian authorities; and so Tikhvinsky did not initially see the benefit of this kind of additional work on the sustainability results in their operations. It soon became clear, however, that Tikhvinsky had the openness required to participate in such a project. A preliminary meeting was held in Helsinki later that year between Axel Springer, Stora Enso and Tikhvinsky, where the reasons for such a project were explained to the Russian partner. Helena Jantunen recalls the beginning:

“You have to remember that this thinking was totally new to the Russian company. So, in a way, [they] needed to open their own operations and show how they are working to the Western customers – so we needed to give them reasons why this is important and why they should go for it and what kind of benefits they would get from participating in this project, and why so many questions are being asked concerning the sustainability issues in Russia.”³⁷

The project planning between Axel Springer and Stora Enso was well on the way. The initial project plan for the first phase had been finalized in March 2004 and a teleconference was held in April to discuss further steps. In June, the three project partners could meet already in St. Petersburg, to go over the preliminary material that had been collected. In October 2004, Florian Nehm attended an international conference at Yale University in London, called The Forest Dialogue (TFD), where he met Dr. Reinier de Man and many of his peers in the field. As the opportunity provided itself, he decided to invite two of his colleagues to join him and Dr. de Man for a dinner, after the formal ceremony was over. During the dinner he brought up his latest project in the pipeline, and wanted to know whether or not either of them would be interested in participating.

Out of these two, **David Refkin** from **Time Inc.** already had experience working with other companies in such projects; during a project in 2002 to increase the amount of certified fibre in Time Inc.’s magazines, David Refkin had realized that the amount of Russian wood going into the products made in paper mills in Finland was only going to increase, and saw that this would be a great opportunity for his company and expressed his interest in participating. This meant that the leaders in sustainability of both US and European publishing sectors could now join forces to tackle these important sustainability issues in Russia. Stora Enso’s sales department had also earlier suggested that **Random House UK** – an important customer to Stora Enso – would be invited in the project, and so **Katherine Hockley** from Random House was also brought into the discussions. Nehm describes the rationale:

“Ideally, if we think into the future, we would expect from a good paper company to offer some of the customers with interest in this field of work [...] each year with a project idea – new, revolutionary, sexy, whatever – but unfortunately this is not the case. Although we have improved this, they still don’t come to us with the people and the knowledge, no. The initiative for these projects still comes from the market, not from the paper company.”³⁸

³⁷ Interview with Helena Jantunen (Sustainability Manager, Stora Enso), September 26th, 2007

³⁸ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October

The rationale behind why Axel Springer had been looking for more project partners was very simple: to gain more validity and credibility and also better visibility through a wider audience. If the project objectives were to become more widely accepted, it was necessary to underline the relevance, as Nehm put it:

“Yes, there’s a clear motivation [for more partners], and that has to do with dissemination, and the validity – the “Allgemeingültigkeit” [generality], if you will – because Axel Springer is the initiator of this project, but it is not enough for our interest to be the only one. It is more important that this becomes part of the general culture of the paper companies. To achieve this, it is important to underline the relevance. And the relevance can be underlined, if more than one customer shows interest.”³⁹

And the logic was clear: if Axel Springer worked alone, they would have a hard time reaching conferences in America or the UK, which are important regions to the wood and paper industry. Now, they had included two influential partners who were familiar with these important market areas, and while both were from the publishing branch, they were not direct competitors to Axel Springer.

Another significant issue was to bring an external reviewer into the project. From what he had learned from earlier projects, Nehm felt it would be extremely important to have an NGO as a credibility agent. Having read earlier a report written by **Kenneth Rosenbaum**, an expert advisor for the Forest Integrity Network of Transparency International, for **PROFOR**, a multi-donor trust fund program housed at the World Bank, titled “*Tools for Civil Society Action to Reduce Forest Corruptions*”,⁴⁰ he had realised corruption was an issue that Axel Springer needed to address. An issue that would grow in importance in the future, if they were to continue to source timber from outside Germany, and thus suggested that **Transparency International** be invited to the project. However, to get a renowned NGO such as Transparency International to become the critical reviewer for the project took some ascertaining, as Florian Nehm recalls:

“It is extremely important to have an NGO as a credibility agent. Not as a partner, but as a critical reviewer. We could have gone with those we already knew but we wanted a new one, such as Transparency International, so that at some point when we would say integrity, there would be an important NGO such as Transparency International present. [...] This is a tremendous asset that we have learned how to gain and how to flirt with an NGO and to gain them to participate. And it took many months.”⁴¹

Transparency International does not participate in projects with anybody that asks them; they carefully select with whom they go to work with by doing quality checks if the project coordinator and their supply chain partners are able to fulfil what they promise. And this was in Nehm’s interests, as well. He didn’t want someone who would do a project with just anyone.

Nehm set a meeting in Berlin with **Cobus de Swardt**, the Global Programmes Director at Transparency International. After convincing him of the potential this project presented, also knowing the poor track record Russia had in the global corruption surveys, Mr. de Swardt then referred Nehm to invite Kenneth Rosenbaum for the external reviewer’s role. Nehm called Mr. Rosenbaum in Washington, and after discussing the project and his upcoming role, they agreed that he would become the external reviewer.

This was the first time Kenneth Rosenbaum would provide advice to a team of businesses. Quite oppositely, he was used to working with international agencies and NGOs. Although he would have

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³⁹ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

⁴⁰ PROFOR (2005): *Tools for Civil Society Action to Reduce Forest Corruption – Drawing Lessons from Transparency International (TI)*. See <<http://www.profor.info/pdf/TI%20Tools.pdf>>

⁴¹ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

gladly participated in the project as an internal consultant, as well, Nehm felt the objective reviewer's role would better serve the project's purposes. Kenneth Rosenbaum describes the decision they made:

"It was important to the project to have credibility. One way to gain credibility is to open yourself to outside review by an organization like Transparency International, which has a good reputation and no economic ties to the project. So, the project participants much preferred – in fact they insisted – that I would not serve as an internal part of the team but that I would work on behalf of Transparency International and that Transparency International's name would be on the review."⁴²

Stora Enso also had an external reviewer in mind, and they suggested that the **Karelian Research Centre** would be included as a representative for the research sector to the project. Anna-Liisa Myllynen had been working with Karelian Research Centre before and knew of their substantial knowledge and involvement in researching the social issues of the forest sector in Russia, and so they invited **Galina Kozyreva**, a recognized expert in the social circumstances in the Russian forest sector and the Russian forestry villages, to join the team. It was thus agreed that while Transparency International would focus on the business integrity issues, Karelian Research Centre would give their review more broadly on the social and environmental accomplishments in the project.

Nehm felt the team was now formed the way he had hoped. Axel Springer and Stora Enso had invited two very prominent operators in the publishing sector as participants in the project and now they also had the critical reviewers necessary for project credibility. The official phase one could begin.

Phase I: Official Launch – Conceptualizing the new supply chain strategy

In November 2004, phase one of the Tikhvin project was officially launched. Firstly, the newly formed team set up a meeting in Helsinki to discuss what was expected from the project, while focusing especially on the communication; it was agreed that the website Nehm and de Man had described earlier in the 'Terms of Reference'⁴³ document would be used as the main tool for distributing information about the project to the public, and planning for the website was initiated. A questionnaire was then formulated by a Stora Enso working committee for reviewing the project group's CSR policies and to help in selecting the final objectives for the project. The partners had to assess whether the reporting, and especially the indicators used, succeeded in capturing the essence of sustainability factors and possible sustainability gaps in their current operations. After agreeing that all project partners shared similar CSR policies that reflected those of Stora Enso's, it was decided that Stora Enso's "*Principles for Corporate Social Responsibility*"⁴⁴ would be used as the primary basis for the screening of critical sustainability factors in Russia and also for the identification of the project's priority areas. In turn, Stora Enso's "*Principles for Sustainable Wood and Fibre Procurement and Land Management*"⁴⁵ would provide the basis for the implementation of the policies in the wood supply.⁴⁶

Although the role Kenneth Rosenbaum had as an external reviewer required a certain amount of distance between him and the project team, he did have some informal email and telephone discussions with the team during the first phase – with Florian Nehm and Anna-Liisa Myllynen in particular – to help design the project goal of engaging corruption and illegality issues, as he explains his role in the project:

⁴² Interview with Kenneth Rosenbaum (Expert Advisor, Forest Integrity Network of Transparency International), October 18th, 2007

⁴³ Axel Springer project Terms of Reference document, April 3rd, 2002

⁴⁴ See <http://www.storaenso.com/CDAvgn/main/0,,1_-1958-2420-,00.html>

⁴⁵ See <<http://www.storaenso.com/CDAvgn/showDocument/0,,2963,00.pdf>>

⁴⁶ Final project report (2006): From Russia... with Transparency. Sustainability and Transparency of a Wood Supply Chain

“Formally, my role was that of a critical reviewer, but informally, I tried to let the project group know what I would be looking for in my critical review. By giving input early, I hoped to have greater influence on shaping the project. To that end, I tried to explain to them what a good anti-corruption policy in an organization looks like.”⁴⁷

After the project team had carried out a final screening of critical sustainability areas based on three criteria: (1) the relevance for the Russian wood supply; (2) the criticality for the sustainable development of the wood supply; and (3) the benefit for the supply chain project; in a two-day meeting set in Berlin in mid January 2005, the project objectives were finalised. After hearing Cobus de Swardt from Transparency International who was also participating, the team agreed to include corruption and illegality issues into the three goals agreed upon earlier. Earlier that month, Kenneth Rosenbaum had already sent an email to Florian Nehm after reading a draft version of the upcoming interim report, where he had specified what steps would be necessary for establishing an anti-corruption program.⁴⁸ Thus, the final four focus areas were set as follows: (1) the project would aim at ensuring the legality of wood and business practises in the selected areas; (2) it would improve occupational health and safety issues; (3) they would enhance forest certification to communicate sustainable forest management; and (4) they would emphasise the necessity of community involvement and the changing role the logging companies have in the local communities.⁴⁹

The project was progressing, and the next face to face meeting was set to take place in St. Petersburg and the town of Tikhvin in May 2005 to discuss the results and the upcoming publication of the phase one interim report. The trip to Tikhvin to meet with the Russian supplier proved to be an eye-opener to the team, too, as David Refkin recalls:

“The first thing that became obvious to me on the first visit to Russia, when we were landing to St. Petersburg, was that I noticed that many of the passengers that I could see from my aisle seat were not buckled in when the plane was landing – and I thought that this was rather peculiar. [...] And then, when we went to visit the Tikhvin saw mill, I saw people pushing logs towards the blades at the saw mill and none of the workers were wearing gloves and, again, I said to myself: This is very interesting, what’s going on?”⁵⁰

When looking into this, the group found out that it is traditional in Russian culture that people are ‘fatalists’, and that there are no well arranged traditions of health and safety as a result. In other words, whether they are wearing the seat belts or the gloves on their hands; if an accident is meant to happen, it happens. So, the team realized that they had a real challenge to change the general culture regarding the health and safety issues.

This was not, however, the only startling thing they realized during their visit. They learned that Tikhvinsky had been acquired by Stora Enso’s competitor UPM-Kymmene earlier that year. The devastating news almost brought the whole project to an abrupt end, as the sudden ownership change had rendered useless all the hard work and the material that had already been gathered. The situation called for a quick decision. The team had to find a replacement for Tikhvinsky on a very short notice, or otherwise risk losing the whole project. Much to their luck, Stora Enso had only the previous year acquired another Russian company, **OOO Russkiy Les**, which was also located in the town of Tikhvin. A telephone conference was held two weeks later, and the team made the choice simply to switch to Russkiy Les and run the same analyses they had already completed with Tikhvinsky. Helena Jantunen describes the critical situation:

“It was not an easy change, by no means, but it was a change which we were able to make [...]. It was not a very nice thing to hear that a competitor had acquired that very company so we weren’t able to publish even

⁴⁷ Interview with Kenneth Rosenbaum (Expert Advisor, Forest Integrity Network of Transparency International), October 18th, 2007

⁴⁸ Email from Kenneth Rosenbaum to Florian Nehm, January 4th, 2005

⁴⁹ Final project report (2006): From Russia... with Transparency. Sustainability and Transparency of a Wood Supply Chain

⁵⁰ Interview with David Refkin (Director of Sustainable Development, Time Inc.), October 26th, 2007

the first part of the project report with the information that had already been collected, but we just did the same work again with this other company, our own subsidiary.”⁵¹

The project had survived a major setback, but not completely without harm. They no longer had an independent harvesting company which had originally been the plan, but a direct subsidiary to Stora Enso instead. However, the experience with Tikhvinsky did not go in vain. The team now more or less had the forms ready, what kind of information they wanted to collect, and what they wanted to include in the report. Having a direct subsidiary also helped save time with the implementation processes again, and the project soon continued. Another telephone conference was held in June 2005, where it was agreed that the original date for publishing the results had to be postponed, in order to have more time to repeat what was done with Tikhvinsky, and the date for releasing the phase one interim report was rescheduled from May 2005 to September 2005. The collaboration with Russkiy Les was established, and in July 2005, a meeting was already arranged in Hamburg, where Russkiy Les presented themselves to the team.

Stora Enso began working hard to reproduce all the necessary data from the new Russian partner. Their marketing department created further drafts of the interim report and continued working with the website. Other assistance was utilised when further expertise was required, and Stora Enso included additional people when necessary, since not all the experts on the issues raised were members of the project team for the duration of the project. Albeit being Stora Enso’s subsidiary, a strong commitment from the Russian company was required, too. Helena Jantunen continues:

“This is actually how things are done in Russia [with] these legal entities, subsidiaries of big companies; [...] Stora Enso’s instructions don’t have that kind of jurisdiction in Russia, without the actual very concrete orders form the operative management of this Russian legal entity.”⁵²

In addition, all project partners provided company specific information regarding the project to Stora Enso to be included in the final version of the interim report. Once all the material was compiled, Kenneth Rosenbaum and Galina Kozyreva carefully went through the report and provided their critical reviews, in terms of whether there is a real program against managing illegal logging and corruption and ways to measure progress; and if, as the project progresses, they are taking proper steps to implement it. In September 2005, after an open invitation had been released, the website was launched and the interim report was published during a press conference in Helsinki. Here, all the project partners presented the case from their point of view in a panel discussion led by a Stora Enso representative. In the report they wrote:

“Fibre from Russia is a strategic resource for the paper industry. It is in the interest of the entire supply chain to stimulate the development of a sustainable and long-term forest industry in Russia. This is important to secure continuous reliable supply of wood through mitigating risks and to ensure products do not lose their acceptability to customers in the most demanding markets. Knowledge of the circumstances in Russia is often insufficient in key market areas for paper, which leaves a lot of room for prejudice. The partners feel that sweeping generalisations present a serious risk to the image of fibre supply and forest products from Russia. All the partners will therefore benefit from an analysis that clearly identifies the development requirements and bottlenecks still needing to be solved in Russia. In the Tikhvin Project this is done in a very concrete manner – at the level of a Russian harvesting company. [...] Today’s sustainability agenda is broader than just ecological issues. The demand that products are responsibly produced covers social and economic responsibility as well. The Tikhvin Project has therefore focused explicitly on a number of selected social and environmental issues in order to explore the current situation and create a more systematic approach to this area. [...] The social, economic and environmental dimensions of sustainability cannot be separated from each other – the aim is that they are integrated into all Stora Enso’s operations in a holistic way. To achieve the

⁵¹ Interview with Helena Jantunen (Sustainability Manager, Stora Enso), October 26th, 2007

⁵² Interview with Helena Jantunen (Sustainability Manager, Stora Enso) and Teppo Alvoitu (Regional Manager of Karelian Region, Stora Enso), November 8th, 2007

Group's aim of superior performance in all areas of sustainability, the policy commitments need to be turned into concrete actions."⁵³

These concrete actions were described as the main sustainability gaps identified during the first phase and to be addressed during the second phase of the project, and it was recognised that: firstly, although all partners address the issue of legality in their principles and policies, none of the partners had finalised a complete set of detailed definitions of terms, guidelines and follow-up and reporting mechanisms for assuring the legality of the materials used in their products and, thus, a more systematic approach to legality was needed. Secondly, they would need to further develop the integration of social component in the supply chain management. Thirdly, an increased amount of certified forest in Russia was required; and finally, the employee safety in Russia remains a challenge, as long as manual logging methods are widely used, even though legislation is sound and there are some excellent performers.⁵⁴

As one of the project's key characteristics was to be as transparent as possible, all of the project partners demonstrated their sustainability work and policies within their respective organizations, and the critical reviews by Kenneth Rosenbaum and Galina Kozyreva were included in the report in full. Finally, the project report was concluded with the steps to be taken in the second phase. They wrote:

"The Tikhvin Project Phase I specifically addressed the techniques that are used to manage environmental and social requirements in the supply chain. The partners have a large set of tools available for improving their own and their suppliers' performance; binding contract clauses, training, joint implementation, auditing, ranking of suppliers etc. These tools offer the basis for further integration of sustainability requirements and their verification into the supply chain also in the future. The work is now shifting from an initial project – Tikhvin Project Phase I – into processes around the identified development tasks –Tikhvin Project Phase II. Partners continue work in order to address the identified development proposals in their policies, practices and reporting. The Phase II will run from October 2005 to December 2006 and will integrate an external Russian wood harvesting company as a new project partner. The Phase II is expected to produce company-specific outputs as well as joint communication."⁵⁵

Phase II: Implementation – Implementation of the new supply chain strategy

It was now time to turn the ideas into action. After the press conference was over, the team sat down to discuss the next steps and how they would start addressing the sustainability gaps identified during the first phase. Since they had been forced to replace the original independent Russian partner to one that was a subsidiary to Stora Enso, it had been decided prior to publishing the report that an independent wood supplier would be introduced for the second phase, to not risk losing the credibility of the project. Anna-Liisa Myllynen explains:

"We also wanted an external supplier involved, which is a more difficult case since we don't own them and can't dictate anything; you have to show the rationale in discussions and you have to show the importance of the sustainability agenda through discussions to motivate the external suppliers."⁵⁶

This would also be a good opportunity for expanding the project scope geographically. The Leningrad region and the Republic of Karelia are the two most important regions for Stora Enso, and so the Republic of Karelia was selected. Helena Jantunen explains:

⁵³ Phase I interim report, September 2005

⁵⁴ Phase I interim report, September 2005

⁵⁵ Phase I interim report, September 2005

⁵⁶ Interview with Anna-Liisa Myllynen (Director of Forest Environment and Wood Supply, Stora Enso), August 29th, 2007

“We could also have continued in the Leningrad region, but the interesting thing here is the comparison, because there are certain laws and certain regulations which are issued in Russia on regional level, so there are certain differences – and we wanted to be able to involve the regional factor.”⁵⁷

Teppo Alvoittu, the Regional Manager for the Karelian region for Stora Enso, was asked to provide candidates that he saw best fitting for the project scope. He gave some names of suitable companies, and after a similar selection procedure as with Tikhvinsky was completed and the three best candidates were interviewed, **Shuyales ZAO** in the town of Chalna, Mr. Alvoittu’s long term supplier, was selected. He explains:

“We have had a long-term partnership, and we know [they are] a reliable company, delivering a whole complex of assortments to Stora Enso – for ten to fifteen years now – and the cooperation has always been on good level. We have had open communication and everything has gone smoothly.”⁵⁸

Again, it was necessary to communicate the benefits to the new Russian partner and to get them to understand why they should participate in such a project. Teppo Alvoittu continues:

“When choosing the company, the attitude is what matters. Many of the Russian companies think like they still live in the Soviet times – they are old fashioned. That is, they are not modern enough to see these types of projects worth participating.”⁵⁹

This time around, however, the group could leverage from having more partners in the project, as Helena Jantunen points out:

“For them it was interesting to cooperate in the same project team with [our] important customers – so they realized that there will be a lot of value added to their operation, by knowing people and by knowing how our end users and end customers think and what their attitudes towards these sustainability issues are.”⁶⁰

The fact that they had already had a different Russian company in the first phase of the project proved to be valuable as well, because Shuyales got to compare their own indicators with the numbers and the tables provided on Russkiy Les – a direct subsidiary to Stora Enso. Soon after Shuyales became a member of the project, they organized a stakeholder meeting on their own, where they informed their stakeholders how they had become a member in this international multi-stakeholder project and started to collect information and ideas on their own, on how to improve and systematize their own development work within their company.

Meanwhile, the publication of the interim report had succeeded in gaining the attention of a wide audience in the sustainability community, and the team began receiving inquiries, from governmental organizations such as the World Bank as well as other companies, to participate in the project. Once more, the issue of bringing more partners to the project was raised, as Nehm recalls:

“We always discussed this; do we need more partners and what benefits would we have from that? Perhaps you have the disadvantage that the process becomes more problematic because there are more voices and opinions and vetoes, but then you have the advantages – so we did not say we absolutely need another one, but after we got these calls and emails, we had to discuss, do we want to do that and what would be the advantage of it.”⁶¹

⁵⁷ Interview with Helena Jantunen (Sustainability Manager, Stora Enso) and Teppo Alvoittu (Regional Manager of Karelian Region, Stora Enso), November 8th, 2007

⁵⁸ Interview with Helena Jantunen (Sustainability Manager, Stora Enso) and Teppo Alvoittu (Regional Manager of Karelian Region, Stora Enso), November 8th, 2007

⁵⁹ Interview with Helena Jantunen (Sustainability Manager, Stora Enso) and Teppo Alvoittu (Regional Manager of Karelian Region, Stora Enso), November 8th, 2007

⁶⁰ Interview with Helena Jantunen (Sustainability Manager, Stora Enso) and Teppo Alvoittu (Regional Manager of Karelian Region, Stora Enso), November 8th, 2007

⁶¹ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October

Nehm decided they should first consult Reinier de Man since he had a long history in developing such projects, and sent him an email, asking what would be the best way to approach. De Man replied with a lengthy email, emphasizing again the importance of careful and systematic approach, first looking at where the project was going. As part of his email he wrote:

“The next phase in the project will have to include the development and implementation of instruments to fight corruption in the real Russian context. It will require a clear analysis of the interests of the different players; the factors that encourage or discourage corruption; and the organisational changes (e.g. in the role of Leskhozoes and other public authorities) required to fight corruption in the forest sector. In that sense, the coming project phase will move deeper into the Russian forests. There is not much work left in Helsinki, Hamburg, London and New York.”⁶²

The role of the downstream players, de Man thought, was now limited to providing resources and to formulate clear requirements from an end market perspective, while the hard work would take place in the forests with the companies and institutions linked to the Russian forestry system. The team discussed the situation, and decided that another partner would be good for the project, as it would also strengthen the link between the partnering companies’ products and Russian wood. David Refkin had been working with **Mario Abreu** from **Tetra Pak**, a Swedish liquid packaging company, through The Forest Dialogue, and suggested that Tetra Pak would be a good choice; it would not only strengthen the links but also have a stronger influence in Russia with Tetra Pak’s well-recognizable product. David Refkin explains:

“You know, it’s the old story; [...] the more you can show that you have a relationship [with Russian wood], the more it matters – and Tetra Pak is selling products in Russia, so it was more identifiable as a brand to the Russians, and we just felt the more people involved, the stronger we were going to be and able to make change happen.”⁶³

Tetra Pak has factories in Russia, and one of the key issues in the anti-corruption promises is to address and to have a dialogue with authority. For this the project team thought it would be an advantage to have bigger presence in Russia – not only as a purchaser, but as an industrial player, too. Tetra Pak has a positive brand, but just as important of a priority for the team was how competent and interested they would be; would it be just a marketing precursor to be part of the project, or would they really have people who understand sustainability. After summing up the advantages and disadvantages of having another project partner, the team decided to invite Mario Abreu to join the project, as he is an admirable expert, very competent and experienced in the sustainability field. World Bank, on the other hand, was not perceived as fitting for the project, due to it being a large political institution with a completely different agenda and different image and implications for what they had in mind.

Thus, Anna-Liisa Myllynen contacted Mario Abreu and asked him to be part of the second phase of the project. Mr. Abreu had already heard about the project as he was first approached, and explains why he agreed to join the project:

“[The project] is very much in line what we ask Stora Enso to guarantee for us, so as they said they would like [us] to help communicating to their suppliers; how could we say no, when it was very much in line with what we had been discussing for a number of years internally.”⁶⁴

18th, 2007

⁶² Email from Dr. Reinier de Man to Florian Nehm, January 24th, 2006

⁶³ Interview with David Refkin (Director of Sustainable Development, Time Inc.), October 26th, 2007

⁶⁴ Interview with Mario Abreu (Director of Forestry and Recycling, Tetra Pak), October 12th, 2007

Tetra Pak already had their own routines to collect data from different global suppliers, and on top of that they run third party desk audits for verifying that their paper suppliers make sure they have the proper documentation in place and that the paper suppliers, in turn, demand that the criteria is also fulfilled with the wood producers to avoid unacceptable sources.

The project group now included seven organizations in total, and they had expanded it from exclusively covering partners from the publishing sector to also include a liquid packaging company. Much of the work during the second phase would take place between Stora Enso and the Russian partners, however, and after the publication of the interim report, Stora Enso began working in various smaller workshops in St. Petersburg and the town of Chalna with the Russian partners. Anna-Liisa Myllynen describes the process:

“That is what Stora Enso is doing every day; we are meeting with our suppliers, talking to them and we are trying to develop our suppliers' policies and their management and auditing systems – so that is very normal work for us, having both seminars and smaller meetings with our suppliers. And this was not a project where consultants do the work; we did everything by ourselves [...].”⁶⁵

The project continued on its course throughout the first half of 2006. Stora Enso worked with the Russian suppliers, while rest of the project team followed the progress through monthly telephone conferences, discussing the project progress. In June, it was time for one of the culmination points of the whole project, when a four day meeting between all the partners involved took place in the towns of Petrozavodsk and Chalna. During the trip, the project team visited the facilities of the independent Russian partner in Chalna and experienced first hand, how the development tasks were being implemented. The main event, however, was the open invitation seminar for the Russian landowners, loggers and foresters and representatives of the local regional authorities, where the project partners could really go into detail and discuss the project with the Russians and make an effort to influence the suppliers and other parties involved in Stora Enso's Russian wood supply. Stora Enso already had a long tradition of cooperating with their suppliers, and two times a year they organize supplier trainings, where they bring together different specialists, such as district managers, procurement managers, and environmental managers, for presentations and discussions with the suppliers. Now, the members of the Tikhvin-Chalna project team could also participate in the supplier training to present the voice of Stora Enso's end customers. Helena Jantunen explains the rationale:

“The most important content of these kinds of seminars for us is to inform our suppliers on Stora Enso policies and customer requirements, about our technical requirements. [...] I would say that the most valuable part of the seminar is the discussion – the questions and the answers by the participants.”⁶⁶

Kenneth Rosenbaum took a leading role during the seminar to help explain to the Russian participants why anyone outside Russia cared about whether their timber is being harvested legally or not and to make it clear that Russia has a marketing problem in that if Russian timber would continue to be associated with illegal activity, it would ultimately hurt Russian reputation and Russian sales. He describes his role:

“I feel an emotional connection with Russia, because, although I'm American, three of my grand parents were born in Russia. I told the audience how important it was to have a strong reputation in the international marketplace, and to present Russian wood as something good and honourable. I tried to encourage them to adopt practices that would assure people that their timber came from legal sources.”⁶⁷

⁶⁵ Interview with Anna-Liisa Myllynen (Director of Forest Environment and Wood Supply, Stora Enso), August 29th, 2007

⁶⁶ Interview with Helena Jantunen (Sustainability Manager, Stora Enso), September 26th, 2007

⁶⁷ Interview with Kenneth Rosenbaum (Expert Advisor, Forest Integrity Network of Transparency International), October 18th, 2007

The message seemed to get across. Although it was difficult for the project partners to judge whether they had made an impact after having to speak through translators, Kenneth Rosenbaum felt he got a good reception and that his presentations were helpful with the overall objectives of the project. The presence of the whole project team proved to be valuable as well. They used the project team as a wider link to explain to Stora Enso's Russian suppliers why it is important to work on the development of environmental and sustainability issues. Continuous improvement is what the market requires, and in case a Russian based company wants to be active in the western European or North American markets, they have to take these issues into consideration. Furthermore, this is easiest to understand, when it comes from the mouth of a representative of a larger paper customer – somebody who is buying tens of thousands of tons paper every year. Mario Abreu describes:

“We brought some of our projects and showed to the suppliers and said: Guys, this is our project, and these are our values, and we don't want any unacceptable sources to be here – but we do want your fibres to be here and to do this project with you. [...] We want to make sure that everything we get follows the same routine and rules.”⁶⁸

The team felt the supplier seminar had been a success, and it was now time to start concentrating on the final report and the project closure. During the final months of the second project phase, the team continued to have monthly telephone conferences, while Stora Enso continued the progress with the Russian partners. A meeting was arranged in September 2006 in New York to wrap up all the material and to discuss the upcoming press conference and communication for the final report.

(C) Results of the project

Finally, in December 14th 2006, everything was ready to be published, and the final report, entitled “*From Russia... with Transparency. Sustainability and Transparency of a Wood Supply Chain*”, was released during a press conference held in Helsinki. Stora Enso marketing department updated the project website with the second phase results and created a project flyer in English and Russian to be used as a handout for the Tikhvin-Chalna project.

The purpose of the website is two-fold. The English version works to the international market – to anyone who is interested – but everything is also in Russian, so that all of Stora Enso's suppliers and other key constituents in Russia can look at the website. However, these are not the only communication tools resulting from the project. The dissemination of what has been learned during the project now happens through Stora Enso supplier training, where they try to make other suppliers improve their performance as well. In the final report, the project team concluded their work with the following words:

“The project team addressed the legality of wood, labour conditions, and environmental issues in a supply chain reaching from Russian forest to paper products. The current state of selected sustainability issues was illustrated with the help of two Russian wood suppliers, Russkiy Les and Shuyales. The team learned about challenges and development needs but also about best practices and achievements concerning the selected issues. The partners believe that integrity of private business, legal compliance, and progressive environmental and social work together with transparent communication and third-party verifications are the keys to the future success of the Russian forest sector. The partners are committed to continuing their sustainability work in this spirit and for these goals in the future.”⁶⁹

While Stora Enso was used to doing sustainability work in their everyday business, doing it together across the whole supply chain gave a completely new perspective and new viewpoints.

⁶⁸ Interview with Mario Abreu (Director of Forestry and Recycling, Tetra Pak), October 12th, 2007

⁶⁹ Final project report (2006): *From Russia... with Transparency. Sustainability and Transparency of a Wood Supply Chain*

Moreover, the project members had the possibility to learn from each other through this excellent networking opportunity – Stora Enso could learn from their suppliers and customers and vice versa. In turn, the critical reviewers, Transparency International and the Karelian Research Centre, added two new perspectives, which would have been impossible to attain otherwise.

Throughout the project, Stora Enso improved and removed gaps from their policies and principles, looked at their management systems and how the sustainability issues, environmental issues, forest certification, occupational health and safety issues, and the integrity of business practises have been integrated into their own management systems. The third party verification for Stora Enso's management systems was analyzed, and the possibilities for further improvements were recognized. Different tools for developing Stora Enso's systems were also identified. For example, better methods for risk assessments, for those such as legality, health and safety, and environmental risks. The guidelines and working instructions internally within the companies were also improved, as was the reporting on these issues; by reporting relevant issues in an understandable way and by using communication through different channels for different companies and different partners.

One of the initial objectives of the Tikhvin-Chalna project was to certify an area of some 600.000 hectares, and this was accomplished in 2006, increasing the chance of getting certified wood from Russia into the supply chain. Nevertheless, in order for the project partners to account for it, it has to come through well managed chain-of-custody, as David Refkin points out:

“The grade of paper that we use is by far the most uneconomical grade to use; the whole infrastructure is built around virgin fibre. But if you're going to do that, you'd better make sure that the virgin fibre is coming from a well managed forest. So that was part of our motivation: if we can't say it's recycled, we better be able to say something about the virgin fibre we're using. And the best way to do that is to focus on making sure that it's certified.”⁷⁰

The project partners also now have a better understanding of how sourcing in Russia takes place, and they could benefit from learning more about the bribery and corruption issues. Regarding the illegalities, this was also an opportunity to make sure the policies they had established prior to the project were being executed. The key result of the project, however, was to see that it is possible to combine different elements of the same value chain, different players and actors in the value chain in different areas and activities in the sense of collaborating, as Mario Abreu points out:

“Instead of receiving pressure from downstream your company in the value chain and putting pressure above you in the upstream, we could now say: Well guys, we all want the same thing, so instead of getting one to put pressure on each other, let's work together and agree on the objectives and try to have a partnership so the achievements can happen for everyone.”⁷¹

The project team saw that the major buyers really could have an impact on the market place. They realized that it was important for the people who are the tree farmers and the land owners in Russia to see the situation from the perspective of the actual buyers of their forest products, to hear the buyers say that these values are important, and that they expect the tree farmers to uphold appropriate standards so that the end customers can feel comfortable and accept Russian fibre in the West. Anna-Liisa Myllynen explains the impact:

“If as many actors as possible have good practices and good policies, then it is beneficial for the whole sector and very important in such challenging countries as Russia, for example [...]. It feels that many other Russian companies have been interested in this, as well; when a big company like Shuyales, which is a very influential and big logging company in the Republic of Karelia, does something together with big international companies [...], of course it raises interest within Russia, within Karelia and within the communities.”⁷²

⁷⁰ Interview with David Refkin (Director of Sustainable Development, Time Inc.), October 26th, 2007

⁷¹ Interview with Mario Abreu (Director of Forestry and Recycling, Tetra Pak), October 12th, 2007

⁷² Interviews with Anna-Liisa Myllynen (Director of Forest Environment and Wood Supply, Stora Enso), August 29th and September 14th, 2007

Helena Jantunen continues:

“There are not so many positive examples of this kind of multi-stakeholder approach to the wood supply chain from Russian forests in the Western markets. I think that people have been very interested in the development work, which was done during this project and in our results as well. I’ve even heard some Russian authorities use the Tikhvin-Chalna project as reference when they need to give positive examples of development initiatives in Russian forest operations.”⁷³

The project partners had succeeded in raising awareness of the issue of illegality and corruption in Russia, and that companies can do something about it with other companies. And as Florian Nehm emphasizes, Transparency International’s participation in all of this was crucial:

“By having the NGO, you have an easy exchange of experiences and views. Because, in the end, you think from the press conference and this is important to be credible and to really address the agenda of the case, and the best way to do this is to involve an NGO, not as a partner but as a critical reviewer. And by not having them come in the last moment when they can’t change anything they would like, and not be able to be part of the process. It is for the culture of the companies not easy to have a Green Peace or a Transparency International expert sitting in the meeting, but we are now used to this and we have confidence and know how this goes, how productive this is.”⁷⁴

Florian Nehm has also put together a film⁷⁵ on the project, representing the key issues in the project and the project team’s trip to Petrodzavosk and Chalna. It has also been used by Kenneth Rosenbaum as an example at the international anti-corruption conference in Guatemala City in November 2006, raising the awareness of the audience of NGOs and government people interested in anti-corruption efforts. Nehm continues:

“In here we have the tremendous advantage, that in whatever conference, Transparency International uses [our] film to present our case study – what better could we hope for?”⁷⁶

The team members also have begun disseminating the results, as David Refkin points out:

“I’ve spoken about this in dozens and dozens of ways. A lot of them are paper and publishing audiences; I get invited to speak in a lot of different conferences related to sustainability, climate change, recycling and sustainable brands – all these different kinds of groups that are increasingly looking at sustainability.”⁷⁷

Mario Abreu, in turn, who is in the international board of the Forest Stewardship Council, a high conservation value resource network evolving definitions of high conservation value, has used the Tikhvin-Chalna project as an example at their roundtable meetings. He concludes the overall benefit of the project:

“If there are issues with someone one day saying: Well, we know there might be corruption sources or whatever in Russia – Then, being part of the project will demonstrate that we don’t want them to be there and we are open to engage in any kind of project with similar attitude of improving the transparency in the supply chain.”⁷⁸

⁷³ Interview with Helena Jantunen (Sustainability Manager, Stora Enso), September 26th, 2007

⁷⁴ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

⁷⁵ For the video: see <http://www.axelspringer.de/inhalte/umwelt/movies/tikhvin_128.wmv>

⁷⁶ Interview with Florian Nehm (Corporate Sustainability Officer, Axel Springer AG) and Dr. Reinier de Man (Independent consultant), October 18th, 2007

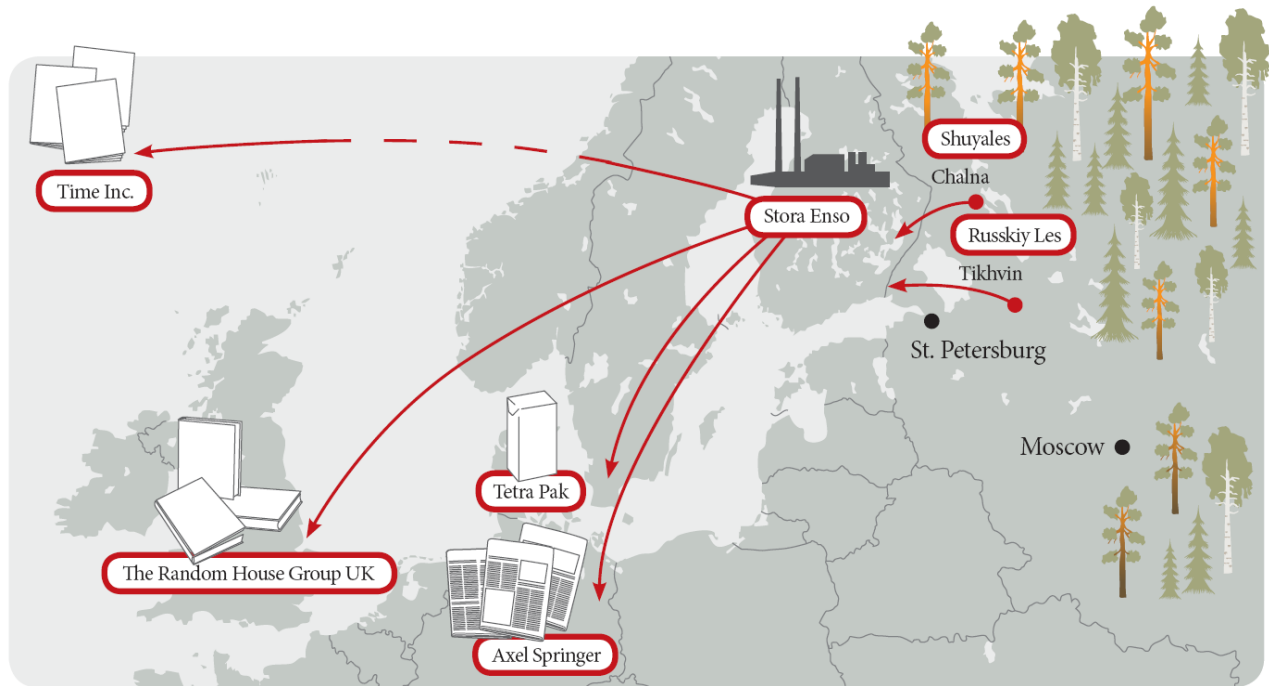
⁷⁷ Interview with David Refkin (Director of Sustainable Development, Time Inc.), October 26th, 2007

⁷⁸ Interview with Mario Abreu (Director of Forestry and Recycling, Tetra Pak), October 12th, 2007

David Refkin concurs:

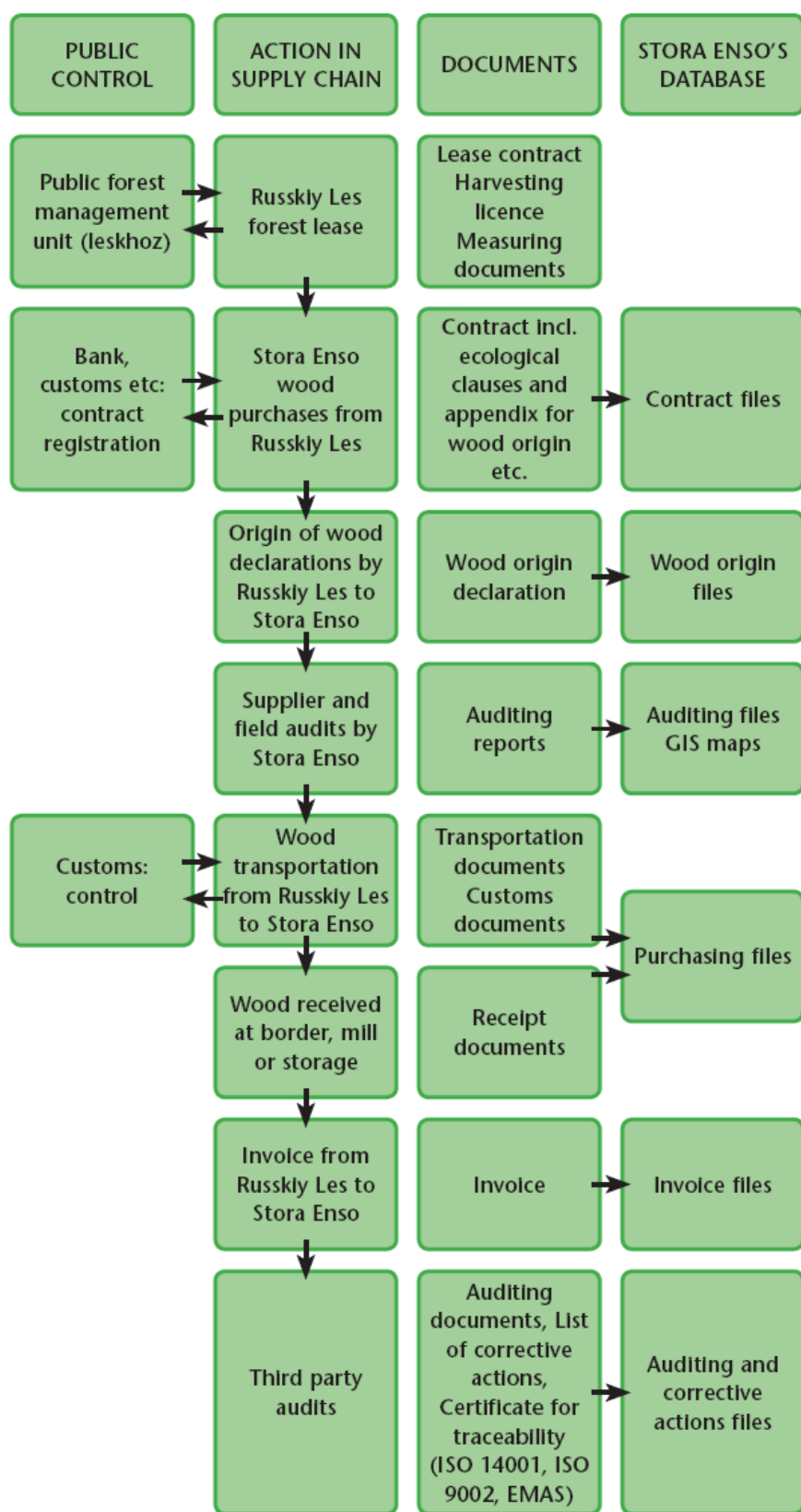
“Our experience has been that you don’t necessarily accept conventional wisdom, but there are different ways to do things – And if you’re going with the right attitude, you can improve things. The worst thing anybody can say is: I do it this way, because it’s always been done this way.”⁷⁹

(D) Appendix

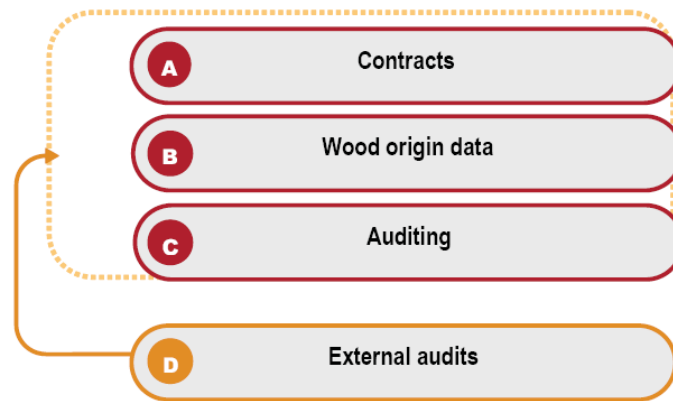


Appendix 1. Illustration of the supply chain.

⁷⁹ Interview with David Refkin (Director of Sustainable Development, Time Inc.), October 26th, 2007



Appendix 2. An example of a wood supply chain, from Russkiy Les to Stora Enso mills (taken from the 2005 project interim report).



Appendix 3. Stora Enso's third-party-verified traceability system in Russia (taken from the final project report: From Russia... with Transparency. Sustainability and Transparency of a Wood Supply Chain.)

- A)** Relevant contract clauses in wood purchasing
- Logging and procurement in compliance with national legislation
 - No wood from protected areas and areas planned for protection, unless in line with conservation plans.
 - No wood from other agreed restricted areas, e.g., potentially valuable old-growth areas.
 - Identification of the origin of wood.
- B)** Wood origin data on harvesting areas are collected in Stora Enso's database.
- C)** The auditing programme includes internal, supplier, and field audits. Internal audits are undertaken for management and monitoring purposes, and to improve the systems. Supplier audits are undertaken to verify and improve the environmental performance suppliers. Annually, 30 – 35 % of the contract holders in Russia are audited. New areas and new suppliers are subjected to intensified auditing. Field audits, always in cooperation with the supplier, verify the wood origin data and give an opportunity to assess forestry practises, environmental values, safety aspects, and legal documents.
- D)** Third-party certification of Stora Enso's traceability system is in place in Russia as a part of Stora Enso Wood Supply Finland's supplier requirements and certification: ISO 14001 and ISO 9002 since 1998 and EMAS registration since 2001. In 2005, Stora Enso Wood Supply Russia achieved controlled wood certified by SmartWood.