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ABSTRACT

This article analyzes the role of two states in paper industry's pulp investments to Brazil. The case study of Brazilian pulp investments can shed light on a wide array of important contemporary economic, political and social transformations. The investments open - through analysis of a specific economic niche - viewpoints into the state-business relations in and between Brazil and Europe. First it is assessed, if pulp investments are industrialization or agribusiness in the Brazilian context. After the conceptualization, I analyze the impact and role of Brazilian and Finnish states and paper industry sectors in creating new pulp investments. I answer to the questions: what pulp investments are, why and how they have gained impetus in the 21st century Brazil and how they impact the economy? Lastly, the article delves into the macroeconomic and political consequences of new pulp investments for Brazilian and Finnish societies.

By the case of pulp investments, general viewpoints can be opened to the research question of state-business-society relations in the global economy. The research suggests that 21st Century pulp investments are a revealing case of Brazilian – European relations. Economic figures point to pulp investments as maximization of paper corporation capital. Brazilian pulp investments are also a territorialization of the global paper industry symbolic system. Pulp investments have been detrimental to the Brazilian economy, democracy and nature. Consequently, the paper industry uses symbolization to hide the harsh macroeconomic reality. Nationalist discourses linking paper industry investments to Brazil and the Finnish success-story as well as job creation promises, are examples of symbolizations seeking to hide the macroeconomic reality of pulp investments.

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Introduction

Finland is a rich Nordic country, with leading technology and corporations in the global paper industry. In the 21st Century, the traditional Finnish forest industry cluster has been caught into one of the strongest structural transformation pressures ever. Production capacity and facilities are downsized in Finland. Meanwhile, and concomitantly, new pulp plants are opened in poorer countries, like Brazil, Uruguay and China. The case of new massive pulp investments by Finnish and other global paper companies has become quickly the single most interesting issue in Finnish daily media coverage on Latin America.

Also in Brazil, Uruguay and Argentina the paper industry has been in the centre of attention. The Uruguay-river has witnessed the notorious Botnia SA pulp plant dispute between Uruguay and Argentina. In Brazil, the landless movements, indigenous, ex-runaway slaves communities i.e. *quilombolas* and environmentalists, alongside others, have protested against increasing pulp investments that bring along hundreds of thousands of hectares of eucalypt and pine monocultures. All around the world, pulp investment decisions have been made in unison of companies and states. The society, especially local populations, have often felt the investments as taking place without proper consultation of their interests. As a result conflicts have ensued.

The pulp investment conflicts in Latin America can be seen as symptoms of a wide structural transformation that is taking place. The phenomenal rise of agribusiness into Brazilian economic policies and politics since the year 2000 is the structural cause behind pulp disputes. Pulp investments are a parcel of agribusiness expansion, as they rely on massive land ownership to attain fiber material for pulp.

Key corporations in the Brazilian paper and pulp industry are Aracruz Celulose, Stora Enso and VCP Votorantim. They are all linked to the Brazilian and Finnish states and Europe. I argue the paper industry to be closely intertwined with nation-states. Indeed, the support of states has been crucial in securing Brazilian pulp investments a prominent role in the global paper industry structural transformations. The change impacts people all around the world: the ever-more closer ties of Europe, North America and Brazil become very visible through a look on the paper industry. The basic dynamic is: more pulp mills in Brazil, less mills in Europe and North America.

Veracel Celulose is a pulp company within the global paper industry, a joint venture of Aracruz and Stora Enso. It can be analyzed as a representative example of paper industry in Brazil, as a sign of European-Brazilian paper industry and state inter-connection. Veracel is a joint venture-type investment with strong financial and business relations to the Scandinavian forest industry cluster, not only due to the 50% ownership of the pulp producing complex by the Swedish-Finnish Stora Enso, but also due to the massive Finnish service, consultancy, machine and equipment deliveries by the forest cluster corporations and partial financing of the investment by public investment banks through export credits and other measures. Also other major paper companies in Brazil, including Aracruz Celulose, Suzano and Votorantim – the leading private capital group in the country (Kingstone 1999: 58) - are linked to the Finnish forest industry cluster.

The Veracel investment opened one of the largest pulp mills in the world in 2005 in the Southern part of the Brazilian state of Bahia, close to the city of Eunápolis. Veracel is an investment quite similar to the Finnish Metsä-Botnia SA's pulp mill, Botnia SA, in the Uruguayan Argentinean border-river city of Fray Bentos. Both in Veracel SA and Botnia SA material for the pulp production is *Eucalyptus grandis* and various eucalypt

hybrids,¹ mainly from the companies own vast and close-by private plantation holdings. These are fast-wood plantations of 5-10 years. Pulpwood situated in the bottom of the forest industry value chain: softwood plantations producing items like sawn logs and veneer logs offer much higher returns (Cossalter & Pye-Smith 2003: 9).

Brazilian fast-wood tree plantations are a contrast to buying the pulp material from real forests or small-scale producers of wood, as in Finland, where smallholders control to great extent natural resources after some 80-100 years of forest-owners cooperative movements and agrarian reforms (Kuisma et al. 1999). The smallholder controlling of forest resources is much higher in Finland than for example in Sweden, where big companies own forests. Nevertheless, in Northern Finland, Lapland, the Finnish State owns almost all land and sells wood on a continuous pace from the Arctic forests for paper companies like Stora Enso. When entering Brazil in the beginning of the 21st century, Stora Enso sold its vast forests in Nordic countries and bought land for planting eucalyptus in Brazil. Pulp is moving south.

Paper industry, pulp investments and their impacts has been studied, but there have not been comprehensive academic research on the 21st century Brazilian pulp investments.² Uniting earlier research findings and delving deeper to the reasons behind the phenomenon and its consequences was the motive for writing this study. Currently I am finishing a PhD. Thesis on the interaction of paper industry and the Landless Workers Movement MST. I have also researched extensively pulp investment disputes in Latin America (Kröger 2005; 2007a; 2007b; 2007c).

The 21st century Latin American pulp mill ventures by paper industry are immersed into ever more global ties of trade and production circulation. Pulp is turned into paper and other paper industry products, close to major global markets in Europe, North America and East Asia. New pulp mill investments in Latin America attend the free market pulp markets, even though partly the production goes for integrated corporative use of pulp

¹ Brazil is the main country worldwide in the plantation of short-rotation *Eucalyptus grandis* and hybrids (Cossalter & Pye-Smith 2003: 7).

² To mention some studies: the paper industry conflicts in Brazil around pulp mills have been assessed in a general study by the Brazilian Ministry of Environment on tree plantation conflicts (MMA 2005). There have been also publications by NGO's, foresters and experts on conflicts and the socio-economic-political-environmental consequences of pulp investments (Cossalter & Pye-Smith 2003; Lang 2007; Carrere & Lohman 1996).

for the same company's paper mills close to traditional paper markets. Half of the pulp produced by Veracel is taken and marketed by Aracruz Celulose, chiefly for the production of paper in the USA. Stora Enso transports its 50% share of the produced pulp mostly to its paper plant in Oulu, Finland, but also to other plants around the globe. The eucalyptus fibre is of high quality according to the paper corporations and serves best for the production of fine papers.³ From the point of view of a global paper corporation, the Veracel investment is important in order to secure the input of various kinds of pulp fibre from different sources (ibid.)

Even though paper corporations, European states and the current Brazilian PT government led by President Lula da Silva embrace, support and value new pulp investments to Brazil, not all are happy. Workers, local populations, other economic and political sectors and environmentalists have protested in Brazil and in Europe. One of the biggest news stories of January and February of year 2008 in Finland was the shutting down of pulp mills. Pulp mill workers and cities soon found social movements that demanded a stronger control of corporations by the state and government, the maintaining and tying of paper industry to their traditional home. In there where the local small-scale farmers of Brazil or the Argentine Gualeguaychú city protestors see pulp investments as a menace for their livelihood and well-being, the Finnish citizens would like to save their mills and let them stay where they are.

The case of paper industry offers possibilities for the Finnish civil society to ask the state for controlling measures, as paper corporations are largely owned by the state, and their impacts are nationally so relevant and all-encompassing. The paper industry has received so much support from the state that the society sees it fit to demand corporate responsibility that would not be perhaps so much expected in more market-led economic sectors. The paper industry has received care and attention from the Finnish nation-state, which has produced for it a full-fledged transportation and support network, offering qualified workforce and ample funds.

In Finland, no single group has been controlling the state after the people-separating 1918 Civil war. National integrity and consensus politics have reigned. Social and

³ Internet: Arvopaperi Online <http://market.tietoverkot.net/aponline> [10.10.06] *Stora Enso ja Aracruz rakentavat Veracelin sellutehtaan* 8.5.2003.

economic capital increasing phenomenon like cooperativism and syndicalism ensured wide public access to the fruits of development. Citizens pushed by political parties the state to do agrarian reforms and set laws regulating the ownership of lands and forests in the first half of the 20th Century. The traditionally powerful, resource-based competition relying paper industry had to turn into competing with quality instead of quantity as the raw material prices were negotiated against a very organized group of small-scale forest owners. Cooperation, competition and progressive legislative framework setting led into a paper industry cluster that became a world-leader and provided welfare for citizens all around the country. The paper corporations saw their 19th Century power as local and national magnates and patrons fade away progressively. (Kuisma et al. 1999; Kuisma 2006.)

In the 21st Century Brazilian pulp investments, the patronal cultural roots of paper corporations have gained a context to be reborn. The Brazilian context offers for the paper corporations a relaxed social space where syndicates, cooperatives and other social capital have not blocked into such extent the space of manoeuvre as in Europe and North America. The paper industry system has not forgotten its roots, but is seeking to re-establish them there where possible. I argue this is a systemic phenomenon and characterizes the conservative and rigid quality of the paper industry. Globalization and lower transportation costs have made the global reach of the paper industry system possible. Instead of subduing into lower profits and less hierarchical power relations with less arbitrage, the paper industry opts for territorializing into social contexts where it can relive its 19th Century existence. Brazilian pulp investments display a conjunction that highlights the importance and difference of European and Brazilian societal structures, most importantly the difference in agrarian reform politics.

In Brazil, efforts have been massive to support the pulp industry. Veracel was the biggest single investment in the first term of the government of President Lula da Silva (PT) in Brazil, totalling an estimated 1 billion Euros if measured by orthodox economics. The Brazilian government has given extensive fiscal, financial and political backup and incentives for the construction of pulp mills and for industrial tree planting (Bull *et al.* 2006). The basket of benefits includes: almost cost-free financing – for example, 450 million Euros, i.e. almost half of the Veracel investment came from the

Brazilian government via its development bank BNDES - fiscal incentives, as well as political back up.

CIFOR criticises skewed state support given to paper corporations: “public taxes are used to subsidise privately owned ventures” (Cossalter & Pye-Smith 2003: 35): tree plantations are oligarchically owned. The World Bank recommendations for Brazilian welfare generation are against the share-value increase objective of paper industry shareholders, such as Safra, Votorantim, Lorenzen and the Finnish State. Subsidies have been extra money given to the paper industry – a practice of deviating tax-payers and society’s money to corporations and shareholders - tree plantations would have been profitable even without subsidies, according to the World Bank, and with more sustainable and reasonable results (Cf. Cossalter & Pye-Smith 2003: 37).

Latin American business politics researchers like Ben Schneider have found that state support has been the most important factor in determining business sector performance: the paper & pulp industry case supports this point (Schneider 2004). High-level political leaders in Latin America – like President Lula da Silva and Tabaré Vasquez in Uruguay - have defended pulp investments in front of civil society critics. In Argentina President Kirchner set himself and the Argentine state against the paper industry expansion in the Botnia dispute’s turmoil. In the three country cases, we can see how the securing of high-level political power acceptance has been crucial in setting new pulp investments.

I have analyzed there to have been four major reasons and parameters explaining pulp investments. Three interrelated channels create the late phenomenon of manufacturing pulp from eucalyptus in large-scale in South America. These are:

- 1) Host country politics giving state support to the forest cluster
- 2) Geographic relocation of paper & pulp company activities due to needs and possibilities within the new global economy
- 3) Transformations within the paper industry symbolic system.

Lately, a fourth and constantly more influential channel has emerged:

- 4) The grassroots-level social movements and organizations activism in local, national and international levels against the setting up of large-scale eucalyptus plantations and massive pulp mills.

The Landless Workers Movement MST and many Brazilian social scientists have pointed how pulp investments - and the agribusiness expansion phenomenon to which they are linked have resulted in a counter-agrarian reform. For this they blame the Lula government (see, for example, Gonçalves 2005: 13-14; Oliveira & Stédile 2005). The researchers defend the thesis by pointing how Lula has appointed agribusinessmen to key government positions and state institutions; how rural violence has peaked; and most importantly, how the essentially important power-using mechanism of financial support has been centralized for agribusiness like pulp investments to the detriment of agrarian reform (ibid).

Industrialization or Agribusiness?

One cannot emphasize too much the context and investment locale as essential elements of analysis: pulp investments are not built into a vacuum. The rural areas of the “global South” with their cities are culturally rich and varied localities. When pulp investments arrive in these, they are set into encounters and relations with the local actors. For those unfamiliar with the Brazilian context – like Finns – it has been hard to understand the complexity of pulp investment disputes.

The usage of the Brazilian land is of key importance in paper industry and pulp investment research. Globally, “availability of suitable land with suitable location and cost is currently main constraint for development of new pulp projects”, as one paper and pulp industry consulting company put it.⁴ Brazil has the highest mean annual increment in eucalyptus plantations in the world, which places strong pressure on the land markets in Brazil (ibid). The wide participation by the paper and pulp companies in some Brazilian land markets – mainly in the states of Rio Grande do Sul, Bahia, São Paulo, Espírito Santo, Minas Gerais and Mato Grosso do Sul - comes with relations and impacts on the local society. This puts the analysis of land and forest politics into a central role when assessing relations of pulp investments with local Brazilian entities.

⁴ *Indufor Oy* “Cost of Growing Wood in Plantation Systems”, lecture on the Industrial Forest Plantations course. August 2007, Univ. of Helsinki.

The Lula Era continued the earlier neoliberal model adopted by president Cardoso (FHC), but as a novelty it has given possibilities for the agribusiness to ascend politically, argues Armando Boito. Even though the priority is still on the financial capital, the government of Lula has offered a substantially better, second position for the agribusiness, Boito argues. Aggressive exportation of natural resources and low-value added products has marked the agribusiness-centred politics of Lula. As a result, the sector of sophisticated goods has declined and industries processing natural resource have risen: these had a 40 percent share of total exports in 2005. A set of policies has favoured the setting of agribusiness-centred politics. (Boito 2007: 66-67.) These policies have led also to the drastic increase in pulp investments.

A pulp mill in Latin America is not the same thing as a pulp mill investment in Scandinavia. In Latin American economies pulp mills operate in rural surroundings, due to the extensive monoculture tree plantations, which cannot be in any form compared to the Finnish forests. Macro-economically we are speaking of another economic sector. In a sense, we are not even talking about industry in spite of the name. Boito argues that in Brazil the Neoliberal model has promoted deindustrialization (Boito 2007: 60): economists have scrutinized that pulp investments are part of the deindustrialization process. Teixeira and Guerra have defined large-scale pulp mill investments in Brazil and especially Bahia as cluster investments that do not reflect economic growth in the local economy or for other industries on state-level. The car industry or oil industry investments, for example, which are also problematic in the reflection-sense, have a multi-level macroeconomic impact in relation to pulp investments. (Teixeira & Guerra 2000, 94–95.)

In Finland pulp mills are networked and use local suppliers, they buy machines and equipment exactly from Finland. When Latin American politicians are marketed pulp investments as industry, this wording is connected to the image of industrialization. Thus, many of the politicians from left to the right, grown within the positivist-technical developmentalist thinking of Latin America accept these investments. One equalizes industrialization with development. Economic expectations are put high. But, because a pulp investment hardly creates any other industry around it,⁵ taking, furthermore, the

⁵ The Botnia SA investment in Uruguay is a slight exception in this sense – on the local level – as it includes also the building of new chemical industry and other industry required in the pulp production

added value abroad, and relies on tree plantations, remains the industrialization process a dream. The immense benefits waited as a result of industrialization and ensuing macro-economic reflections remain unborn in the investment area. It has to be noted that Latin American pulp investments do not offer to their surroundings or close-by population macro-economically important inter-industrial synergy benefits (Teixeira & Guerra 2000: 94- 95). Latin American pulp and paper industry investments are benefiting and industrializing the São Paulo region. São Paulo is a world metropolis and centre of the largest urban-industrial complex in South America, and is thus not definable in the macroeconomic i.e. national economic sense as Brazilian or Latin American region (Hoefle 2000: 482, Fig. 1).⁶ For example, the Finnish factories of Metso and Ponsse are located there, producing machines and equipment for the pulp mills in Latin American rural areas.

In some contexts tree plantations are seen as forests and pulp investments as industrialization. But in Brazil one should not confuse the monoculture tree plantations, whether fast-wood or slow-wood or larger than 100 hectares, with forests. This is agreed upon by many of the companies as well as NGO's. Nevertheless, the terms plantation forestry or forestry are used, which may result in thinking that tree plantations would have something to do with forests. They do not have, they are more related to plantations like soya-bean or sugarcane fields in their land use, biodiversity and low industrialization rate. Pulp is a semi-processed raw material that is traded as a commodity. Pulp is a low-value adding and low-industrialization investment.

Besides macro-economic critique, tree plantations and pulp mills have been criticized to create negative socio-environmental, political and human rights impacts in investment locales. The public money could be used better. Large tree plantations require extensive usage of pesticides, which may cause severe health injuries to the workers spraying the pesticide and causes ecological damage to the soils, water balance and other living species on the eucalyptus plantations (Jackson *et al.* 2005; De'Nadai, Overbeek & Soares 2005). Due to large-scale, eucalyptus also uses water in high quantities. CIFOR

process. This process of industrialization is not, however, spontane but dictated from above, watching carefully for the interests of Botnia. In line with the general trend, the most important industrialization benefits from the Botnia SA Uruguay investment are born in Europe, particularly in Finland, where most of the machines and equipment in the construction and upgrade phases are imported.

⁶ Besides São Paulo, paper and pulp investments offer some industrialization benefits due to supporting machinery and chemical plants in Paraná and Santa Catarina.

found that “plantations frequently reduce annual water yields, especially when they replace grasslands and farmland, thus leaving less water available to other users, and large fast-wood plantations often reduce stream flow” (Cossalter & Pye-Smith 2003: 44). Synthesizing over 600 observations, a group of ten scientists published a report in the *Science* magazine lately, demonstrating that tree “plantations decreased stream flow by 227 millimeters per year globally (52%), with 13% of streams drying completely for at least 1 year.” Furthermore, tree plantations “salinize and acidify some soils.” (Jackson *et al* 2005: 1944.) Nevertheless, as paper companies promptly say, one has to study each pulp investment as a case. There are tremendous differences on local soils, water balance, population density and economic activities as well as biodiversity that will be displaced by the pulp investment. The paper industry executives portrayed in interviews that in comparison to intensive Soya-bean, maize, sugar-cane or rice cultivation, the natural resource, fertilization and pesticide usage by tree plantations is not nearly as damaging. As a counter-argument to this, local populations and their movements in Brazil, like MST, said in interviews that pulp investments are locally prejudicing even more than for example the soya-bean expansion. These just operate in different areas.

The Paper Industry System, Finland and Brazilian Pulp

The key players in paper industry are so connected and inter-dependant that one can study it as a specific system. The paper industry system embraces a set of meanings, practices, discourses and symbols important for it. The industry saw its birth 200 years ago in Western Europe, as the first paper machine replaced paper artisans (Western 1979). The set of practices and symbols typical to the paper industry maintain the integrity of the system that saw its birth 200 years ago. The paper industry symbolic system is a process like all systems. The system sheds a pressure and is impacted by the social and physical space in its operational areas, like the Brazilian society. The system enters in interaction with the Brazilian state and society as it territorializes into pulp and paper investments. Territorialization signifies that the system is expanding, reaching for more power, transforming, entering into contacts with those who compete for the same social and physical space. The paper industry as a social agent has to secure acceptance both in the physical and social realms to attain its system-specific goals. In this endeavor of securing a place in Brazilian minds and lands, the Brazilian State comes in

as the prime interlocutor and ally. Finnish State and EU offer political and well as financial clout.

Key actors in the global paper industry are forestry and engineering consultancy firms, suppliers of pulp- and paper-making technology, industry associations and alliances, bilateral aid agencies, state investment or export credit agencies, multilateral agencies as well as national and state governments. One can add also the chemical industry cluster, private investor groups, lobby groups and industry associations, media, research and certification institutes to the web of actors in paper industry. Below is a list of the key actors and their role within the paper industry system:

- Consultants (Pöyry) = *ideologists and strategists*. (Planning, creator)
- Paper and Pulp companies (Aracruz etc.) = *realization, territorialization of system*. (Producers, "markets")
- Chemical industry (BASF, Bayer etc.) = *benefactor, a pushing motor*. (Fertilization makes high growth)
- Machinery and Equipment companies (Metso..) = *pushing motor*. (Technology, large-scale investment model)
- Investors (governmental banks, investment banks, commercial banks, export credit agencies, companies) = *necessary fuel to expand*
- Governments and lobby groups (Brazil [Bracelpa], Uruguay, EU, Finland) = *networking*
- Media, research & certification institutions = *justification*

To understand the background of new pulp investments in Brazil, one has to look also into traditional forest industry countries like Finland. The paper and pulp industry operations in Brazil are strongly linked to Finland. The Finnish State has 12.3 % of Stora Enso shares and a 35.1 % of all votes when calculating in the power gained by the ownership of Social Insurance Institution of Finland. Private pension institutions and individuals in Finland and Sweden are the main shareholders of Stora Enso; a major owner is the Wallenberg family from Sweden. Stora Enso is the world's oldest limited company that has operated – with different names and composition - uninterruptedly since its founding, which the company itself dates into year 1288 in Sweden. Currently it is the leading producer of paper and paperboard in the world, followed closely by International Paper from the United States and UPM-Kymmene from Finland.⁷

⁷ Stora Enso, Forest Industry Ranking, <http://www.storaenso.com/CDAvgn/main> [25th February 2008]

Stora Enso owns half of Veracel in Bahia and is buying lands in Rio Grande do Sul to set a one million ton per year producing own pulp mill in there as well. International paper is now investing into a paper mill of 200 tons and into a shared pulp mill of 1.3 million tons per year with VCP Votorantim in Mato Grosso do Sul in the Três Lagoas area where it has about one hundred thousand hectares of land for planting eucalyptus. These are to be in operation in January 2009.⁸ Votorantim has mainly operations in São Paulo, but is expanding now to Mato Grosso do Sul and Rio Grande do Sul.

The largest shareholder of Metso - a global leader in pulping, papermaking and power generation, as well as fiberboard technologies - with 11.1 percent of shares, is the Finnish State.⁹ Ponsse – global leader in timber harvesting solutions based on the cut-to-length method - is primarily (47.36 %) owned by Einari Vidgren, the founder of the harvester producing company from Finland.¹⁰ The Finnish Ehrnrooth family has been strongly present in paper industry, owning, for example, through Corbis S.A., 30.45 % of shares in Pöyry Plc.¹¹ Pöyry is global market leader in the forest industry. It “provides engineering and project implementation services for investment projects worldwide, maintenance engineering and local services to the mills, and consulting on forest industry strategies and operations.”¹² Pöyry’s Forest Industry business group services are divided into management consulting; new investments projects; rebuild projects and local services; and chemical industry. It has a decisive role in all the phases in finding a new pulp mill investment, especially in Brazil. For example, it planned Aracruz, Veracel, the new Três Lagoas VCP / International Paper pulp mill and the extensions to these. It connects the actors within the paper industry system, promotes new development and master plans. Pöyry is an expert organization with recognition and respect that bring for it symbolic capital¹³ and power within the paper industry system. As a result, Brazilian pulp investments have been designed by a Finnish company.

⁸ Votorantim, http://www.votorantim.com.br/PTB/Areas_de_Negocio/Votorantim_Celulose_e_Papel [25th February 2008]

⁹ Private and public Finnish Pension funds have another 4.3 percent of the shares. Metso Paper, About us, Shareholders, <http://www.metsopaper.com/> [25th February 2008]

¹⁰ Ponsse, Ponsse Group, <http://www.ponsse.fi/english/group/index.php> [25th February 2008]

¹¹ Pöyry, Major Shareholders, Internet: http://www.poyry.com/investor/investor_7_5.html [25th February 2008]

¹² Pöyry, Forest Industry, <http://www.forestindustry.poyry.com/en/index.html> [25th February 2008]

¹³ The meaning of symbolic capital used in this article derives from Pierre Bourdieu (1991: 163-170).

Another central global paper cluster corporation coming from Finland is Kemira: it is a world-leading chemical group, leading for example in pulp bleaching supply, with a wide range of specialty chemicals for pulping applications.¹⁴ Kemira is an integral part of the global papermaking chain and 16.5 % of its shares are directly owned by the Finnish State. Like in all paper companies, Finnish Pension funds and private investors own a considerable share of the Kemira stocks. In Brazil Kemira has a paper chemicals plant in Paraná.¹⁵

There are contrasting statistics about the extension of eucalyptus plantations in Brazil. As a general rule environmental organizations claim that companies have much more plantations than they admit. For example, the World Watch Institute says there are 1.7 million ha of eucalyptus plantations, making Brazil the world leader in this figure.¹⁶ In 2003 it was estimated that there were more than 1.6 million ha of tree plantations for the paper and pulp industry (MMA 2005: 23). Extensive eucalyptus and pine plantations can be found in 16 Brazilian states and 450 municipalities, and totalled in 2000 according to the statistics of *Sociedade Brasileira de Silvicultura* over 4.8 million hectares: now the figure is much higher. The best – fastest - natural conditions to produce eucalyptus in plantations are, in order, in the states of Paraná, São Paulo, Bahia, Espírito Santo, Pará and Rio Grande do Sul, turning these states the centre of increase in plantations (MMA 2005: 11)

In 2003 a few companies - Aracruz, Cenibra, VCP Votorantim, Suzano/Bahia Sul and Jari - were responsible for 93 % of pulp production in Brazil. After Veracel inauguration, you can add Stora Enso to the list of main players. The short-fiber pulp accounts for most pulp production in Brazil. In 2003 long-fiber pulp production accounted only for 17% of total production, which was not enough even to satisfy the domestic demand for this fiber. (Instituto Observatório Social 2005: 14.) In 2005 there were 255 paper and pulp industries in Brazil, 25 had own tree plantations. Divided into 11 states and around 365 municipalities, the industry exported 52% of pulp production to global markets. This is a very high number in comparison to the global 23% share

¹⁴ Kemira, Pulp – it's all about Fiber, <http://www.kemira.com/pulppaper/english/Solutions/Pulp> [25th February 2008]

¹⁵ Kemira, Brazil, <http://www.kemira.com/pulppaper/english/Our+locations/brazil> [25th February 2008]

¹⁶ Celulose na era dos ecomercados. *O Estado de S. Paulo*. Eduardo Athayde, Director of WWI Brazil 13.1.2007. Internet: <http://www.cservice.com.br/base1/bracelpa/F4122.htm> [5.2.07]

that market pulp has in the overall global pulp production. (MMA 2005: 10.) Market pulp is the pulp that goes to free markets, whereas most global pulp, 72% according to the above statistics, goes to integrated paper mills and other usages. Brazilian pulp is destined heavily for global commodity markets.

Associação Brasileira de Celulose e Papel, Bracelpa, is a typical corporatist association; it has as its goal to unite the paper and pulp industry companies in Brazil and lessen internal competition.¹⁷ The association has wide socio-political activity; it impacts the public opinion by giving awards to journalists who write positively about the industry,¹⁸ appearing continuously in the television, voicing only positive outlooks of the sector and its activities in Brazil. Bracelpa has a central role in securing state funds for the sector. Its efforts are summed in the symbolization work for paper industry in the Brazilian society, the work to legitimize the sector and new pulp investments. Bracelpa's president said in 2006 that 220 companies, which represent 1.2 % of GDP, make the Brazilian paper and pulp industry. The sector produced 10.4 million tons of pulp and 8.6 million tons of paper, ranking Brazil globally the 7th largest producer in pulp and 11th in paper.¹⁹

There is integrity between the companies besides association into same lobby-organizations: Klabin, Aracruz and another big player in Brazil, Suzano are all situated in the same street in São Paulo, Avenida Faria Lima.²⁰ Only big players are allowed into the paper and pulp industry, as investments are very capital-intensive and financing is provided mostly for projects superior to USD 50 million, or in some cases at least 10 million USD. The large corporations are linked with the banks on whom they are putting pressure to maintain the credit limit on large-scale projects. This is a way to control the markets and see that there are no potential newcomers to disturb the prices

¹⁷ "New players, with different looks on Brazil, are arriving and we are literally very occupied in setting the conditions for this, as we consider that our competition is not inside here, but out there," said the president of Bracelpa Horácio Lafer Piva in reference to attempts curbing national sectoral competition. An interview for Embanews (my translation from portuguese). <http://www.embanews.com/entrevista.htm> [5.2.2007].

¹⁸ See: Prêmio: Bracelpa cria prêmio para jornalistas 16.1.2007. Iniciativa pretende destacar matérias que promovam a responsabilidade social e ambiental no Brasil. www.bracelpa.org.br [5.2.2007]

¹⁹ Presidente do Conselho Deliberativo da BRACELPA (Associação Brasileira de Celulose e Papel), Horácio Lafer Piva. (PrimaPagina). 08/09/2006 - Fábrica de celulose têm lucro com MDL. Por Talita Bedinelli, do PNUD. www.envolverde.com.br [10.09.2006]

²⁰ Via de Papel e Celulose. *Valor Econômico*. 1.2.2007. <http://www.cservice.com.br/base1/bracelpa/F4269.htm> [5.2.2007]

of paper and pulp. The exclusive entrance implies that paper industry system is a conservative network of limited players.

Finnish – Brazilian Relations

Veracel is an interesting case of business trans-nationalization as it displays a framework where two nation-states are in prominent interaction. It is a bilateral investment between Finland and Brazil; Veracel is so largely a creation of state authorities that it could be easily denominated rather a public sector than a private sector investment. Majority of financing came from the Brazilian, Finnish and European Union managed investment banks. Countries hope to win: in the case of Finland the benefits of Veracel investment for the Finnish economy and citizens seem obvious: the selling of machines produced in Finland to some other place in the world creates work and welfare to different regions in Finland. But, Finnish pulp mill workers lose jobs: benefits are not uniformly positive.

Why does the Finnish state support pulp investments to Brazil? [FINPRO HAASTATTELU TÄHÄN] An obvious reason for the relocation of pulp mills to Latin America are costs. The economist of Finnish Paper Union Paperiliitto, Esa Mäisti has calculated that in Scandinavia the tree & pulp mill costs are four-times higher than in Brazil. Furthermore, in Finland the paper industry workers gain 8-10 times more than in Brazil.²¹ The Finnish Forest cluster has always had strong involvement in politics, even though normally this activity has been taking place behind the curtains, in form of membership fees to lobby-organizations, for example. This business politics also explains why paper industry has a strong say within Finnish politics. But the Finnish state is also a shareholder in many of the companies, as listed above. The political ties between the Finnish and Brazilian governments in order to create Veracel become understandable when noting the State of Finland status as a major shareholder in Stora Enso. The goal of the Finnish State is to get as high profits and increase in the value for their shares in their companies as possible.²²

²¹ “Sellun tuotanto ja työntekijöiden oikeudet Brasiliassa”, publication of a study by SASK and Observatorio Social on the Social Responsibility on Veracel. Helsinki: 7.6.2006.

²² Kansliapäällikkö Virtasen pääkirjoitus Omistaja & Sijoittaja –lehden kevään 2002 numerossa

The state ownership policy is not to use voice in promoting national interests in the global stock-listed companies where it has shares. The role of the Finnish Parliament in having a word to say in state owned companies' management - especially in big issues such as mergers, selling of shares, downsizing and investment projects - has been under discussion in Finland. It has been questioned, how well does the ideal of profit maximization function with maintaining a welfare state. But generally, the interest of Finnish politicians ends within the national borders: promotion of macroeconomic development similar to the Finnish "third-way experience"²³ is not promoted in the international economic relations, suggests the case of pulp investments.

In there where these Finnish interests met current Brazilian government's economic policy, Veracel was born. The logic driving the Brazilian State to support Veracel has been the economic policy to produce GDP and trade surplus growth through, and also mainly for, large-scale institutional players (Valdes et al. 2005).

There could be even more debate in the Finnish society regarding Brazilian pulp investments, as they are connected to the Nordic country via many dimensions. The Finnish paper cluster participated v actively in the making of Veracel Celulose. Jaakko Pöyry Tecnología Ltda made a deal of 14 million Euros with the company, in order to help the owners in the fulfilment of the pulp plant project by supplying services for planning, project management, installation and construction supervision. Thus, Pöyry can be held directly responsible for the activity in the construction phase in Veracel. Pöyry also did the Environmental Impact Assessment EIA for the investment, delivered as a requisite to the Brazilian authorities and international financiers. There is still an open law-case in Brazil waved by the *Ministerio Público*'s public prosecutor's office to investigate the investment illegality, as the EIA was made by the same company that received a contract, which sums into a conflict of interests and shadows transparency and trustworthiness of both EIA and the construction phase. Nevertheless, the business deal with Veracel was the most important new project for Jaakko Pöyry in 2003,²⁴ and highly important it was also for Metso Paper that made a 25 million Euros deal with

²³ To read more about the Finnish third-way, please see Kuisma et al. 1999.

²⁴ JAAKKO PÖYRY GROUP OYJ, LEHDISTÖTIEDOTE. 10.02.2004. TILINPÄÄTÖSTIEDOTE VUODELTA 2003.

Veracel to supply the whole wood processing machinery and lines for the plant.²⁵ Many Finnish companies provide paper industry and pulp investments in Brazil with machines and equipment. For example, Partek Forest sold tractors and harvesters to Aracruz and Veracel worth 28 million Euros in 2000, which was the biggest deal of the company in its history.²⁶ Harvester-producing Ponsse opened a new production facility to Brazil in 2006, close to São Paulo, to feed the growing markets. Pöyry continues as the leader in new pulp investment project planning.

The Finnish State has offered export credits and credit guarantees through its specialized financing company Finnvera for foreign paper industry investments abroad. The Export Credit Agency (ECA) Finnvera offers several credit lines in domestic financing, many types of guarantees against risks, connections to other major financiers and under-the-market rate interests. It also offers credit subsidies for export credits granted by commercial banks, namely Nordea in Finland. In its own words, “Finnvera seeks to safeguard the competitiveness of Finnish enterprises in export markets by offering them export and project financing“.²⁷

NGO’s have criticized export credit agencies for lack of transparency, as decisions are made in secret and are not open for public scrutiny. The state agency does not have solid social and human rights standards and does not evaluate well enough the developmental impacts of the financed projects, argues Tove Selin from the Finnish ECA Reform Campaign.²⁸ The Finnish ECA Reform Campaign says that socio-environmental impacts of foreign investments are not critically evaluated. They argue the decisions should be open and visible for all citizens, as investments are made on public money, favor private business, and impact people both in Finland as well as in the investment locales. Nowadays Finnvera adheres to the OECD regulations and publishes environmental impact assessments in the so-called A-category projects, like pulp and paper mills, 30 days prior to signing the guarantee contract. But NGOs still demand the assessment of social and human rights and development impacts not only for A but also for B and C category projects.

²⁵ Lehdistöiedote. Metso toimittaa puunkäsittelylaitoksen Veracelille Brasiliaan, 23.07.2003.

²⁶ Internet: <http://www.rakennuslehti.fi/talous> [10.10.06] Partekille ennätystilaus Brasiliasta 7.12.2000.

²⁷ Finnvera, www.finnvera.fi [26 February 2008]

²⁸ Interview, Helsinki, 26th February 2008.

New network politics have sought to integrate export credit campaigns with wider criticism of pulp investments, for example by the Network Against the Green Desert and other transnational civil society initiatives born in Latin America but spreading to the North. The Finnish Export Credit Agency (ECA) Reform Campaign has argued that the regulations and inspection of export investments are stricter even in major commercial banks like Citibank than they are in state-owned export credit agencies like Finnvera. Finland is one of the least transparent countries in Europe in this sense, the NGO argues.

Paper industry investments are virtually risk-free due to the backing of nation-state credit agencies. In the case of Veracel Celulose, Brazil lent a hand by BNDES and Finland through Finnvera. If the investment had failed for some reason, the states would have paid for the costs due to the guarantees. On the other hand, now – as the investment was business succeed - the export credit agencies gained interest and other fees, even though nominal. But, there might have been problems. Forest industry specialists like the Center for International Forestry Research CIFOR has alarmed that risks have been calculated in a too lax manner for pulp investments. For example, raw material security and environmental assessments have been made to please investor eyes, to give a too optimistic view of the reality.²⁹ As a result, many private investors have decided to turn from pulp investments and paper industry into other areas (ibid). In this scenario, the securing of public funds is ever more crucial for the extremely capital-intensive paper industry.

Veracel investment was agreed by the highest level political leaders in Finland and Brazil. Presidents Tarja Halonen and Lula da Silva, with their cabinet and ministers sealed the investment. NGO's both in Brazil and Finland were trying to gain knowledge of what is happening, but have lost in both countries in courts their appeals to make public investment decision-making more transparent. Even though progress has taken place and information is provided on larger basis, NGO's would like the state agencies to publish comprehensive studies and reports on the investment projects and credit plans.

²⁹ *The Economist* print edition: "The paper industry: Trouble at mill." May 18th 2006.

The Finnish State and Finnvera have for years supported the Brazilian paper industry pulp investments, from the beginning of the export pulp industry construction and setting of Aracruz Celulose, even though they deny this, argues Tove Selin from the ECA Reform Campaign. Most of the machine and equipment deliveries are offered by European, mainly Finnish companies, and guaranteed by export credit agencies. New Brazilian pulp mills are given birth by the European Export Credit Agencies (Calazans & Overbeek 2003: 9).

Besides NGO's, many economists are against export credits, as these can cause distortions in fair competition. The Center for International Forestry Research (CIFOR) is against incentives, seeing them as leading possibly and historically in many cases into perverse and negative impacts.³⁰ Paper corporations should be able to do business on their own, without state subsidy. In the end, pulp investments reveal the intra-state connections of Europe and Brazil to be of crucial importance even in the globalized, ever-more free market economy. Nation-states promote and safeguard the interests of corporations with historical base in their nation. One can see how a distant and small country like Finland can have a decisive impact in Brazil by power and concentrated efforts in one economic sector.

International Symbolizations

Paper companies like Stora Enso use the Finnish background ruthlessly in marketing endeavours in countries like Brazil and Uruguay. For example in Rio Grande do Sul in an encounter organized for debating new pulp investments, the company director João Borges emphasized that the company comes from Finland, a country ranked number one in environmental responsibility in the world. The positive image of Finland is symbolically used by paper industry to gain power in developing countries: this if something is symbolization in its work. The harsh reality of few economic benefits created by pulp investments is consciously and systemically hidden. The symbolization takes place systemically, implicitly, by the system's internal logic, indoctrination mechanism where members of the entity gain systemic habitus and start to promote systemic goals and interests. The international symbolization attempt has created

³⁰ As an example, in Costa Rica and many other places natural forests were cut for plantation, which yielded in further benefits through tax relief schemes. "Subsidies led to a greater concentration of land ownership and an increase in deforestation." Subsidies also drive the consumption of paper products, as these are made artificially cheaper. (Cossalter & Pye-Smith 2003: 38).

counter-measures: citizens and NGO networks alert about the consequences of reality-hiding symbolization framings have challenged the paper industry by counter-discourses and acts. For example, Ana Paula Fagundes has written about the actions of Stora Enso in Rio Grande do Sul, trying to demonstrate that “Finland is not here”. She argues: “company representatives and journalists ... compare Finland to Brazil but do not discern crucial differences between the two” (Fagundes 2007).

The debate demonstrates how powerful Finnish-image carriers paper corporations headquartered in Finland are in other cultural contexts. Paper companies and diplomats market investments as Finnish. The counter-discourses have had an impact in the action of the companies. Stora Enso, for example, has had to stop new plantations and reduced land buying in 2007 in Rio Grande do Sul. According to a Stora Enso executive, if the counter-discourses and acts – the late experiences of Rio Grande do Sul – expand to the rest of Brazil, there will be no more large-scale tree plantations in the country.³¹ This tells of the importance of counter-discourse and the weakness of the paper industry system. Symbolizations and discourses that are in line with reality always carry more weight in the end than false and hiding symbolizations that are not in line with reality.

When the landless movement MST occupied 25 hectares of Veracel’s eucalyptus plantation in Southern Bahia in the beginning of the April of 2004 - as a parcel of nation-wide land invasion month called the Red April – the movement used symbolization that was in line with reality. MST cut eucalyptus to build housing. On the freed land the landless planted beans and other food crops. The media registered all this on the spot. The next days the Rio-based daily *O Globo* had a many-page report, screaming in capital letters the central message of MST: “You cannot eat eucalyptus.” The symbolization by MST was in line with reality: you really cannot eat eucalyptus, and there are hungry people in Brazil, from whom eucalyptus takes living space.

This type of reality revealing symbolizations are counter-attacked and prepared for by the paper industry system. For example, too optimistic economic growth and development figures are spread. In one such example, during 2006 Aracruz Celulose had huge advertising campaigns in Brazil labelling the company as a 100% national

³¹ Industrial Forest Plantations course, 8/2007, Helsinki.

company. In a television commercial, Pelé was playing football and Gilberto Gil singing. This type of act is symbolization that is not in line with reality as it seeks to hide the fact that Aracruz is a highly international corporation. Erving Lorentzen from Norway owns 28% of its shares, Safra that owns another 28 % and is not totally Brazilian investment bank.

The Brazilian State Impact

The paper industry has secured for itself in Brazil a legal framework it could not enjoy of in Europe or North America. The restrictions on chemical, fertilization, and pesticide and herbicide usage are very lax; regulations are the lightest in the world in Brazil in this area.³² It is not the tropical nature alone, but the human determinism - Brazilian Positivism of order, progress and technical developmentalism - that makes fast tree growth possible. Without the allowing legal framework, agribusiness operations would be on a much lower level of productivity. Brazilian tree plantation growth rates would be decisively brought down if the usage of ant controllers or fertilization would be regulated as in Europe and North America. The reason behind the allowing legal framework is the historical cultural background of the Brazilian state.

Explanations to the congruence between Brazilian state and paper industry policies and acts come from the quality of Brazilian state. Brazilianists have analyzed the Brazilian state from many viewpoints. Riordan Roett argued that Brazil has a patrimonial state (Roett 1999) and Roberto Damatta saw Brazil as a semi-traditional state marked by personal clientelistic and assistentialist power relations (Damatta 1992). Instead of being a social agent looking for the general well-being of citizens, the Brazilian state is a resource pool over whose control different factions and family clans strive over, pretty much in the same fashion as in the First Republic, in the manner which Oliveira Viana studied (Viana 1922). Raymundo Faoro found that it has not really mattered, who has been in the government, as the bureaucratic stratum has continued the same, especially by the functioning mechanics of typical Brazilian power relations (Faoro 1989). As a result of all this, argues for example R.S. Rose, the state and Brazilian elite are

³² Industrial Forest Plantations Course, August 2007

exercising violence over the whole society, giving privileged access, rights and resources for a few fortunate ones (Rose 2005).

State-Business Relations

With the Brazilian military coup of 1964, things were to change dramatically for the country's paper industry and the rural economy. The dictatorship turned the paper and pulp sector of the country into an integral part of the consolidating world system. With the instructions coming from the United States, World Bank and IMF, the military technocrats were lured into a project of making Brazil a considerable part as a pulp – raw material - provider in the global paper markets.

The genesis of business enterprises takes place through financing, and thereafter the financing of an industry can help to understand the principal reasons for its birth. As a muscle in creating an export-pulp sector, the military government used the Vargas-found BNDE, National Bank of Economic Development, providing plenty of financing for foreign and national investors (Instituto Observatório Social 2005: 7-8). From its finding in 1950's until 1994 the BNDES gave US \$7.7 millions of financial resources to the paper and pulp industry, representing about 6 % of all the applied financing for Brazilian industry in the same period (MMA 2005). Huge plantations of eucalyptus and pine trees were planted, rainforests cut in some parts of the country like Espirito Santo, and local countryside populations suppressed under the iron hand of the generals. Only two years after the setting of the military regime, in 1966, tree plantation received strong fiscal incentives and negative interest-rate loans. Until 1987, to establish industrial tree plantations was free or actually generated profits: rate of return for landowners planting eucalyptus was 663% due to the fiscal incentives (Bull et al 2006: 19, 25-26). Landowners in Brazil rushed for the fiscal incentives by planting trees in rows and lines, spontaneously and rapidly. The dash resulted in several undesired consequences: poor location selection, fragmentation of plantations, improper land use, cutting of rainforests and misuse of good agricultural soil. Further issues compromised the sought competitive advantage; many plantations were established very far from markets (Bull et al 2006: 26). Infrastructure was provided by the government, which loaned from IMF and especially the United States. The scale was to be large or massive, as suits to positivism: a minimum scale requirement was placed on investments. By

share ownership and financing the state interest became intertwined with the corporations it was creating (Bull et al 2006: 8).

BNDES influenced decisively the creation of paper and pulp industry in Brazil, along with other government institutions. In 1966 was created the Law 5.106 that allowed deducting reforestation projects from taxes. This led into exponential growth in the cutting of native forests; 26.6 million hectares of forests were ravaged to plant eucalyptus and pine. BNDES conditioned the credits: only large-scale endeavours received loans, a one thousand ton per day pulp production requirement was set, alongside guaranteed demand for fiber supply. (MMA 2005: 10-11.) This led into the valuation of scale and the setting of oligarchic and corporatist paper and pulp industry in Brazil.

The corporatist legacy of Vargas was equipped with the positivist ideology of the military, the ideals of technical order and progress. This combination did not take into consideration the limits of the environment, the workers or people withplaced. It was a move to reverse direction in comparison to that which took place in Finland and other main paper and pulp producing countries in the 1930's, when large-scale land acquisitions were put limits by national governments to ensure economic and social development of these countries (Kuisma 2006). Currently, we can see why Brazil is not amongst these nations in terms of economic and social well-being: a counter- agrarian reform was put into place by the dictatorship.

The year 1967 initiated the industrial-scale production of short-fiber eucalyptus pulp (MMA 2005: 10-11). Eucalyptus pulp was a direct creation of the Brazilian dictatorship, of Brazil's deeper linking to North American and Western European markets, especially to the capitalist agricultural world system. The twentieth century in Brazil saw the increasing establishment of absolute private property rights that led into land concentration and commoditization as well as wage labour (Vergara-Camus 2007: 48). The important Brazilian peasant economy was replaced in the 1960s by capitalist agriculture. The co-occurrence of eucalyptus plantation relying paper industry establishment in Brazil in the 1960s tells of the importance of agrarian development for the setting and characterization of pulp investments. They are an integral part of agribusiness right from its earnest beginning in the 1960s, and should not be thought as

pertinent to industrialization, despite the name. Brazilian paper industry history is largely concurrent with Latin American rural and agrarian history.

In the wake of 1990's Brazil was just turning from the ISI-corporatist model into the so-called Neoliberalism, many of its business sectors faced enormous pressures to compete in the global markets (Kingstone 1999: 240). The 1980's lost decade forced the Brazilian paper and pulp industry to reduce costs, export and focus on productivity, modernization and professionalization in the management of companies: this was achieved by the National Program of Paper and Pulp, which led into a new cycle of investments until 1995 (MMA 2005: 13). What was interesting about the pulp & paper sector in Brazil in the 1990 was that it was "amongst the most competitive sectors in the global economy" (Kingstone 1999: 234-235). Thus, to transform it or to invest into it seemed of little macroeconomic importance to the Brazilian government in comparison to financing other sectors of the Brazilian economy, which were not so competitive in the new economy. According to Kingstone, the Brazilian paper & pulp industry was never threatened by neoliberal reforms. In spite of this, the industry attacked the neoliberal reforms of Fernando Collor's government in the beginning of the 1990's. BRACELPA devoted "much effort to lobbying for improved financing from the BNDES, which it secured in 1992 and the again in 1996" (Kingstone 1999: 234-235).

In the wake of the new neoliberal world economy, Brazilian paper & pulp industrialists were not pleased to the support they got from the State: they demanded – and succeeded – in gaining promises from the State to defend the private sector in the world economy through public investments (ibid). New pulp investments came to enjoy of financing and political partiality, which the Brazilian coalition of the paper & pulp industrialists gained in the positivist climate where dominating sectoral corporations are shed the role of developing the country. In total, Bracelpa and BNDES jointly estimated that US \$13 billion was required to be invested between 1996 and 2005 for the paper & pulp sector: an estimate which the State agreed upon to fulfill (ibid). The 21st Century pulp wave came, thus, to enjoy of the earlier lobby for financing policies that had guaranteed 13 billion for the sector. Veracel gained a US \$495 million low interest credit from BNDES. Following this comfort the paper sector has never again opposed neoliberal reforms (ibid).

The paper industry case supports the claim of earlier research on Brazilian state-business relations: since the 1990's, companies in general have been successful in attaining greater benefits from the Brazilian congress through mobilization and lobby (Mancuso 2007). The benefits attained by paper industry are a demonstration of the growing strength of intra-business alliances in Brazil since the so-called neoliberal era. The paper industry is all-the-time more organized and mobilized, and has definitely gained political clout vis-à-vis the Brazilian and Finnish states as well as European Union, which the rising pace of new pulp investments and state and EU financing evidences. As Mancuso has argued, corporatism might indeed be working to facilitate state-business linking and promote large business interests, not to the contrary (Mancuso 2007), as was hoped by Oliveira Viana and other fathers of Brazilian corporatism (Carvalho 2004).

The developmentalist attitude embraced by current leading politicians from left to the right – like Lula da Silva and Jaques Wagner, the Governor of Bahia – makes possible and leads into positivist technical development, where progress is sought with all costs. Ideas and ideology - the cultural context - surely have impacted the seaming of paper industry and Brazilian state into a quite unified whole. Environmentalism has been a weak pillar in the developmentalist politics of Lula and the preceding Brazilian governments. The continued Brazilian government developmentalism has worked for the favour of paper industry investments.

Legal Battles, Election Financing and Society

A Nation-State is not uniformly knit together, but a site of conflictive interests. The Brazilian Ministry of Environment has found in a study on tree plantation conflicts that the business sector and the socio-environmental entities live in parallel universes; between these is situated the Brazilian government. "In the passage of years, state and federal governments favoured more or less the business sector. And actually, some governmental entities are intrinsically partners of the business sector and others make part with the segment on the opposite side." (MMA 2005: 231.) The paper industry capitalizes on this model. State in Brazil is a resource base fought over, most important resource being the ability to set laws, the monopoly on legal code (Damatta 1992). High-level decisions have set the state of the industry: it is an offspring of Brazilian and

other significant nation-states. The offspring has grown to dimensions in which it can impact the state. Besides federal level, paper industry has a strong impact on the municipal and state-level politics. In the municipal and state levels the paper industry has met fierce resistance in many places. But local democracy rarely matters in the big picture.

The Brazilian state cannot be analyzed to be totally in favour of monocultures or pulp mills. Especially when it comes to certain ministries and personalities, and especially state- and municipal levels, the orthodoxy loses ground. For example, in São Paulo “the acceptance of monocultures is not so generalized and municipal and state-level parliamentarians have already expressed their concern with the level of territory occupation ... trying to regulate these practices” (MMA 2005: 179). Field research around Brazil suggests that municipal politicians’ acceptance of a certain monoculture, like eucalyptus, depends greatly on the existence of monoculture processing industry in the municipality. If the industry is situated outside the municipality they are left without tax revenues. One can see that in Southern Bahia Porto Seguro, Belmonte and other municipalities not possessing a pulp plant have made legislations prohibiting or limiting eucalyptus plantations. In such situations the politicians correctly calculate that it is economically more viable to use the land for agriculture that produces basic food or fruits, organic production and differentiated products for export. These produce much more jobs per hectare than mechanized monocultures.

In São Paulo state, the municipal politicians in Capão Bonito set a law restricting the planting of eucalyptus, which was followed by a complaint by Votorantim that alleged the law be “breaking the Constitution, forbidding the free exercise of economic activity.” (Cf. MMA 2005: 180.) In the municipality of São Luis do Paraitinga, a law regulating tree plantations of Suzano corporation was accepted with unanimity. But when the law went to mayor for approval, he vetoed it and returned it to the municipal chamber, which surprisingly wholeheartedly favored the veto (without counting the law project’s initiator). The researchers of MMA found that “in this case, the lobby of Suzano was intense”. (MMA 2005: 180.)

There was in 2004 a state-level attempt in SP to set a law demanding Environmental Impact Analysis (EIA) from tree plantation projects larger than 100 ha. This attempt to

set even the most basic regulation for plantations was strongly resisted as a too expensive project by the producers and politicians from the PFL, PPS and PT parties, who created a Parliamentary Front for the Defense of Reforestation in the State of São Paulo and barred the legislative project (MMA 2005: 181).

Paper companies have been active in trying to change the Brazilian laws and regulations. For example, Stora Enso tries to adjust the Federal Law 6634/79 of national security, which makes it harder for foreign companies to own land in frontier areas 150 km off border. In this attempt they use politicians, for example, Nelson Proença (PPS/RS), who proposed new laws in the national chamber of deputies, and senator Sérgio Zambiasi (PTB/RS). The proposal was rejected firstly by the deputies, but irregular land buying continued by Stora Enso in Rio Grande do Sul. (Fagundes 2007.) In 21st February 2008 The Senate Commission of Constitution and Justice approved the law project to suppress national frontier sphere from 150 km to 50 km, but the parliament has to still vote on the proposal. The proposal would benefit primarily Stora Enso, and has been criticized by NGO's as a sign of government subduing to transnational corporations interests, which will lead to negative local impacts.³³ The Ministry of Interior and INCRA have been quarrelling with Stora Enso over the legality if their land buying in RS.

Legal cases are an example of how the state is structured and struggled over. As a result of the almost endless accusations³⁴ of law and rights violations brought against Aracruz Celulose, the Brazilian state has had to take some position. Besides many processes where the complex state-level and federal-level Brazilian courts have debated over who must consider the legal procedures brought against Aracruz, there have been political investigations like CPI's (*Comissão Parlamentar de Inquérito*) in state and federal level parliaments, as well as municipal and state-level law projects to prohibit new eucalyptus plantations. The state-level parliament of Espírito Santo, where Aracruz is based, has had a project of creating a state-law prohibiting new plantations for pulp (MMA 2005: 90). The law was approved in the assembly, but vetoed by the governor, but in turn this veto was overruled by the deputies, after which Aracruz cried out for help from the

³³ Casiraghi, Raquel 2008 Redução da faixa de fronteira avança no Senado; Stora Enso beneficiada. *Agência Brasil de Fato*, 26 February 2008.

³⁴ An extensive list of these can be found in the ES-based journal *Século Diário*.

Supreme Tribunal of Justice (STF) that wholeheartedly overruled the state parliament in favour of the company. This was a win of the centralized authorities over local democracy. That is, sample of state power over the Brazilian society – and paper industry position in this triangle.

The Supreme Federal Court STF suspended in June 2002 the effects of the eucalyptus-banning law as a "misorientation of the legislative function of the state that wanted to regulate the right to property, which is a matter of Civil Law and thus, belongs to the exclusive legislative competence of the Union" (Cf. MMA 2005: 75, my translation from portuguese). During the one year time of judgment-procedure, Aracruz was banned from planting new *eucaliptais*. After this there was a state-level CPI in ES, in which the deputies' critical towards Aracruz joined the Network against the Green Desert, but with few results as Aracruz came out as a winner from the CPI. In a 2002 federal level CPI, the company joined with the senators, party leaders, some government executive politicians and the media, trying also to get the support of *bancada federal do estado* i.e. of all the federal deputies from Espirito Santo state, to block the setting of a CPI. Aracruz called the CPI a plan by federal deputies to extort money from the company – but still the CPI was installed. However the CPI never concluded its work or published a memo, for some reason. There have been promises by Lula and other politicians to set human rights commission to investigate the accusations of use of paramilitary troops by the company against the *quilombolas*, amongst other promises to look into Aracruz, but these discourses have not materialized into actions. (MMA 2005: 85.)

Political party election financing by Aracruz and other pulp companies has increased all the time, as a look into the publicly accessible website of *Supremo Tribunal Federal* demonstrates. For example, Stora Enso gave 24.000 reales for Yeda Crucius, the then-winner of 2006 governor-race in Rio Grande do Sul state.³⁵ This was a feeble sum in comparison to Aracruz that gave 281.556 reales to her, or Votorantim that investedof

³⁵ See the public election financing data offered online by the Supreme Electoral Tribunal (www.tse.gov.br), the *prestação de contas* section, 2006 elections, then click on "[Consulta a prestação de contas final de candidatos e comitês financeiros](#)", and type the name of Yeda Rorato Crusius, 45 (state: RS, governador) in the "candidato" and "receita" search formula. You can see that for example just one paper company, Aracruz Celulose, has given according to these official statistics (which most likely do not include all the support, as it is not obligatory to demonstrate all your sources of financing), 281.556 reales for her, under different registration numbers.

200.000 reales into Crucius. Notable is that Yeda Crucius is just one political candidate which the paper companies are financing. In the Rio Grande do Sul state alone Aracruz financed a total of 70 candidates with R\$ 1.210.353. In the 2006 elections Stora Enso financed directly a total of 15 candidates from 8 different parties with R\$ 185.150, according to the official statistics: but again, this is nothing in comparison to Aracruz or Votorantim.

Paper companies' election financing sum up for sectoral benefits, as very likely they all will benefit from policies supporting paper and pulp investments. Through Veracel joint venture, Aracruz and Stora Enso further financed the Brazilian elections by R\$ 1.170.000, focusing the support for Bahian governor Jaques Wagner (PT, 100.000 reales) and Paulo Souto (PFL, 200.000 reales).³⁶ In there where Veracel bet on two candidates, Aracruz and Votorantim spread their money for a wider range. Aracruz gave a total of 5 Million and 523.353 reales in the 2006 elections. Votorantim Celulose e Papel S/A gave one million and 657.379 reales in 2006.³⁷ In sum, aracruz is leading the election financing. Aracruz, Stora Enso and Votorantim are not the only paper companies, even though they are amongst the most presentative ones when considering the new pulp investments.³⁸

Macroeconomic and Political Consequences

New pulp investments have been marketed in Brazil as offering a significant GDP increase, jobs and tax revenues, as sources of wealth and prosperity. What are the impacts of new mills in the Brazilian society? The potentially ensuing positive results have been enthusiastically promoted. After all, Brazil is the place where most of the hearts have to be won for the investments to materialize. Certainly, some economic benefits will accrue, at least if looked from the point of view of some of the actors and citizens in Brazil. But as a general line, economic calculations point that pulp investments are good for corporate interests but detrimental for Brazilian macro-

³⁶ Besides Veracel support, Wagner and Souto received 200.000 from Aracruz.

³⁷ But as Votorantim is a conglomerate of various economic activities, including cement, construction and finance businesses, one would eventually have to sum these election efforts as well to weight the political clout of Votorantim through the financing of elections in Brazil.

³⁸ The official election campaigning statistics should not be trusted too much, as it is extremely easy to falsify any receipt in Brazil or circulate money by *caixa dois* and other corruption measures. Quite possibly the real figures of political support given by companies are much higher, and do not limit only to those candidates named in the database. But it is hard to find evidence of this, as these cases would be crimes.

economy. In this light, highly optimistic discourses can be seen as symbolizations trying to hide reality.

One created job in Veracel has cost 363 thousand euros, if we consider that the value of the investment was one billion euros and the amount of created jobs was 450 directly in the factory, 300 directly on plantations and 2000 outsourced (Observatório Social 2005). Thus, petrochemical and pulp investments employ both in very capital intensive terms. Another character they share is a very low distribution of industrialization within their respective or potential production network. They do not extend industrialization or job-creation via creation of subsidizing companies or networked industries. Petrochemical industry differs in a significant manner from the paper and pulp industry when considering the creation of indirect jobs - outside their industry-specific production network - in Bahia and other non-industrialized states in Brazil. Petrochemical industry has helped Bahia by creating indirect jobs in services like commerce and transport and in construction. Pulp production does not create extra or long-term commerce or transport in its vicinity, even though there is a two years boom and bust in the construction phase. (Teixeira & Guerra 2000: 91-92; 95.) Field research in Eunápolis - various interviews and accompanied observation - indicated commerce has diminished due to generally ensued impoverishment after Veracel. More people are left without land and unemployed and do not produce basic material for the agroindustrial and commercial sectors, for example.

Pulp production has a concentrating character: it is capital-intensive, has a limited supply base, needs grand extensions of land and has a low level of inter-industrial articulation. Pulp investments in Brazil are enclaves that do not produce the necessary synergies to serve as dynamic economic centers. Bahian economists Teixeira and Guerra argue that pulp investments cannot result in industrialization. (Teixeira & Guerra 2000: 91-92; 95.) This hypothesis from year 2000 can be currently, after years of Veracel inauguration, empirically observed to have been correct. Opportunity costs amass. Pulp investments are and will be “a shock to a wide array of other activities, such as supply of drinkable water, tourism, distinct uses of land and water resources” (Teixeira & Guerra 2000: 94). The concentration of land-ownership required by pulp production imperils distinct agricultural uses: its expansion depends on the demise of agrarian reform.

These points make it possible to claim that pulp production in Brazilian non-industrialized states is not industrialization but rather agribusiness. In sum, as CIFOR has put it, “the economic costs of development may also be borne locally, rather than nationally” (Cossalter & Pye-Smith 2003: 35). Small-scale businesses and industry suffer directly and indirectly from large-scale pulp investment decisions. Decision to finance large-scale forest industry companies has led, for example, into the demise of small-scale forest industry, explains the Brazilian Ministry of Environment’s study on tree plantations. Furniture industry lacks wood as it does not achieve credits for its own tree plantations, or any other incentives from the government. Big wood consumers like pulp companies, steel mills and vegetal coal factories are favoured by the state: they use the wood instead of letting small-scale furniture companies snatch a parcel. (MMA 2005: 22.)

For the Brazilian politics a 1.25 billion dollar investment bears great value: it counts towards a greater growth percentage in GDP, which will be counted as the sitting government’s product. Considered as the biggest private investment during the first period of President Lula Da Silva - even though almost half of this came from the state through BNDES and hundreds of millions came from foreign state-linked investment banks - Veracel carried much greater symbolic value than its nominal, real economic value. Political game adds symbolic value to pulp investments. For a political party it would be hard not to accept such a direct boost on their credibility a pulp investment poses in GDP terms. If governments would invest in a more sustainable manner, for example by using the economic models of Keynesianism, whose benefits normally start to be visible only after some five years, they would be favouring the next government.

Brazil ranks among the five most unequal countries in the world. The richest 20 % of the population consume thirty times more than the poorest 20 % (Hoffman & Centeno 2003: 366). This makes Brazil the leader in inequality in the world: as signs, São Paulo has more helicopter landing pads atop buildings than Tokyo or New York (Miller 2007: 182). The general boost in GDP-growth in Latin America from the post Second World War era until the end of 1970’s, the so-called Economic Miracle, resulted in concentrating wealth in the hands of the elite, even though this created also “some upward mobility for the economically active population” (Hoffman & Centeno 2003:

367). But since 1980s things have got worse, work opportunities are scarcer now and average incomes for the working population have come down more than twenty percent. (Hoffman & Centeno 2003: 370.)

Economists find in Latin America empirical proofs that break the theories of orthodox economics. For example, the theory according to which saved and concentrated wealth would be invested, does not hold true for the case of Latin America, as many have studied. Hoffman & Centeno point to the fact that even though GDP was galloping in Latin America in the past decades, the revenues were concentrating, and domestic investments remained the same, at a very low level (Hoffman & Centeno 2003: 367).

Mainwaring and Pérez-Liñán have argued that as wide income band societies, Latin American countries with a higher level of development have been less likely to be democratic (Mainwaring & Pérez-Liñán 2004: 27, 45). Pulp investments put pressure on democracy in Brazil. They increase GDP per capita: the result regionally is a weakening democracy. The reasons for region-specific GDP dynamics in relation to democracy are various. One of the most imperative explanations lays in the fact that business in a market economy has structural and political power (Kingston 1999: 242). For the Latin American market economies this matter of affairs is even more pressing than for the Western European economies, as democratically elected politicians depend on GDP growth figures. GDP growth is understood as mark of success in Latin America. Leading politicians are required to demonstrate for a wide array of powerful interest groups – especially financiers - that their nations are making results to gain the legitimizations of these often foreign powers (Teivainen 2002). This pressure makes it possible for businesspeople to extract concessions from politicians on a routine basis and in an inequitable way (Kingston 1999: 243). Furthermore, businesses have extensive lobbying and economic powers in comparison to other social actors (ibid).

This becomes apparent also when considering the resources of an economic powerhouse such as paper industry in relation to the state - particularly in relation to the persons occupying political positions with democratic decision power. It has been observed that since the beginning of 1990's implementation of the Washington Consensus suggestions in a Latin American way – which did not follow the actual suggestions of the Concensus - Latin American elected politicians have enjoyed massive increase in

their private economic wealth (Kuczynski & Williamson 2003). Particularly this increase has ensued from corruption in privatization processes (ibid). Politicians and multinational companies have acquired considerable wealth and power by the method of economism (Teivainen 2002). To deny that paper industry companies would not have political power in Brazil - but would be only economic actors - would be an attempt to hide the power.

Pulp investments do not create many jobs. Operations are extremely automated. Estimates on how many jobs are created by a new pulp mill have varied between 300 and 20000. The job creation discourse is potentially the most legitimizing as the promise of large-scale work generation ranks very high in Brazil. Veracel pulp mill employs directly in the mill less than 400 people. The job creation discourse has been a motor in the advance of pulp investments. Once a country has accepted a pulp project, thousands of people will endeavour for 1-2 years in constructing the mill. What happens after this period to these workers? Most are left unemployed, filling the ranks of landless movements or *favelas*, as I witnessed in field research in pulp investment locales in Brazil between 2004 and 2008.

Job creation and land prices correlate strongly. Land prices have soared dramatically. For example in Bahia's eucalyptus zones land price is four to six times higher on average than just a few years ago. In Eunápolis the rural exodus has been greatest in Brazil and the land price has ten-folded, with three companies owning more than half of the land, according to Cepedes, a local NGO. 5000 small-scale farmers have become unemployed and immigrated to cities during the last four years due to the construction of the factory and Veracel's land acquisitions (Observatório Social 2005).

Other forms to create jobs would be more efficient. For example, the Brazilian State could had used the US \$495 millions into a regional development package including agrarian reform instead of financing the Veracel pulp mill, argue MST and NGO's (De'Nadai et al. 2005). Also other researchers and research institutions have ended into similar results. Not only would the quantitative amount of created jobs in that kind of package be greater, according to the statistics of FAO and INCRA; also the qualitative impacts on general welfare creation would be drastically higher if focusing on small-

scale rather than large-scale, creating smallholding farms rather than patronal establishments (Cf. Wright & Wolford 2003; Cf. Kowarick 2002: 246).

Brazilian institutions exist to implement the development policies suggested by the World Bank. Only redirecting of financing is needed. For example, if considering the agrarian reform, rural organizations already have a functioning grass-root level implementation and surveillance body: the 1999 found Brazilian Ministry of Agrarian Development. The ministry focuses, particularly through the National Institute of Colonization and Agrarian Reform (INCRA) on execution and coordination of family agriculture policies (Kowarick 2002: 246). Through the ministry and its institute, the federal government could use “exclusive power and constitutional resources to implement policies of land expropriation and rural credit” (ibid). The Brazilian government found the new Ministry after MST’s appeals, in order to facilitate the agrarian reform. The reform has been shown to be of key role in increasing economic productivity. The income per hectare per year for family establishments is 2-2.5 times higher than for patronal establishments according to the research made by INCRA and Food and Agriculture Organization of the United Nations (FAO) (Cf. Kowarick 2002: 250). In comparison to patronal establishments – like pulp companies - family establishments make more significant contribution to the Brazilian economy.

MST has used the data of INCRA/FAO to demonstrate the ineffectiveness of pulp investments in creating economic welfare and jobs:

“According to the data of federal government, in order to settle this year 115 thousand families will cost R\$ 2900 millions. Furthermore in conformance with the data of the same government, with this investment 500 thousand direct jobs and more than one million indirect jobs will be created. The Veracel, with an investment of R\$ 4000 millions, almost two times bigger, will create only 4500 jobs, although the major part of these are temporary.”³⁹

Furthermore, tax revenue creation for the Brazilian government by pulp investments is not high. The Kandir’s law says that a company of whose production over 95% is exported does not have to pay municipal taxes. The law of Kandir is in place in most of the countries of the world, as it makes foreign investing into another country more attractive for the companies. From the production of Veracel almost 100% is exported. Pulp is taxed in the country where it is being imported to.

³⁹ Excerpt from an email received from MST Bahia coordination after the April 2004 Veracel affair, as I asked from them their opinion on the matter. My translation from Portuguese.

Conclusions and Discussion

In Brazilian pulp investments shareholder dividends end mainly for foreigners, democracy suffers, potential jobs are lost and agrarian reform stops locally - or is greatly burdened - and tax revenues are limited. Highest are the opportunity costs: these have to be included in economic impact analysis. Marginalisation of citizens carries extremely high capital-costs. This is a question of human value: is a human being valued as a generator of economic, social and cultural capital?⁴⁰ Human rights are the basis for macroeconomic development, overall capital increase. One should ask, if landless and other poor are held as people, or dehumanized, and what is the ensuing macro-economic benefit or cost?

The Brazilian State's decision to favour pulp investments in the 1990's becomes understandable only as "[Brazil] badly needs dollars to finance a growing trade deficit"⁴¹. In this light, "foreign investors look willing to oblige, especially now that the country's economic reforms have put an end to three decades of chronic inflation and the government has liberalised trade" (ibid). If low inflation and a positive trade balance are set primary macroeconomic goals, the hopes that pulp exports increase by hundreds of millions dollars the foreign exchange reserves of Brazil justifies to some extent the investments. Pulp investments also support the industrialization of São Paulo region, as supporting industries amass there. Nevertheless, the winners in this scheme are not democracy, long-term economic development, regional economies, environment or citizens.

In Brazil syndicates and industries are not organized horizontally over industry- or profession specific lines, but hierarchically in the corporatist manner introduced by Getulio Vargas regime in the 1930's. This corporatism continues in spite of some attempts to dismantle the corporatist institutions' legacy and power (Doctor 2007), and thus there is no real solidarity between different segments of the economic life. Corporatism disconnects the paper industry from other industries. It creates industry-specific knowledge, logic, symbolizations, and practices: the symbolic system becomes

⁴⁰ I use the concepts of social, economic and cultural capital as in Bourdieu (1991: 163-170).

⁴¹ "Let the party begin." Apr 24th 1997 | SAO PAULO, From The Economist print edition

a world of its own.⁴² Corporatism explains why those gaining from the pulp advance are totally in favour of it, even though the macroeconomic impacts for the country and especially for the sub-regions might be negative. The same goes not only for paper, but for all other economic areas in the country: lack of cooperation and industry-wide organization and systematization for the benefit of the macro-economy is a principal caveat for the growth of Brazilian economy (Schneider 2004).

Farms are increasingly turned into corporate eucalyptus plantations as the pulp production belt extends. Brazilian regional economic development and industrialization is still dependent on federal-level contribution. In the beginning of the 21st century, capital-intensive - creates profit but diminishes jobs – raw material and secondary goods production, to which the growing pulp investments belong, has consolidated as the industrial mainstay of Brazil. Agribusiness and ethanol diplomacy dominate the economic and political relations of Brazilian domestic and foreign policy.

⁴² For sake of comparison, the paper and pulp industry is not so secluded in Finland as in Brazil. The group is labelled as the forest industry or even more widely, the forest cluster – not paper industry. In Finland the state, society and business are cross-linked into the forest cluster. The paper industry is more complex and its social networks denser in Finland than in Brazil. In this light it is understandable why for example the history of paper and pulp industry in Finland is a field of academic research requiring many years of specialization and a very wide knowledge-base.

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