

# BULLETIN

NORDIC INVESTMENT BANK • JULY 2004

Theme:  
Forest industry



**NIB**

# Focus on forest industry

Ari Mugg



In three of the Nordic countries—Finland, Norway and Sweden—forest industry is a fulcrum of business enterprise. Finland's forest industry accounted for 25 per cent of export earnings in 2003, Sweden's for 13 per cent and Norway's for 3 per cent. But these export percentages are not the whole story. One-third of all paper and board manufacturing enterprise in Western Europe today is owned by Finnish companies. The corresponding Swedish and Norwegian holdings are 10 and 4 per cent respectively. So nearly half of Western European paper industry is currently Nordic-owned as a result of the industry's internationalisation.

The structure of forest-based industry has been radically transformed in the past two decades. National consolidation came as the first stage in this process. For example, Finland's three biggest forest industry enterprises accounted for less than 40 per cent of the country's output at the beginning of the 1980s and over 90 per cent by the beginning of the 21st century. Cross-border consolidation—internationalisation—then got seriously underway in the 1990s, and Nordic forest industry began expanding through company acquisitions and start-ups outside the Nordic area. Parallel to this structural change, Nordic forest industry invested massively in product development and new technology, not least in systemic environmental improvements to the production processes.

**International competition** in forest-based industry is keen. Paper prices show a falling long-term trend, having declined by 1 per cent annually since 1982 and by 3 per cent annually since 1998. The cyclically sensitive parts of the forest product range have been hit by the recession beginning in 2001. Demand growth for forest products is modest in the long term. Consensus forecasts point to between 1.5 and 2 per cent annual growth for the period ending in 2010.

To hold their own in such a business environment, companies must be constantly adapting

and developing their products according to customers' needs, with unfailing cost-effectiveness. This was the motive force of the process of international consolidation characterising forest industry until 2001. Today the companies are concentrating mainly on internal efficiency and ongoing cost-cutting in a bid to buoy up their profitability. The measures thus taken will benefit the industry when the global economy picks up again.

Thanks to its well-diversified market position, cost-effectiveness and vertical integration, Nordic forest industry has coped relatively well with the downturn in recent years.

**Forest industry** accounts for a considerable share of NIB's loan exposure, namely 10 per cent of loans outstanding at the end of 2003. The figure has varied between 10 and 17 per cent over the past 10 years, peaking in 1995 and 1996. During the early 1990s NIB played an active part in financing forest industry's environmental investments. In the years that followed, the scene came to be dominated more by the industry's internationalisation. NIB has participated in the financing of cross-border investments in connection with inter-Nordic company mergers and with the industry's ventures outside the Nordic area, one interesting example of this kind being a loan in 2003 to Veracel Celulose, owned by Aracruz Celulose and Stora Enso, for investments in a large modern pulp mill in Bahia, Brazil.

NIB's financing reflects the various phases of transformation in Nordic forest-based industry: *national consolidation, environmental upgrading, product and technology development, cross-border consolidation within the Nordic area, and internationalisation.*

These five elements are fully in accordance with NIB's overarching purpose: promotion of sustainable economic growth.



Jón Sigurðsson  
July 2004



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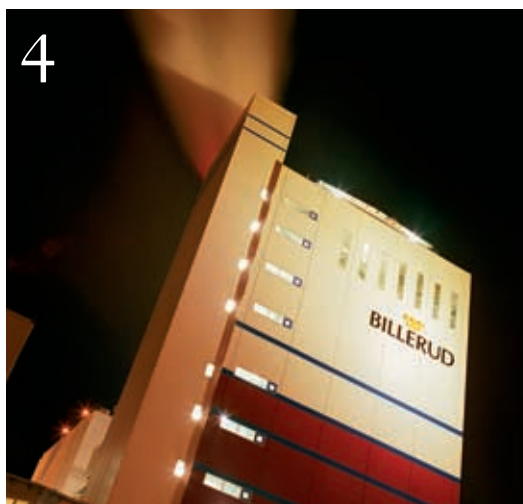
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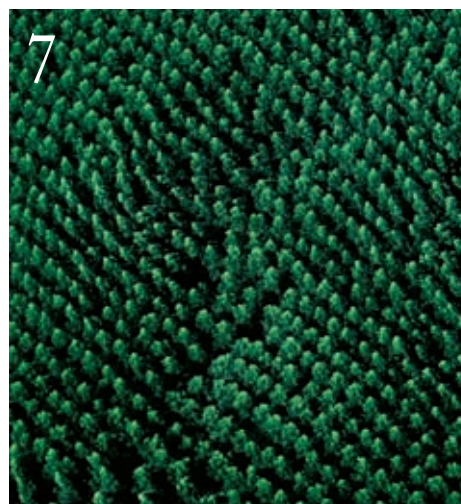
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## THE GRUVÖN MILL

# Paper production round the clock

The Gruvön mill is situated on Lake Vänern in Swedish Värmland. Here softwood and hardwood becomes material for fruit crates and exclusive shopping bags. The mill never sleeps: a staff of about 1,100, a wood yard that processes the wood into chips, three cooking lines, bleach plants, six paper machines and two flash dryers work non-stop the year round, except for an annual maintenance break.

### BILLERUD

- Billerud manufactures packaging paper and has three mills in Sweden and one in Great Britain.
- The Billerud stock has been quoted on the Stockholm Stock Exchange since 2001.
- As a small player among the giants of the forestry sector, Billerud has chosen to concentrate on certain market niches. The goal is to produce innovative packaging paper of high quality. The company focuses on containerboard and kraft paper products.
- In 2003 turnover was almost 7 billion Swedish crowns and company employees totalled approximately 2,400.

Bo Backström



*The Gruvön mill produces bleached paper for various types of packaging.*

The Gruvön mill was established already in the 1930s, when the name of the owner was Billerud. Indeed, over the years the name of the owner has changed several times, but since a couple of years ago the name of the owner is again Billerud. Traces of the various decades in the mill's history can be seen around the mill grounds: one machine is several decades old, while another is brand-new.

**One new investment** at the mill, which manufactures both pulp and paper, is a plant for treating wastewater. Last year Billerud received a NIB loan of 150 million Swedish crowns, which is mainly used for the so-called external wastewater treatment plant. The new plant will replace the old treatment system at the mill, removing fibre from the wastewater and also reducing the COD discharges into the water. After undergoing a sedimentation process the fibre will be recycled in the mill. In addition, bacteria will be used to reduce the quantity of COD, before the wastewater is released into Lake Vänern.

“Today we reduce the amount of COD by about 40 per cent, but once the new ►







According to Fredrik Larsson a new external wastewater treatment plant will considerably reduce the mill's discharge of chemical oxygen demanding substances (COD).

treatment plant is in operation we aim to reduce it by between 65 and 75 per cent," says deputy project leader Fredrik Larsson.

The new plant will be in operation from the end of 2006. With the new investment, the amount of nitrogen and phosphorus will also be reduced in the wastewater, which will minimise the risk of eutrophication of the lake.

The external wastewater treatment plant is only one of several environmental investments that the Gruvön mill has carried out in recent years. The authorities have made various investment demands when the mill has sought to increase its capacity. External wastewater treatment was a precondition for the environmental permit that the mill was granted in 2002 and that is necessary for the production according to Swedish legislation.

"We have invested a lot recently. We started with several environmental investments in 2000; we built a new recovery boiler that year. And then in 2001 we built a new evaporator plant," Larsson explains.

At the evaporator plant, water is removed from among other things lignin, the substance which holds together the fibres in wood. This process makes it possible to burn the cooking liquor in a recovery boiler.

"The investment means a lot for the environment, since previously we could not treat the condensation that accumulates during evaporation," Larsson adds.

**Alongside** these investments, the Gruvön mill has also developed its environmental activities in other ways. The mill's environmental management system, which includes training for employees, received ISO 14001 certification a couple of years ago and is registered according to the EU environmental management and accounting system, EMAS.

"I believe that the image of the paper industry as an environmental villain is wrong nowadays," Larsson states.

"In many respects it seems like we are the ones pushing the development forward," he adds.

The mill has established an environ-

mental panel comprising residents of the municipality of Grums, which is located right next to the mill. The idea is that the panel members will inform the mill when they notice, for example, noise or odour.

"This is in order to increase our goodwill in relation to the community, since we know of course that we produce some smoke and the mill smells a bit and is pretty noisy," Larsson explains and points out that the emissions are sometimes not noticed in the mill area, in spite of them being noticed outside the area.

**The fact** that an increasingly larger share of raw materials is delivered by train instead of truck is also an environmental improvement. The mill receives most of its raw materials, softwood and hardwood, from nearby forests. Moreover, some raw materials are imported from the Baltic countries by ship.

The Gruvön mill produces only bleached products, while Billerud's two other Swedish mills—Karlsborg in northern Sweden and Skärblacka near Norrköping—manufacture both bleached and unbleached products. The Gruvön mill produces containerboard as well as sack and kraft paper. In addition, some of the pulp produced at Gruvön is sold as market pulp. This year its goal is for all product segments taken together to total 660,000 tonnes.

Containerboard which is the largest product category, is used, for example, for fruit crates.

"Orange growing in Israel is an important customer for us," Larsson says.

Sack paper and kraft paper are used, for example, for sugar and müsli packaging and building material packaging. According to Larsson paper for high quality bags is a growing market. In terms of production, challenging end products include paper for sterile purposes and for sticky labels, he explains.

The alpha and omega of the production is print quality, in that virtually all packaging in today's world has text and graphics.

Larsson thinks that Gruvön's strength is the will to develop the paper production.

"I think that we can blow our own horn for daring to try new things," Larsson says. ■

# Fast-growing forest is Veracel's trump card

To combine the competitive production of pulp, modern forest management technology and short transport distances with corporate sustainability and biodiversity. That is the vision for the Brazilian company Veracel, which is starting up operations in its new pulp mill in 2005. The project is unique in many ways.

The financing of Veracel's pulp mill in the northeast Brazilian state of Bahia was one of NIB's largest commitments in 2003. Veracel is a Nordic-Brazilian joint venture that is owned by the forestry companies Stora Enso Oyj and Aracruz Celulose S.A., the latter of which is already engaged in pulp manufacturing in Brazil. Each of the companies has a share of 50 per cent of the project and the pulp mill's production.

The decision to build a pulp mill was made in May 2003. Construction was begun immediately and the project has progressed according to plan. When the mill begins operations in mid-2005, it will be the world's largest single-line manufacturing plant for bleached eucalyptus pulp.

**Veracel's total** annual output capacity will be 900,000 tonnes of short-fibre pulp

for export to paper manufacturers mainly in North America, Europe and Asia. The pulp will be used for printing, writing and specialty paper products as well as for tissue products. The raw material will come from plantations of fast-growing eucalyptus. By acquiring land as well as entering into contracts with local landowners for growing eucalyptus, the supply of raw materials within a short transport distance to the mill will be ensured. The raw mate- ►

Stora Enso



*The 30-metre high eucalyptus trees, less than eight years old, are ready to be harvested.*





Stora Enso

*Veracel's plantations are located in plateau regions, while the valleys are reserved for planted native species of trees. The mosaic landscape helps protect the biodiversity of nature in the area. Of Veracel's total landholdings, 47 per cent comprises eucalyptus plantations and 48 per cent Atlantic rainforest fragments and regeneration areas.*

rial and the short distance will also ensure the company's profitability.

During the last 50 years, the damage to the environment and the Atlantic rainforest in Bahia has been extensive. The ecological balance in the area, with its unique plant and animal life, has been seriously disrupted. The indiscriminate felling of forest and intensive cattle breeding have led in most places to total devastation. Veracel has planted trees on lands that have already been degraded or have been worn out from many years of intensive cattle ranching.

**Half of Veracel's** landholdings of 147,000 hectares will be planted with eucalyptus trees, while the other half will be reserved

for regeneration of rainforest. In areas that are not already occupied by rainforest, Veracel will be replanting rainforest at a rate of several hundred hectares annually. The regenerated areas will be set aside for development into rainforests. The improved protection of the remaining rainforest will in the long term enhance the region's biodiversity.

Veracel has also devised systems for minimising diffusion of chemicals and impact on groundwater.

Modern forestry technology will be used in the area. Bark, leaves and branches will be left behind where the trees are felled. This helps to limit erosion and means that many of the nutrients in the trees are returned to the soil.

The climate in the region is favourable for cultivating eucalyptus. The stable temperature and abundant rainfall make the trees grow quickly. Planting can be carried out year-round and the trees can be harvested in less than eight years, when they have reached a height of about 30 meters. The annual productivity is tenfold in comparison with forests in, for example, Finland.

**Eucalyptus plants** are cultivated in Veracel's nursery with a capacity of tens of millions of plants per year. The company is researching new methods for upgrading the quality and the productivity of its plantations. The goal is to find the best characteristics for the plants.



Veracel's aim is to become the world's leading pulp mill and plantation project. This means that the project will serve as a model for the competitive and sustainable production of pulp.

The pulp mill, located in a region where unemployment is high, will create new workplaces for the local population, both directly and indirectly. The workplaces will be created both in the construction phase and when the mill is in operation. Almost half of those who will be trained by the company are women. Business in the region will be stimulated and Veracel will demonstrate its commitment to the region's development, thereby also guaranteeing a long-term supply of skilled manpower. For a number of years the company will be investing considerable amounts in a development programme, which, among other things, includes schools, health care and leisure sector for the region.

Brazilian and international non-governmental organisations have questioned the project's justification. In order to address these concerns it is not enough to rely only

on information the company has provided. Therefore an agreement was concluded in 2004 with the United Nations Development Programme, UNDP, on an impartial external evaluation. UNDP will carry out a socio-economic impact review of Veracel's activities in the municipalities in which the company operates.

"We have done a lot in our region, but we are now seeking guidance to become an even more socially responsible company," states Vitor Costa, President of Veracel.

**The project** has received strong support from the national and local authorities in Brazil. Veracel is already the region's largest company and employer and is at the same time important for Brazil and the state of Bahia. The project will result in the inflow of significant export revenues.

The pulp mill will be based on the best available technology and will satisfy all the conditions and specifications applying to similar Nordic projects. In 2003 Veracel's forest project fulfilled international environmental standards, allowing it to obtain an ISO 14001 certificate. ■



*Eucalyptus plants are cultivated at Veracel's nursery by skilled local personnel.*

*Footnote: NIB is participating in the financing of Veracel Celulose S.A.'s pulp mill in Brazil with a loan of 70 million US-dollars. The project is being cofinanced with the European Investment Bank and the Brazilian Development Bank BNDES. A substantial part of the deliveries in the project will come from the Nordic countries.*

## LOANS TO FOREST INDUSTRY

During 2003 NIB participated in the financing of the following Nordic forest industry projects:

- A loan to Finnish Ahlstrom for acquisition of a Swedish company manufacturing fibre-based materials. This transaction forms part of a wider acquisition of the American Dexter company's fibre-based materials production.
- Financing of a rebuild of Biko-Lat's timber production facility in Latvia. Biko-Lat is a subsidiary of Icelandic Norvik.
- Investments in measures to improve environmental performance by Billerud between 2004 and 2006, mainly at the Gruvön mill in Sweden, where the biggest single project concerns improved external effluent treatment.
- Environmental investments at M-real's paper mill in Husum, Sweden. A new biological treatment facility is being constructed adjacent to the mill's landfill site. Effluent COD (chemical oxygen demand) will be reduced by at least 65 per cent.
- SCA's investments in measures to improve environmental performance, including wastewater treatment in a pulp mill and a new bleaching plant at a paper mill. SCA is also investing in a sludge boiler at a tissue mill. The boiler will convert papermaking sludge into energy.
- A loan for Sveaskog's investments at an integrated pulp and board mill in Frövi, Sweden. The investments will substantially reduce environmental impact by improving efficiency and capacity exploitation and by reducing emissions to air and water.
- Environmental investments in UPM-Kymmene's pulp mill in Pietarsaari, Finland. The investments will reduce effluent BOD (biological oxygen demand) by half.
- A loan to Veracel Celulose for investments in a pulp mill in Brazil.

# Nordic cooperation keeps up with the times

Nothing stays the same, and Nordic cooperation is no exception. But Nordic culture can nonetheless continue to be a uniting force in the future, Finland's Deputy Finance Minister, Ulla-Maj Widenroos, believes.

*Deputy Minister of Finance Ulla-Maj Widenroos, who has responsibility for NIB within the Finnish government, wants NIB to continue to invest in environmental projects. Through financing one can have an influence, she comments: "Money always talks."*



Max Wallgren

"We in the Nordic countries have a unique culture," says Minister Wideroos, adding that she hopes this common culture can bring together the countries in a way that is advantageous to the Nordic countries, without being disadvantageous for anyone else.

Prior to becoming Deputy Minister of Finance in spring 2003, Wideroos had served as a mayor, and a Member of Parliament. Prior to serving in those positions, she worked in the early 1980s at the Nordic information office in the city of Vaasa. Since then the borders in the Baltic Sea region have become less significant, both through Nordic cooperation and through the European Union. Who would have believed twenty years ago that the Baltic countries would draw nearer to the Nordic countries on several different fronts? Wideroos asks. She expects that Nordic cooperation can open itself up to the Baltic and other countries while living on.

**However,** Wideroos believes that it will likely be a long time before Nordic cooperation with free movement and agreements on taxes and social issues can be extended to other countries. Also among the Nordic countries many hindrances remain.

"We cannot feel like being a part of the Nordic community if we continually face hindrances," Wideroos points out and emphasises that the work promoting the internal community in the Nordic region has by no means been brought to an end.

In order for the feeling of Nordic community to not become weaker, one must solve practical problems, Wideroos believes. For example, it has now been agreed upon to open a joint tax office site on the Internet.

Wideroos believes that the Nordic Council will in the future above all deal with concrete questions, while the large visions will keep in the background.

According to Wideroos there is reason for some concern regarding Nordic cooperation externally, for example in the EU. She believes that the Nordic countries will maintain unity in the future on issues of mutual interest, but in other questions the countries will take different paths.

**The finance market** in the Nordic and Baltic countries is already well integrated both in terms of the stock exchanges and

the banks. As Wideroos sees it, this is not a development the authorities need to interfere with.

On the other hand, integration creates pressure for revising legislation so that it meets the needs of tomorrow. This calls for acting quickly, as the life

cycle of legislation is short due to the situation in the market changing every few years. An important question at the moment is the regulation of the European Company. This also brings up to discussion the role of financial supervision in the different Nordic countries.

**As Deputy Finance Minister,** Wideroos is responsible not only for matters concerning financial markets, taxes and customs, but also for questions concerning the NIB and the European Investment Bank (EIB). Wideroos is satisfied with NIB's role.

"I don't think that there is very strong pressure for change. What is important now, just as in the past, is to follow what is happening in the neighbouring area."

Wideroos wants NIB to continue to grant loans to projects with positive environmental effects.

"I am convinced that environmental investments are the priority of tomorrow," she explains.

Wideroos does not consider Baltic membership in NIB as a dramatic change. The real change will not occur on the operative level, but on the decision-making level, since the Baltic countries will in the future

be able to participate in laying down outlines for NIB, she points out. As the Baltic countries gain these rights, their responsibilities will also increase, which Wideroos considers to be a positive development.

She sees great challenges for NIB in the East. Russia is enormous, both geographically and in terms of all the challenges the country is facing.

"Great is an understatement," she points out.

There is good reason to be active especially in terms of the environment, Wideroos believes. She sees the financing of the Southwest Wastewater Treatment Plant in St. Petersburg as only the beginning of what can be expected of NIB.

**Wideroos is pleased** that the enlarged NIB will have two official languages: English and Swedish.

"The use of Swedish indicates that NIB is a Nordic bank," Wideroos says, even if she suspects that English will become the day-to-day working language.

NIB is the first Nordic institution that has welcomed the Baltic countries as full members. Wideroos does not believe, however, that Estonia's, Latvia's and Lithuania's membership in NIB will automatically open doors also to other Nordic institutions. In order for the other institutions, which form a whole, to open their doors, a decision in principle is needed in the Nordic Council.

**In her capacity** as Deputy Finance Minister, Ulla-Maj Wideroos has a broad perspective on Nordic cooperation, for example through meetings with her Nordic finance minister colleagues. But during her years at the Nordic information office, Wideroos worked with what she calls the people's version of Nordic cooperation. And it is on the grassroots level, she believes, that the Nordic community's future will be decided. The important thing is how young people see the community, the Minister concludes. ■



# Nordic Investment Bank to be both Nordic and Baltic

Veikko Nurmnen



*Signing the new NIB agreement. From left: Ib Katznelson, Denmark, Taavi Veskimägi, Estonia, Ulla-Maj Wierroos, Finland, Geir H. Haarde, Iceland, Grybauskaitė, Lithuania, Haakon Baardson Hjelde, Norway, and Gunnar Lund, Sweden. On the far left is Catarina Doepel, NIB. On the far right Jón Sigurðsson, NIB.*



*Dalia Grybauskaitė*



*Geir H. Haarde*



*Gunnar Lund*



*Taavi Veskimägi*



*Valdis Krastīņš, Latvia, Dalia  
are Claes de Neergaard and*

The Nordic Investment Bank is to be more than just Nordic. The Nordic premiers agreed as much in the summer of 2003, and in Helsinki just over half a year later, on 11 February 2004, representatives of the Nordic and Baltic governments signed a new agreement and new statutes for NIB.

Speaking, as Chairman of the Nordic Ministers of Finance and Economy, during the ceremony at NIB's head office, Iceland's Geir H. Haarde said that Baltic NIB membership would contribute to further development, not only of Estonia, Latvia and Lithuania themselves but of the entire Baltic Sea region. After the Nordic premiers, in June 2003, had given the go-ahead for enlarging the Bank's membership, responsibility for the negotiations passed to the Nordic Ministers of Finance and Economy and their Baltic colleagues.

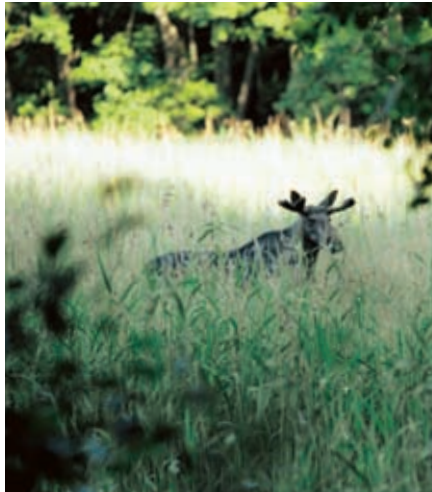
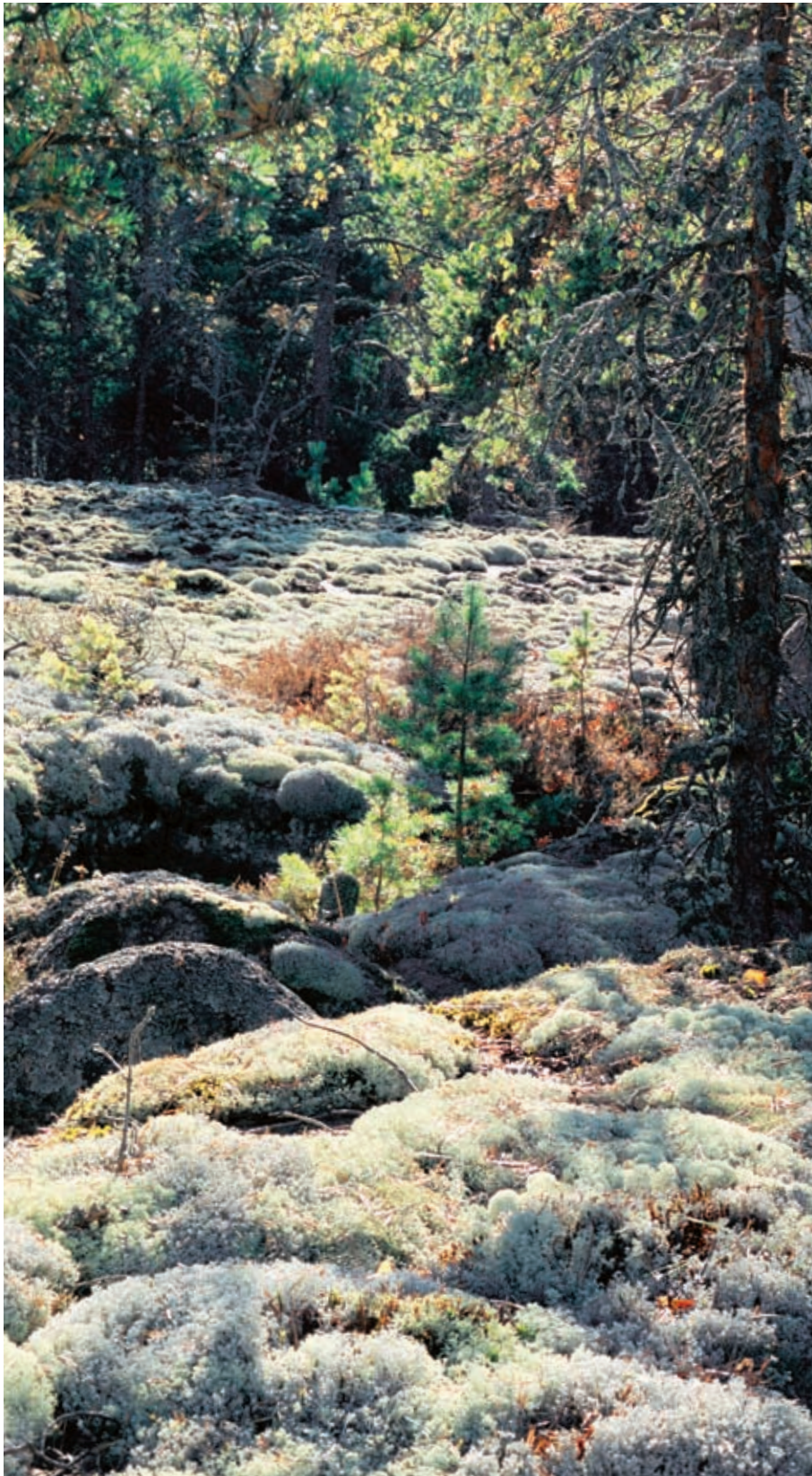
Under the new agreement, Estonia, Latvia and Lithuania will become members of NIB on an equal footing with the present five members—Denmark, Finland, Iceland, Norway and Sweden. Minister

Haarde remarked that parity of status had always been a hallmark of Nordic cooperation.

"I am very much welcoming this event," said Lithuanian Finance Minister Dalia Grybauskaitė after the signing of the agreement and statutes. Minister Grybauskaitė, who with Lithuania's accession to the European Union became a European Commissioner, anticipated ever-stronger cooperation in the Baltic Sea region.

The new agreement is now to be ratified by all eight member countries. The process should be completed by the end of the year, opening the way to Baltic membership of NIB as from January 2005. NIB has already made a start to the recruitment of Baltic staff. ■









## PEACE AND QUIET

To Finnish nature photographer Tommi Heinonen, the forest is the abode of peace and quiet, and in his pictures he tries to capture qualities of simplicity and blissful tranquillity.

“In the depths of the forest there are always tiny interesting details waiting to be discovered: plants, fungi, mosses, ants.”

The forest, he says, imparts a share of its imperturbable calm to the wanderer. Pausing to look and admire is an essential part of outdoor life.



SEMINAR IN RIGA

# Public projects under private management



Ainars Liepins

*The city of Riga hosted the seminar. The Deputy Mayor of the city, Sergejs Dolgopolovs (on the left), welcomed the participants, who represented municipalities and states as well as the transport and finance sectors. NIB Regional Manager Lauri Johnson is in the middle and Nordea Regional Manager Esa Tuomi is on the right.*



## PPP

- The acronym PPP stands for *Public Private Partnership*.
- The idea started in Great Britain.
- PPP is about implementing public projects in cooperation between the public and private sectors.
- PPP enables the financing of projects outside state and municipal budgets. At the same time, it makes it possible to implement extensive projects on a larger scale and thereby achieve economies of scale.
- PPP also makes it possible to transfer risks from the public sector to the private sector.
- The PPP model can be used for infrastructure projects such as road construction and district heating, but also for projects in, for example, health care and education.
- Private actors can take responsibility for the financing, planning, implementation and maintenance of the projects.
- Examples of Nordic PPP projects that NIB has financed include: the Lahti Motorway in Finland, the extension of E 39 in Norway and the train connection Arlanda Link in Sweden.

Important elements of projects that are carried out in cooperation between the public and private sectors are a carefully prepared contract, a well-defined division of risk and responsibility and the capacity to make decisions.

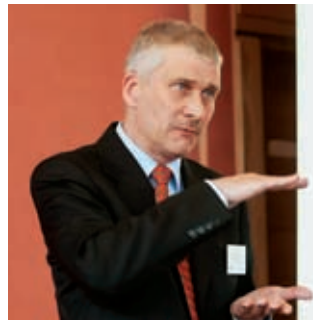
These aspects were the focus of discussion among representatives of the public and private sectors in the Baltic and Nordic countries that gathered in Riga in April at a seminar on Public Private Partnership (PPP). The goal of the seminar was to present PPP as a model for addressing the great need for infrastructure investments in the Baltic countries. The city of Riga hosted the seminar, which was arranged by Nordea and NIB.

Lauri Johnson, NIB's Regional Manager for the Baltic countries and Poland, commented that:

"The Baltic countries have already had substantial experience of privatisation and there is a political will to engage the private sector in most segments of society. These are positive ingredients and a good basis for implementing infrastructure projects with private sector involvement. Speeding up infrastructure upgrading in the Baltic countries will also create better possibilities to tap into the vast financial resources of the EU."



Kaisa Leena  
Välipirtti



Tom Schmidt

Communications, and Tom Schmidt, President of Road Company Nelostie Oy. They presented the Lahti Motorway, which is the first extensive Finnish road construction project that has been carried out with private financing

according to the PPP model. According to Välipirtti there are now plans to use a modified version of the Lahti Motorway model for another road segment, motorway E 18.

Välipirtti commented that the Ministry has had a positive experience of the Lahti project. According to the Finnish State audit office, there were benefits from fast construction, but the profitability compared to traditional state-financed projects was unclear. The Lahti Motorway was completed a year earlier than planned.

Schmidt emphasised the significance of a well thought-out contract for a successful PPP project. The contract between Nelostie and the Finnish road authorities is a long-term service contract, which includes not only the road construction itself but also the road maintenance.

"The contract made us think in life cycle terms and gave an incentive to do the project as fast as possible," Schmidt said.

In Norway the parliament decided in 2001 to try out the PPP model in three road construction projects, explained Kjersti Billehaug, PPP Manager for the Norwegian Public Roads Administration. Work is already in progress on the Klett-Bårdshaug section of E 39 and has also started on the road segment Lyngdal-Flekkefjord with NIB as a financier.

"It is very important that you have a client who can make decisions" explained ►



Kjersti Billehaug





*Gunnar Lundberg*

Gunnar Lundberg, Senior Vice President and Investment Manager of Skanska BOT, Chairman of the Board of Directors of Nelostie, which built the Lahti Motorway in Finland, and Deputy Chairman of Orkdalsvegen, which is responsible for the road segment Klett-Bårdshaug in Norway. Lundberg considers PPP to be above all a way to save money.

Kjell Sundberg's comments followed similar lines. Sundberg is the CEO for the A-Train Project AB, which the Swedish authorities have established to represent the Swedish state's interests concerning the Arlanda Link, a train connection between the Arlanda airport and the centre of Stockholm. Sundberg pointed out that:

"PPP is not only a way of financing, but also a way to make public service more efficient."

Sundberg also underscored the importance of a clear sharing of risks, in which the partner that has the best capacity to bear risks does so.

**The seminar participants** pointed out that a challenge for PPP projects, which are by nature more complex than traditional projects, is to keep transaction costs and bureaucracy in check. It is also important to have an explicit division of roles and responsibilities and to utilise all the knowledge that the various partners possess. ■



*Kjell Sundberg*

## GROWTH IN VIETNAM

# Big demand for loans

"On every visit to Vietnam one is struck by the rapid development," says Søren Kjær Mortensen, NIB's Asian Regional Manager. This year NIB has agreed several new loans for Vietnam.

The Vietnamese energy sector, not least, is in great need of investments. Electricity demand has skyrocketed, as the communist single-party state has opened its doors to the outside world and economic activity has picked up speed. At the end of May NIB agreed a credit of 40 million US-dollars for the state-owned corporation Electricity of Vietnam, EVN. This brings NIB's exposure in the Vietnamese energy sector to about 100 million US-dollars. The Vietnamese Ministry of Finance signed the new loan agreement during a visit to NIB's headquarters in Helsinki.

"The gap between energy supply and energy demand is an issue common to many Asian countries," says Mortensen, who for some years now has been in charge of NIB's office in Singapore.

NIB signed a framework agreement with Vietnam in 1996 and hitherto has mainly financed the energy sector. In the late 1990s NIB also granted a loan of approximately 20 million US-dollars for a paper mill and a loan of 2.1 million US-dollars for an instant coffee production line.

In April this year NIB and the Vietnamese Ministry of Finance signed two loan agreements: one for the financing of a cement factory, and one for the

financing of small and medium-sized enterprises. All NIB credits in Vietnam go through the Ministry of Finance, after the projects have been given the green light by the Ministry of Planning and Investment.

NIB has previously granted a credit of 15 million US-dollars for the construction of a cement factory in Tam Diep, northern Vietnam, and an agreement was now signed for 10 million US-dollars in supplementary finance.

The SME loan programme is NIB's first in Vietnam. Mortensen says that the Vietnamese government has chosen to give these businesses high priority. The programme of 20 million US-dollars is being channelled through the intermediary Bank for Investment and Development of Vietnam, BIDV (Vietindebank), which is providing the local expertise.

**A project** is eligible for financing from NIB if it is of mutual interest to Vietnam and NIB's member countries. Dr Nguyen Thanh Do, Deputy General Director of the Department of External Finance at the Ministry of Finance, sees opportunities for further development of Nordic-Vietnamese business cooperation in several sectors. He says, for example, that Vietnam is interested in



Pedagis Wolff

*Representatives of the Vietnamese Ministry of Finance visited NIB headquarters in May to sign an agreement concerning a loan for the state-owned Electricity of Vietnam, EVN. The signing ceremony was also attended by several members of the NIB administration.*

developing vocational and technical education, health care and water purification and other environment-friendly technology.

Vietnam has significant environmental problems. Mortensen believes the country will be paying more attention to environmental aspects parallel to rising prosperity. Mortensen shares Dr Do's view that Nordic companies have a lot going for them in Vietnam.

"We see opportunities in every sector," as he puts it.

Often, though, business cooperation depends on the foreign player being able to arrange project finance. This, Mortensen says, is one reason for the great demand for loans in Vietnam.

"Cooperation with the Ministry of Finance has been excellent," he says, adding that NIB is prepared to enter new sectors in the future.

Foreign direct investments are vital to Vietnam. Dr Do says that the country is striving to develop its investment climate,

the aim being to maintain steady economic growth and at the same time to achieve social stability. ■

# New fund established for promoting emission reductions

A new fund, the Testing Ground Facility (TGF), has been established to promote and facilitate efforts to fulfill the requirements of the Kyoto Protocol, also known as the Kyoto Agreement. Through the fund, the Nordic countries can invest in emission reduction projects in the Baltic countries, Poland and Russia, and thereby gain carbon credits with which they can in part fulfill their own national commitments to reduce emissions according to the Kyoto Agreement. The basic capital of 10 million euros has been provided by the Nordic countries, and there are plans to involve private investors in the process as well.

The fund is administered by the Nordic Environment Finance Corporation, NEFCO. According to Managing Director Harro Pitkänen, the activities are currently under development.

“At present all potential projects are undergoing an initial review. Later this year a general invitation will be issued to project developers in the region regarding applications for the financing of their projects.”

The TGF is the result of a process that has lasted several years. The goal has been to establish a testing ground in the Baltic Sea Region for projects that are based on so-called joint implementation, which aims at counting investments in emission reduction projects in a particular country as credits for the country or countries that

**The Kyoto Protocol** is an agreement that specifies goals for the limitation of emissions of greenhouse gases during the period 2008–2012. The agreement applies to the industrial countries that have signed it. The goal is to reduce emission levels by five per cent compared to 1990 levels. The Protocol also provides the possibility for those countries that are bound by the agreement to receive credits for emission reductions that are achieved in another country. One of the mechanisms is joint implementation.

have invested in the project. The idea behind the implementation is that it is more cost-effective to reduce emissions in the neighbouring areas than in the Nordic countries, while the benefit to the environment is the same.

Potential projects to be financed by the TGF comprise first of all energy projects focusing on renewable energy and projects increasing energy efficiency and conservation, but other projects can also receive financing. In many cases the projects need supplementary financing from international financial institutions such as NEFCO, NIB, EIB and EBRD or other sources of financing. ■





## NEW APPOINTMENTS



*Mattias  
Bremer*

**Mattias Bremer** (FI) has been appointed Cash Manager in the Bank's Finance Department. He has worked previously at NIB as a Financial Analyst.

Head of Accounting and Budgeting  
**Stina Kontro** (FI) has been appointed Vice President.

**Pelagia Wolff** (FI) has been employed on a project basis as Information Officer in the Bank's Information Department. Prior to joining NIB she worked at the economic desk of the Swedish-language newspaper Hufvudstadsbladet.



*Stina  
Kontro*



*Nils Ole  
Møllenhuis*



*Guðmundur  
Ólason*

**Nils Ole Møllenhuis** (N) has been appointed Assistant Regional Manager for Norway.

**Guðmundur Ólason** (IS) has been named Vice President in the Bank's Nordic Department. He also serves as the Regional Manager for Iceland.

### Nordic Finance Group

**Arne Dybdahl** (N) has been hired on a project basis at Nopef as Regional Manager with a primary focus on Norwegian business. He has worked previously in NIB's Finance Department and for various companies in Finland and Norway.



*Lennart  
Richardsen*



*Pelagia  
Wolff*



*Arne  
Dybdahl*

**Lennart Richardsen** (N) has been appointed Senior Project Analyst in the Bank's Appraisal Department. He comes to NIB from the PA Consulting Group and has worked previously for firms such as Ernst & Young Consulting and Kværner Energy.

## INTERNATIONAL ENVIRONMENT MEETING



*Gunilla Nymann*

Some twenty environmental experts from various multilateral financial institutions gathered at NIB's head office in Helsinki in June. NIB, NDF and NEFCO hosted the MFI Working Group on Environment Meeting, which spent a couple of days discussing current environmental issues relating to the financial sector.

# NIB's first loan to Slovakia



Gamilla Nymann

*Ludovit Konczer and Jón Sigurðsson.*

In February NIB signed a loan agreement with the Slovak Guarantee and Development Bank (SGDB) for 10 million euros. This is NIB's first loan to Slovakia.

The agreement concerns a loan programme in which funds are channelled to projects via SGDB, which acts as an intermediary. The loan programme will fund infrastructure and environmental projects and investments in the health care and industrial sectors. The projects should be of mutual interest to Slovakia and NIB member countries.

According to Ulf Westergård, NIB Deputy Regional Manager for Central and Eastern Europe, interest in direct investments in Slovakia has increased in recent years.

In particular, it is of interest to the Nordic countries that the forestry industry in Slovakia is quite undeveloped, relative to its large forest resources.

State-owned SGDB is an excellent cooperation partner for NIB, according to Ulf Westergård. The intermediary bank finances several projects that need long-term financing and also channels EU funds, which enables joint financing. NIB's loan to SGDB is guaranteed by the Slovak state. ■

## New term of office for the Board

The chairmanship of the NIB Board of Directors has passed to Iceland. The new Chairman, as from 1 June 2004, is Bolli Thór Bollason, Director General at the Icelandic Ministry of Finance. He succeeds Director Claes de Neergaard, Sweden. The Board's new Deputy Chairman is Director General Arild Sundberg, Norway.

Swedish alternate Jan Landahl, Director at the Ministry of Finance, relinquished his appointment at the end of May. He had held the appointment since 1993. He is succeeded by Ulrika Barklund Larsson, Director at the Ministry of Finance.

As an exceptional measure, the Board's term of office will be from 1 June until 31 December 2004. Its composition will then change as a consequence of Estonia, Latvia and Lithuania becoming members of NIB. The new Board of Directors will have eight permanent members, i.e. one per member country. Hitherto the owner countries have been represented by two members each.

### The Control Committee

The chairmanship of the Control Committee, which supervises the bank's activities and is responsible for auditing, also rotates between the member countries. The committee is now chaired by Authorised Public Accountant Guðmundur Snorrason from Iceland, who succeeds Bill Fransson, Managing Director, Sweden. ■



# Loans for women's projects in Latvia and Russia

NIB continues to finance women's entrepreneurship in the neighbouring areas. In February an agreement was signed with the Latvian intermediary banks Hansabanka and Hipoteku banka on loan programmes supporting women entrepreneurs. About a month later, NIB signed a loan agreement with the Russian JSC Vneshtorgbank (VTB), which will channel funds to women entrepreneurs in St. Petersburg and the Leningrad region.

NIB finances the loan programmes in Latvia together with the Council of Europe Development Bank (CEB). The two programmes together total 4 million euros. NIB has previously established similar joint loan programmes with CEB in Estonia and Lithuania.

The loan to JSC Vneshtorgbank in Russia totals 2 million euros. ■



*Hansabanka and Hipoteku Banka are intermediaries for the loan programmes. From left: Ingrida Bluma, Hansabanka, Inesis Feiferis, Hipoteku Banka, Siv Hellén, NIB, Marja Seppälä, CEB.*

## Annual report on CD-ROM

Click your way forward via links, download tables in Excel, browse. Choose the format that suits your purpose. NIB's annual report for the year 2003 is available in several different formats in two languages: English and Swedish. All the publications have the same content.

Since last year NIB has published a CD-ROM that contains the annual report in html as well as pdf formats both in English and Swedish. The html format is especially appropriate for those who want to move easily among various documents, pull up notes to the financial statements or download tables in Excel.



At <http://annual.nib.int> the same material is found as on the CD-ROM.

For those who want to leaf back and forth, or keep a copy on the bookshelf, the annual report is available in the traditional printed format in two languages.

The CD-ROM and the printed annual report can be ordered on the Internet at <http://www.nib.int/news/register.html> or by e-mail to this address: [info@nib.int](mailto:info@nib.int). ■

## Electricity and heating in Iceland

NIB has agreed on a loan of 70 million euros with the municipal-owned service company Orkuveita Reykjavíkur for the construction of a power station in the Hellisheiði region. Upon completion, the geothermal power station's electrical capacity will reach 120 megawatts. After the initial building phase, which will be carried out within a couple of years, the capacity will be 80 megawatts. Besides electricity, the geothermal power station will also supply heating, with a long-term capacity of 400 megawatts. The loan from NIB will be disbursed over several instalments in the period 2004–2006.

When exploiting geothermal energy, hot water is pumped up from the earth's interior. Changes in pressure lead to water becoming steam, which can be used for the production of electricity as well as heating. Discharges to the air are very limited in the use of geothermal energy. Modern technology and precise calculations, which have provided Orkuveita Reykjavíkur good insights into its energy source, contribute to an environmentally sustainable solution.

Orkuveita Reykjavíkur distributes electricity and hot and cold water. The largest owner of Orkuveita Reykjavíkur is the city of Reykjavik, with a share of just over 93.5 per cent. Smaller owners comprise the city Akranes and the local municipalities of Borgarbyggð and Borgarfjarðarsveit. ■

## Third billion-dollar emission for NIB



*Sagel & Kranefeld/Zefu/SKOY, Suomen Kuvalehti*

NIB has carried out its third global emission of a billion US-dollars. The emission, which is registered at the Securities and Exchange Commission (SEC) in the US, has a maturity of five years. It was well received on the market and was fully subscribed within a couple of days.

– There is a great demand for our global emissions. There has been signs of this demand on our road shows during which we meet both old and new investment contacts, says NIB Head of Funding Kari Kukka. The road shows provide an excellent opportunity to inform investors about current Bank activities and future plans.

The bonds that were issued on 18 March were sold to 49 different investors, mainly comprising central banks. Some of the investors were buying NIB

bonds for the first time. The geographic distribution was wide: 10 per cent of the bonds were sold to investors in Japan and 50 per cent to investors elsewhere in Asia, approximately 15 per cent went to the Middle East and Africa and an equally large share was sold to North America, while 8 per cent went to Europe.

– Through global, liquid billion-dollar emissions, the Bank's name becomes better known and at the same time it provides an opportunity for a broader group of investors to subscribe to the Bank's bonds, Kukka points out.

This has been the third billion-dollar emission for NIB. The first bond, with a maturity of three years, was issued in December 2002 and the second bond, with a maturity of five years, was issued in April 2003. ■



## ENERGY IN THE NORDIC AREA

# Making a good thing better

Is the Nordic energy market working? That was the question at a seminar organised at NIB at the end of May. From the seminar a two-fold message emerged: the Nordic area leads the way as regards the development of regional energy markets, but for all its success there is still room for further improvement.

"Nordic cooperation showed its strength when the single energy market was created," said Finland's Minister of Trade and Industry, Mauri Pekkarinen, who was one of the speakers at the seminar.

But Minister Pekkarinen went on to observe that every success is attended by threat scenarios, and he asked whether the market is attracting investments, operating openly and to the consumers' advantage, and whether the players are living up to their responsibilities.

Fortum President Mikael Lilius called for common rules of conduct and equal treatment of all players in the industry.

"To a great extent it's now down to the politicians and national authorities of the Nordic countries," he said.

Paul Bulteel, Secretary General of Eurelectric, the Union of the Electricity Industry, spoke about the European energy market, while Bo Hesselgren, Manager of the Swedish Consumer Electricity Advice Bureau, addressed the individual consumer's view of energy issues.

The seminar, with more than a hundred participants, was arranged in cooperation with the Norden Association in Finland Pohjola-Norden, the Confederation of Norden Associations and Fortum. ■

Gunnel Nyman



*The panel consisted of Harald Norvik, Bo Hesselgren, Paul Bulteel, Larserik Häggman, Ulf Sundqvist and Mikael Lilius.*



*The energy seminar attracted over a hundred participants.*



*Fortum President Mikael Lilius (foreground) called for common rules of conduct in the energy market. Ulf Sundqvist (right) was Moderator for the seminar.*

# This is NIB

The Nordic Investment Bank (NIB) finances private and public projects, which have high priority with the Nordic countries and the borrowers. NIB finances projects both in and outside the Nordic countries.

NIB is a multilateral financial institution owned by the five Nordic countries. The Bank operates in accordance with commercially sound banking principles. The

member countries appoint representatives to the Bank's Board of Directors and to its Control Committee.

The Bank's operations are controlled by an international agreement between the Nordic countries as well as the Statutes connected with this agreement.

NIB offers its clients long-term loans and guarantees on competitive market terms. NIB acquires the funds to finance

its lending by borrowing on the international capital markets. NIB's bonds enjoy the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's.

NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. At year-end 2003 the Bank had 147 employees, recruited from all the five Nordic countries. ■

## NIB'S FINANCING POSSIBILITIES

NIB finances investment projects and project export which are of mutual interest for the Nordic countries, and for the borrower. High priority is given to investments, which improve the economic cooperation in the Nordic countries. Loans and guarantees are granted to finance investments that assure energy supply, improve infrastructure or support research and development. High priority is also given to projects that improve the environment in the Nordic countries and their neighbouring areas. NIB participates in the financing of foreign investments that provide employment in the Nordic countries. NIB finances various international projects in emerging markets as well as within the OECD area. The Bank grants loans to projects that support economic development in the Nordic countries' neighbouring areas as well as to investments of mutual interest for the Nordic countries and the borrowing country in various parts of the world.

In addition to loans, NIB also issues guarantees for projects that meet the Bank's conditions.

Projects appraised by the Bank for possible financing are subject to analyses of sustainability and environmental consequences. Further, increasing emphasis is attached to social consequences.

## NORDIC LOANS

### Investment loans

NIB offers medium- and long-term invest-

ment loans with maturities of 5 to 15 years. The loans are granted in various currencies at fixed or floating market-based interest rates, for up to half of the project's total cost.

NIB finances projects in:

- the manufacturing sector, including investments in facilities and machinery,
- infrastructure, including transportation, telecommunications, energy, water supply, sewerage and waste management,
- environmental improvement, both in the private and the public sector,
- research and development,
- cross-border investments, such as mergers and corporate acquisitions,
- foreign investments in the Nordic countries.

### Regional loans

Regional loans are granted to national, regional credit institutions for the further development of business in priority regions.

## INTERNATIONAL LOANS

The core of NIB's international lending operations consists of project investment loans. These are long-term loans—up to 20 years—for projects in emerging markets in Asia, the Middle East, Central and Eastern Europe, Latin America as well as Africa. Project investment loans are usually granted on a sovereign basis but may also be granted without a government guarantee, particularly to private sector infrastructure investments. The loans are granted for up to half of the project's total cost. Project investment loans can be utilised to finance all types of project costs,

including local costs. The loans are granted at market-based interest rates in a currency preferred by the customer. Project investment loans have been granted for projects in about 40 countries.

NIB can also provide loans to Nordic companies' investments, including joint ventures and corporate acquisitions, within the OECD area and in the Baltic countries.

### Neighbouring areas

NIB gives priority to the financing of public and private infrastructure and industrial investments in the neighbouring areas to the Nordic region. Further, NIB participates in the financing of projects in the Baltic countries through investment loans to companies, which are investing in the Baltic countries.

NIB is authorised to grant special environmental investment loans to public and private sector environmental projects in the neighbouring areas to the Nordic region, i.e. to Poland, the Kaliningrad area, Estonia, Latvia, Lithuania and north-west Russia (St. Petersburg, the Leningrad area, the Karelian Republic and the Barents region). The projects are to help in reducing environmental degradation, and thereby also in reducing cross-border pollution. The environmental investment loans are granted on the basis of commercial banking terms to governments, governmental authorities, institutions and companies. ■



# Good results 2003

The Nordic Investment Bank's (NIB) results for the year 2003 were good. Profits amounted to EUR 151 million, compared with EUR 142 million in 2002. Net interest income rose to EUR 155 million during the year, compared with EUR 150 million in 2002. At year-end, total assets amounted to EUR 16.7 billion. Net liquidity amounted to EUR 2,744 million. The Board of Directors proposes that EUR 41.3 million be paid as a dividend to the Bank's owners, the Nordic countries, for year 2003.

Disbursements of new loans rose to EUR 1,841 million in 2003, compared with EUR 1,648 million in 2002.

The year's new borrowing amounted to EUR 3,258 million (3,320). NIB carried out its second USD 1 billion global issue under a global borrowing programme.

**The Bank's loan portfolios** and financial counterparties maintain their high quality. During the period under review, new specific provisions for possible loan losses in a total amount of EUR 1 million were recognised in the Profit and Loss Account. Taking into account the reversals of previously made provisions for loan losses, the

net result is a EUR 0.3 million positive effect on the profit.

**NIB's membership** will be widened when Estonia, Latvia and Lithuania become members of the Bank in 2005. On 11 February 2004 representatives of the Nordic and Baltic countries' governments signed a new Agreement on NIB, effecting the membership of Estonia, Latvia and Lithuania. After national ratification during 2004 the three Baltic countries are expected to become members of NIB from 1 January 2005.

According to the Agreement Estonia, Latvia and Lithuania will become members of NIB on an equal footing with the present five members, Denmark, Finland, Iceland, Norway and Sweden. All members will have the same rights and obligations as under the current NIB Agreement.

**NIB participated** in the financing of 62 investment projects and loan programmes in the Nordic countries. A large proportion of these loans related to cross-border acquisitions and company establishments. Financing of environmentally friendly energy investments accounted for almost one third of the year's disbursements.

During the year the Bank entered into 27 new international loan agreements. The international lending continued to be dominated by loans to infrastructure investments, particularly within the energy, transport and telecommunications sectors. Lending to the Baltic countries increased sharply during the year, above all as regards financing of infrastructure investments in the energy sector, as well as municipal investments.

The Bank's owners decided to increase the Project Investment Loan facility (PIL) for lending outside the membership area from EUR 3.3 billion to EUR 4 billion from 1 July 2004. The decision expands the Bank's lending capacity and possibilities to grant loans outside the Nordic countries.

**Financing environmental** investments is one of the cornerstones of NIB's lending operations. As per 31 December 2003 the Bank's total environmental exposure amounted to EUR 2,014 million. A great part of the loans has been granted to environmental projects in the Nordic countries and their neighbouring areas. During the year, 22 new environmental loans for a total of EUR 379 million were granted. ■

## Key figures (in EUR million)

	2003	2002
Net interest income	155	150
Profit	151	142
Loans disbursed	1,841	1,648
Loans agreed	1,859	1,807
Loans outstanding	10,522	10,110
New debt issues	3,258	3,320
Debts evidenced by certificates	13,087	13,150
Net liquidity	2,744	2,947
Total assets	16,666	15,948
Equity/total assets (%)	9.9	9.7
Profit/average equity (%)	9.5	9.5
Number of employees	147	144



## **CLOSE TO NORDIC ECONOMY**

The Nordic Investment Bank (NIB) is the joint international financial institution of the Nordic countries, tasked with promoting cooperation and economic growth in the Nordic area. NIB offers long-term, competitive loans for both private and public sector projects.

NIB provides loans for investments securing energy supply, developing transport routes and improving the environment in the Nordic area and its neighbouring regions. NIB also finances cross-border corporate acquisitions and projects in manufacturing industry.

NIB is owned by the five Nordic countries and operates in more than 35 countries. The three Baltic countries will become members of the Bank in 2005.

The Nordic loans outstanding amount to about 8 billion euros and the international loans outstanding amount to about 2 billion euros.



NORDIC INVESTMENT BANK

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