

## Rich, happy and good at austerity

Budget discipline has been impressive and there is a wish to stay in the euro, despite the profligacy of others, say **Richard Milne** and **Michael Stothard**

Thousands of what look like white sailors' hats stretch as far as the eye can see. Cork after champagne cork pops and smoke from a hundred barbecues floats towards the sea.

Finns of all generations – many wearing the white nautical-looking caps they receive on graduation from secondary school – are crowded into a small park in southern Helsinki to celebrate Vappu, or Walpurgis Night, a two-day celebration of May day and the start of spring.

It is a huge occasion for the Nordic country, which spends a large part of winter cloaked in darkness and snow.

"We are here to drink and have fun, it's my favourite time of the year," says Olli-Pekka, a student who has come to the park to celebrate.

Even when the talk turns serious, about the eurozone – Finland is one of the 17 EU member states that uses the euro, the chat remains upbeat. Kari, Olli-Pekka's friend, says: "Europe is very important to us. We know there are problems, but if everybody does their bit, we can get through."

A little way away, under a gazebo, Jussi, a pensioner wearing his cap, expresses stronger views. "We have worked hard and so we have earned this," he says, pointing towards the hillside packed with revellers.

"But those Greeks – have they really worked hard? Should we have to pay for them too? I don't know."

Like Greece, Portugal and Ireland, Finland is on the geo-



Singing in the sun: revellers celebrate Vappu, or Walpurgis Night, a two-day festival that marks May day and the start of spring

Lehtikuva

graphical periphery of the eurozone, but it has little else in common with these three, which have all received international bailouts in the past two years.

Richer, happier and better educated than the OECD rich nations' club average, Finland is also one of only a few countries that all the main credit agencies still judge as triple A-rated.

There are challenges, for sure, such as a population that is age-

ing more rapidly than any country apart from Japan and a faltering industrial base, but these troubles seem minor compared with those that face other European states.

Its debt-to-GDP ratio was just 48 per cent at the end of 2011, compared with more than 100 per cent for Italy and Greece, and 82 per cent even in prudent Germany.

Finland's borrowing costs in bond markets are about 1.8 per cent, lower than those for the

Netherlands, Austria and France.

Perhaps because of this strict fiscal discipline at home, the eurozone crisis, in particular the behaviour of Greece, has become a hot political topic and Finland has become the natural ally of Germany in Europe's austerity versus growth debate.

One of the main defenders of Finland's austerity stance is Alexander Stubb, the EU minister. "I love both austerity and growth, but I can't stand

deficit-driven growth," he says.

Mr Stubb delights in telling visitors to his office about his former Vappu antics and describes himself as an optimist.

"This has been the best crisis to have for Europe," he says. "It has shaken up our financial system, it has shaken up finance ministries," he says.

This view reflects a wider feeling in Finland that many eurozone countries have been profligate over the years and the

recent success of the True Finns, a populist eurosceptic party, is an obvious political manifestation of public disapproval.

In 2011, the party won nearly a fifth of the votes, up from just 4 per cent in 2007, in a parliamentary election that took place just before the €78bn bailout of Portugal.

At the time, Finland had the power to block the whole rescue effort, and the result prompted months of worrying among the EU elite.

"It is not our task to take care of the taxes, loans and pensions of other European member countries," said Timo Soini, the charismatic True Finns' leader, delivering a line of the type that has won him support in many poorer suburbs and rural areas.

But in the end, nothing came of this uncharacteristic sign of Finnish anger.

Mr Soini refused to join the government, the bailout package was approved and, one year later, fears that the Finnish people may be turning against the EU project have receded.

A recent poll by EVA, a pro-market think-tank, shows that 55 per cent of Finns now feel positive about EU membership, up from just 37 per cent at the same time last year.

Only 16 per cent of people say that Finland should leave the euro, compared with 29 per cent last year.

However, some significant dissent remains.

Opinion about membership is more polarised than it was before the crisis, and is heavily split along party lines, with the supporters of the moderate centre-left and centre-right overwhelmingly in favour, while the far left and far right are mostly against.

But most feel that, while they do not approve of the perceived profligacy of some eurozone nations and believe austerity is

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## Finland

## Demand at home offsets poor exports

## Economy

Amid the downturn and structural change, consumption is holding up, says Michael Stothard

For two decades, Finland's reliance on a few efficiently run industries has been a virtue, helping the country top European rankings for productivity and overall growth.

But lately, this concentration has become a problem, as these same industries have begun to struggle, not just because of the sluggish global economy but because of more worrying structural problems.

Exports – which account for 40 per cent of gross domestic product – are 20 per cent below their 2008 peak, partly because of lack of demand, but also because Finland has lost share in the global export market.

In the forestry sector, for example, which makes up 20 per cent of exports, all companies are suffering from the gradual shift away from printed newspapers and magazines towards online media.

This comes on top of the problems caused by the economic downturn.

The electronics sector, in the shape of Nokia, provides some of the strongest evidence of the structural challenges. Once the world's largest phonemaker and the main engine of growth in the country for 20 years, the company has become a drag on the whole economy.

Between 2000 and 2008, Nokia, and the rest of the technology sector that surrounds it, accounted for 1.3 percentage points of the 3.5 per cent increase in average gross domestic product in the Finnish economy, nearly a third of all national growth in other words.

It also employed 1 per cent of the Finnish workforce in 2007, accounted for 3.2 per cent of Finland's GDP and 31 per cent of research and development spending. It came to be seen as part of the soul of the country.

But since 2008, the problems at Nokia and the wider electronics sector have helped double the fall in productivity following the financial crisis and have knocked 1 percentage point off GDP every year, according to the OECD.

Because of these cyclical and structural problems,



Structural shift: in forestry, which makes up 20 per cent of exports, all companies are suffering from the move away from print to online media

Bloomberg

Jyrki Katainen, the prime minister, compares the situation with the early 1990s, a terrible few years, when trade with Russia collapsed after the fall of the Soviet Union.

At that time, Finland's protected industries, which

'We are competitive in some sectors but we need something new'

had enjoyed special trading rights with the country's big eastern neighbour, quickly became uncompetitive and the economy shrank more than 10 per cent in the next few years, prompting a period of radical reform.

Mr Katainen comments: "When trade with the Soviet Union declined, we had to make really drastic structural changes on the industrial side.

"We still have very good competitiveness in some sectors, but we need some-

thing new. As in the 1990s, now we have to try to get something new."

Without writing off existing industries, he suggests that the clean technology sector could be an engine of growth, as the country's tough environ-

mental regulations force companies to focus on efficiency.

The gaming industry, led by Rovio, the creator of the Angry Birds smartphone game, could be another.

But an analysis by Creamdum, a venture capital firm, suggests that building up industries will be difficult.

The firm says that Finland is a worse place to set up a new business and is less competitive than many of its Nordic neighbours, particularly Sweden.

Fortunately for Finland's economy over the next few years, while it waits for younger sectors to take off, problems in export-led manufacturing since 2008 have been counterbalanced by surprisingly robust domestic demand.

Consumer confidence has bucked the European trend and risen this year, helping the country maintain GDP growth.

Strong government finances, a healthy banking sector and lack of exposure to the southern European economies where the debt crisis looms largest, have led to a feeling of being insulated from the worst global problems.

Retail sales are increasing and new car sales rose sharply over the past 12 months. Analysts say that the country's triple-A credit rating and haven status have also helped keep borrowing costs low.

Daniel Bergvall, an economist at SEB, a Swedish bank, says: "Finland's economy and finances are fundamentally sound, which has led to lower borrowing costs and further helped the domestic economy."

In the long term, as well as being concerned about encouraging the development of new industries, the government is worried about slow productivity growth and the rapidly ageing population.

The six-party ruling coalition is trying to kill two of these birds with one stone with a municipal reform programme.

It hopes that merging many of the 350 municipalities will reduce the cost of providing healthcare for the rapidly expanding elderly population and increase productivity across the public sector. Analysts agree that this is a good start, but suggest it perhaps does not go far enough to encourage productivity.

An influential OECD report has recommended reducing employment protection as well, because regulations reduce labour mobility and are preventing people from moving to high productivity sectors.

## Rich, happy and austere

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necessary, it is not for their country to rock the boat.

"We are a people of our word," says a senior business figure. "When we promise something, we stick to it."

In the end, one of the most high-profile manifestations of Finnish caution about the EU has been the country's demand for collateral from Greece as a condition for contributing to the second bailout.

Finland will receive €925m from Greece in total – €311m was handed over in April. It was the only country to make such demands.

Meanwhile, while there is a certain amount of self-satisfaction in Finland over its robust fiscal position, no one is downplaying the problems it will face over the coming years, even with strong government finances and a healthy banking sector.

The biggest concern is the fact that the country is reliant on a small number of export-driven industries for nearly 40 per cent of its gross domestic product.

They have all been hit by the global economic downturn and many were looking structurally rather

'We are a people of our word. When we promise something we stick to it'

weak even before the crisis.

The huge paper and pulp industry, for instance, has been hit by falling demand as consumers gradually shift away from printed newspapers and magazines towards online media.

The sector has seen substantial job layoffs over recent years (see page 5).

In the electronics sector, Nokia, which is by far the biggest participant and has been the main engine of growth in Finland for years – has lost 90 per cent of its market value since 2008, after it was slow to spot and act on the smartphone trend.

The government admits new growth areas are needed for the economy, but it remains far from clear what these will be.

The other brewing problem is demographic.

In 15 years, there will be 75 pensioners to every 100 workers compared with 53 now. This will put a huge strain on the public purse.

In addition, the OECD warns that, while the nation's €2.7bn of austerity measures and tax increases – put in place this year in an effort to balance the budget – may look stringent given the low total debt levels, even more needs to be done in order to prepare for this huge future burden on welfare spending.

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## Nokia struggles to regain investors' confidence

## Profile

Richard Milne considers the handset maker's troubles and its new strategy

Meet anybody in a position of power in Finland and you are likely to find they have at least one possession in common: a Nokia phone.

The mobile handset maker remains omnipresent in a country where it still accounts for

more than 1 per cent of GDP.

But the recent woes of the group have taken their toll. After more than 15 years on top, Nokia is no longer the biggest company in Finland by stock market value – both Fortum, the power company and Sampo, the insurance and financial services group, have overtaken it.

The fate of Nokia, which stumbled so badly when it failed to keep up with the smartphone trend, is one of the most fascinating business stories.

Under Stephen Elop, a new chief executive, an outsider to the company

and a non-Finn, Nokia has undertaken something that many businesses promise but find very hard to deliver: a radical change in strategy, staking its future – as analysts and some insiders see it – on the success of its Windows Phone partnership with Microsoft.

A telecoms analyst in London comments: "There are really only two outcomes: they survive and do fantastically well, or they fail and die."

Meanwhile, some have started questioning whether it can resist bankruptcy in the next two years.

Juliano Torii, a credit analyst at Société Générale, recently wrote: "In our opinion, the company's ability to repay even its short-term 2014 bond could be an issue."

For many Nokians, as staff call themselves, this is only the latest in a series of crises over the years.

In the early 1990s, still a conglomerate, Nokia fought for survival, only pulling through after Jorma Ollila, former chief executive and chairman, persuaded the board to focus on the company's relatively small mobile handset division. By 1996, it was the biggest handset manufacturer in the world.

It held that number one spot until a few weeks ago, when Samsung knocked it off its perch.

This followed an exceptionally rough patch, after it lost its investment grade

## Chairman Former entrepreneur who hates bureaucracy

Risto Siilasmaa was once Finland's richest man thanks to a technology company he created. Now, he is responsible for trying to save the country's corporate crown jewel.

Mr Siilasmaa, 46, was named chairman of Nokia in May having been on its board since 2008. Defining himself as, above all, an entrepreneur, he made his name and money by founding F-Secure, an antivirus and computer security company which, in the dotcom boom, briefly made him the country's wealthiest person.

F-Secure's shares soared 1,000 per cent in six months, making Mr Siilasmaa's stake worth more than €1bn and placing him in the public eye. He is now back in the spotlight, replacing Jorma Ollila, company veteran and former chief executive.

From F-Secure, Mr Siilasmaa has experience of working with 250 telecoms operators round the world. He also chairs Elisa, a Finnish mobile operator which has a business in Estonia. He believes he can approach Nokia from a different perspective. He still behaves very much like

a tech entrepreneur, hating bureaucracy – an almost inevitable feature of a company Nokia's size – and insisting on quickly killing off projects that do not turn out as planned.

Some analysts grumble he was chosen above all because he is Finnish. Nokia executives concede there is much to commend combining a Finnish chairman with a foreign chief executive – Stephen Elop is a Canadian.

Mr Siilasmaa acknowledges the company's Finnish heritage and its importance to the country but privately insists it will not affect any difficult decisions, such as job losses.

However, he has a less Anglo-Saxon view of the role of a chairman, believing his job is not just to represent shareholders' interests but also those of customers and workers. Balancing those demands in the next couple of years will be as tricky as starting a company.

Richard Milne

credit rating, issued a profit warning and suffered a large first-quarter loss, as revenues at its device business fell 40 per cent.

Company executives insist their course is the right one.

"I don't think any new change is required, as we are going through a transformation period already," Risto Siilasmaa, the new chairman, told the annual general meeting this month.

The company has launched a range of "Lumia" smartphones that use Windows technology. These have been well

received, but relatively few have sold compared with the market behemoths: Apple's iPhone and phones based on Google's Android operating system.

Analysts question whether previous crises can help Nokia deal with the current one, especially given the fast-changing nature of the industry's technology and trends.

François Meunier at Morgan Stanley says: "As with fund managers, past performance is not a good indicator of what will happen in future." One big worry – underlying Mr Torii's caveat – is cash consumption.

'We are changing fast but the problem is the market is changing almost as fast'



Risto Siilasmaa, the new Nokia chairman, made his name and money by founding a computer security company

Reuters



# Pragmatic citizens are unfazed by Fukushima

## Nuclear power

Environmental concerns and a desire to reduce dependence on Russia have fostered support, says Michael Stothard

Finland was the first western European nation to decide to build more nuclear energy plants after the Chernobyl accident in 1986, and it has been equally unfazed by the Fukushima disaster in Japan last year.

While Germany responded by bringing forward the phase-out of nuclear power from 2034 to 2020, with Belgium and Switzerland quickly following suit, Finland is pressing ahead with its fifth nuclear reactor and has plans to build two more.

This is partly, the government says, for environmental reasons. The Kyoto treaty discourages it from building fossil fuel plants and it cannot build many more hydroelectric plants without destroying tracts of precious wilderness. Given the climate, solar power is hardly an option, while biomass is insufficient, so the country has settled on nuclear.

A more significant factor is the desire to reduce its dependence on foreign energy, particularly from Russia, which is seen by many as an unstable supplier. The proud Nordic nation, which often describes itself as a "lone wolf", derives about two-thirds of its energy from foreign sources at present.

Independence from Russia is driving a nuclear push across the region. Lithuania, which is entirely reliant on Gazprom, Russia's state-controlled producer, for natural gas, is in the process of finalising a 1350 megawatt reactor in Visaginas, which will eventually supply power across the Baltics. "We will be independent," says Andrius Kubilius, Lithuania's prime minister.

Foreign energy imports are a drain on the economy, says the government. The Finns have one of the highest levels of energy consumption per head after Iceland and Norway. This is because of the cold winters, energy-intensive industries such as forestry and about 3m very hot saunas for just 5.2m people.

There is a strong political consensus in favour of nuclear power, but implementation has not always been



Olkiluoto power plant, in the west of the country, is the site of the 'EPR', the first third-generation reactor and a test case for the industry

Reuters

easy. The flagship EPR reactor in the west of the country, which is the world's first third-generation model and a test case for the industry, has been beset by embarrassing cost overruns and substantial delays.

It is being built by a consortium led by France's Areva, but is now five years late and more than €2.6bn over budget.

Areva had said the flagship plant would come online in 2013, after an initial service date of 2009 was abandoned, but it is now unlikely to be finished until August 2014, according to the company.

The main problem has been the under-developed supply chain – no reactor had been built in Europe for 20 years when construction started.

The amount of documentation that had to be produced for the tough

Finnish nuclear safety regulator was another problem, according to Virginie Moucquot-Laiho, a spokesperson for Areva at the Olkiluoto power plant where the EPR is being built.

The project has become a symbol of the enormous cost, complexity and risk of new atomic projects and has raised questions about similar plants planned in the UK.

It has also resulted in an acrimonious legal dispute between Areva and TVO, the Finnish utility that will eventually own and run the reactor, about who should pay the costs of the delays.

But regardless of overruns and the disaster in Japan, the Finns are reluctant to abandon their nuclear plans. About half are in favour of more nuclear power, only slightly

down from before Fukushima, according to a poll commissioned by Helsingin Sanomat, a newspaper, and conducted by TNS Gallup.

The Finns could also have a big market to sell any excess power, if plans to connect the Nordic and the Baltic regional energy grids go ahead as proposed.

"This could provide another argument for the pro-nuclear camp in Finland," says Georg Zachmann, a fellow at Bruegel, a Brussels think-tank.

There is still opposition from the influential green party and a debate about whether Fortum, the local utility company, should be allowed to build two more plants to replace the reactors at Loviisa, which are scheduled for decommissioning in 2027 and 2030.

Only slightly more than a third of Finns think Fortum should be granted a licence, according to a recent poll, and the government has said that it is not going to make a decision during this parliament.

"We are happy to wait," says Peter Tuominen, a manager in the nuclear division of Fortum.

But broadly the pro-nuclear camp is still winning the argument, in contrast with much of the rest of the world following the Fukushima accident.

Last year, the International Energy Agency cut its forecast for nuclear power's share of the world's total primary energy demand for 2035 from 8 per cent to 7 per cent as a result of the disaster.

The agency also warned of higher construction costs.

The Finns have one of the highest levels of energy consumption per head after Iceland and Norway

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## Finland

## State tries to persuade people to spend longer at work

## Demographics

**Richard Milne** looks at how the challenges of an ageing population are being tackled

Among Europe's many challenges, one of the most significant in the long term is receiving very little attention: ageing populations.

The demographic trends for the continent as a whole are worrying, with low birth rates meaning the number of working-age people that can support pensioners is shrinking year by year.

Nowhere is this a bigger problem than in Finland. At

the same time, few countries are grappling with the problem so openly, making it an interesting test bed for the rest of Europe.

In the developed world, only Japan has a population that is ageing as rapidly. In Finland the demographic challenge owes much to a huge baby boom immediately after the second world war.

That generation is now reaching pensionable age. Jyrki Katainen, the prime minister, says: "Our population is ageing more rapidly than that of any other country in Europe."

"We know that our society will change very drastically in the next couple of decades."

The results are only just starting to be felt.

Currently, there are 53

pensioners and children for every 100 workers – the "dependency ratio". That is little changed from 1981, when there were 47 "dependents" for every 100 workers.

However, in as little as 15 years time, the figure is expected to be 75.

The government's broad policy thrust is to get people to work for longer, not just by trying to raise the effective retirement age but also by encouraging the young to start working earlier.

After reforms last decade, the official retirement age is between 63 and 68. Employees can choose when to leave, but there are incentives for those that work for longer.

These changes have borne fruit and the employ-

ment rate for those aged 55-64 has risen from 46 per cent in 2001 to 56 per cent in 2010.

However, in common with many developed countries, the average age at which people retire is lower, at just 60.5 years.

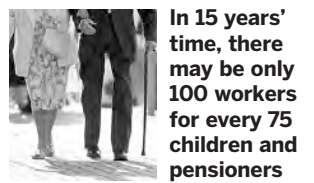
Increasing both the official and actual ages of retirement are government goals, but the issue is divisive, so much of the work has been pushed back until 2017, in the hope that this will give time for a consensus to develop.

One suggestion, endorsed by the European Commission, is to link the retirement age with life expectancy.

Meanwhile, the five-year delay until 2017 has prompted criticism from the OECD, a club of mostly rich

nations to which Finland belongs.

In its latest report on the country from this year, the OECD says: "Current fiscal plans are not ambitious enough to deal with fiscal challenges related to an ageing population."



"Raising the retirement ages, improving incentives to work for older individuals and further tightening early-retirement schemes would increase labour supply and could lower fiscal costs sufficiently to address these long-term

challenges. Without major retirement reforms, significant further fiscal consolidation would soon be needed to deal with the costs of ageing."

Finland is also attempting changes at the other end of the age range.

Students in northern European countries such as Germany, Norway and Finland often spend more than five years at university.

Mr Katainen explains: "What we are doing at the moment is trying to get the young people earlier out of school and earlier into professional life."

He talks of limiting financial support to a certain length of time.

The head of one of the country's biggest companies says simply: "In Fin-

land, we need to solve the problem of the supply of labour: make people start earlier and work longer, and import more labour."

Finnish universities have made a big effort to recruit students from Asia, especially from India.

For all the concern about demographic trends, researchers and companies also see opportunities.

"Population ageing is a medal with two sides," according to a study by Jan Kunz of the University of Tampere, published in the *Journal of Sociology*.

As well as the more negative aspects he argues, "population ageing also offers opportunities, for example, in the shape of a 'silver economy' and voluntary work on behalf of retirees".

Companies seeking to take advantage of this include Sampo, the Finnish insurance and financial services group, Orion, which manufactures a drug to treat Parkinson's disease, and Raisio, the food company that makes Benecol, a cholesterol-reducing ingredient.

The government is also trying to reform the municipal government system, a controversial move which aims to lessen the financial burden on very large regions with small numbers of people, in particular.

"At the moment, we encourage them to reform and merge. We try to achieve strong municipalities that can take care of services," Mr Katainen says.

# Tough line on austerity has popular support

## Interview

**Richard Milne** talks to Jyrki Katainen, prime minister, and leader of the six-party governing coalition

As fellow leaders of coalition governments, David Cameron and Angela Merkel must surely feel for Jyrki Katainen, Finland's prime minister.

The boyish-looking 40-year-old heads a government composed of no fewer than six parties. The so-called Rainbow Coalition spans the political spectrum from left to right and encompasses Social Democrats, Christian Democrats, Greens and Mr Katainen's aptly named National Coalition Party.

Forming the government a year ago was tough, but the situation has become easier, the prime minister says.

In an interview in his office overlooking the dome of Helsinki cathedral, Mr Katainen does not downplay the challenges of leading a broad coalition, especially one formed in the midst of the eurozone crisis, but he is proud of the achievements so far.

"This is the largest coalition we have ever had. Especially when we don't have any ideological glue, it makes it challenging. It is not the easiest one to lead," he says.

But he adds: "For some reason, the parties have got used to it. Adaptation to this situation has been amazingly rapid."

A Helsinki businessman and supporter of Mr Katainen is blunter, saying: "There are six parties in cabinet, which of course makes the PM's life a misery."

In many ways, the present government is built on the foundations of the previous one, a centre-right coalition of four parties in which Mr Katainen was finance minister.

In this position, he won kudos at home and abroad during the financial crisis, winning the

Financial Times' award of best eurozone finance minister in 2008.

Since the global crisis, Finland has focused on ensuring its financial house is in order and has further strengthened its reputation for having among the soundest public finances in Europe.

Its debt-to-GDP ratio has increased from just 34 per cent in 2008 to 48 per cent at the end of last year, according to Eurostat, a statistics agency.

"When the debt passed 40 per cent, we got worried," says Mr Katainen, highlighting the contrast with Greece where the debt-to-GDP ratio hit 165 per cent last year. "So we imposed austerity measures."

Businessmen and policy makers in Helsinki point to a number of reforms enacted by this government that they say show it is heading in the right direction.

One move Mr Katainen is keen to emphasise is help for small and medium sized enterprises, which received some tax breaks.

The chief executive of one of the country's biggest companies says: "That was only a good start. We are completely under-developed in five to 15 worker companies."

Two other policies, described by one observer of the economy as "encouraging", are a move to cut unemployment benefit for the young and an agreement to increase retirement ages, albeit in reforms due to be worked out by the next parliament in 2017.

These changes are made against the backdrop of the worsening eurozone crisis, which has had a notable political impact on the country. The True Finns, a euro-sceptic party led by Timo Soini, won almost a fifth of the vote in the 2011 general election but refused to join the cabinet.

Under Mr Katainen, the Finnish government has taken a hard line over matters such as the Greek bailout and austerity, often exceeding the position even of Germany. Although he refuses to be drawn, one of the justifications may have been to draw some of the sting from Mr Soini.

"Maybe we have a tougher line than the previous government.



Jyrki Katainen: '[The coalition does] not have any ideological glue. It is not the easiest one to lead'

Lehtikuva

"Maybe we have a tougher line than the previous government. People understand this is what we have to do, even if nobody likes it"

People understand this is what we have to do, even if nobody likes it. Finns are usually very pragmatic," Mr Katainen says.

One of the toughest lines the government took was over Finland's portion of the second bailout to Greece. It demanded special collateral, putting it at odds with its eurozone partners.

But Mr Katainen appears to be reaping the rewards of this tough stance: he cites recent polls showing a 18 per cent swing in favour of EU membership.

"Three per cent moves in this country are a landslide," he says.

Being in the EU is, he says, "a very important political choice for us". Finland depends heavily on Europe for trade, and it was no

coincidence that the country joined the EU in 1995 in the aftermath of the collapse of the neighbouring Soviet Union.

Mr Katainen draws parallels between the current situation and the 1990s, when much of the Nordic region faced financial and economic crisis. Heavily dependent on exports, Finland was a big trading partner with the Soviet Union in the 1990s, just as it is today with the EU.

Invoking the problems of the 1990s, Mr Katainen hints at the challenges for his coalition over the next three years of its expected lifetime.

"With trade down, and structural challenges, things are similar to the 1990s," he says.

# Latin beats with a long local tradition

## Tango

The country has added its own melancholic vibe, explains **Michael Stothard**

It may have been invented by the smooth and supple Argentines, but ever since independence from Russia a century ago the traditionally dour Finns have been wild for tango music.

And whereas, it is mainly a dance form in its country of origin, it is as much a sung medium in Finland.

Some of the country's biggest stars are tango singers and every summer about 100,000 Finns descend on the little country town of Seinäjoki for "Tangomarkkinat", one of the biggest tango festivals anywhere in the world.

The festival's highlight is a tango singing competition and the winners, who carry the titles of tango king and tango queen for the next year, become stars overnight often winning record contracts.

Perhaps unsurprisingly for a people known for shyness and sadness, the Finns bring their own melancholic vibe to the dance associated with Latin passion in the poorest areas of Buenos Aires.

The music uses more minor chords than others and has elements of gypsy music, German marches and jazz as well.

Classic Finnish tango songs – such as those by Toivo Kärki, composing in the 1940s – have titles such as "Therefore I am sad" and "Such is the journey of life".

The great composer of the 1960s, when Finnish tango was at its height, was Unto Mononen. "He wrote introspective and existential tangos reflecting his own life as a man: loneliness, oblivion, alcohol, suicide," says Pirjo Kukkonen, a researcher at the University of Helsinki and tango historian.

Tango appears to have

developed at the end of the 19th century in the suburbs of Buenos Aires, and its dramatic vignettes of Latin life were brought to Europe by Argentine musicians in the 1910s.

It quickly caught on in Finland, as it did across Europe, first among the urban elites and then in the 1950s with the rural masses.

The 1970s was a difficult decade for the tango in Finland, as rock and other popular forms of modern music became the genre of choice, but the dance has witnessed a revival since 1985 when the Seinäjoki festival began.

The resurgence has continued to this day, and tango halls still pepper the country.

When foreigners discover the country's passion for tango they mostly react with shock.

The music uses more minor chords than others and has elements of gypsy music and German marches

This is usually tolerated by the Finns, but a piece on 60 minutes, a US TV news show, once went too far, making a big deal of the contrast between the steamy tango and the Finnish national character.

"This is not a day of national mourning in Helsinki," starts the narrator, as the camera zooms in on sombre-looking commuters on an ordinary morning in 1992.

"This is Finns in their natural state: brooding, private, grimly in touch with no one but themselves."

The report goes on to say that the prescriptive tango dance sessions, with their set times when men can ask women to dance or the other way around, are perfect for shy Finns and that the lessons and dances give them a "licence to touch" one another.

This was seen by many as a misinformed and rather cruel take on a widely enjoyed hobby.

## Saunas The etiquette of 'networking in the nude' in a hot, sweaty wooden box

There are few places in the world where leaders of industry and prominent politicians sit naked together for hours on end in a sweaty wooden box, but Finland is one of them.

To avoid embarrassing mistakes when invited to "network in the nude" with contacts, it is best to read a little about what to expect beforehand. At the very least, it might help you control that startled expression.

The first and perhaps most surprising aspect of a session in a sauna is how much naked drinking goes on. Women sip flutes of champagne while ruddy-cheeked men have enormous mugs of beer. Everyone eats pickles and looks pleased with themselves.

Even if you have not done your homework, there is



Wearing a swimming costume in the sauna is a faux pas akin to wearing one to play a round of golf

Alamy

some advance warning: before you go through the front door of the public sauna, you will often see a large cohort of semi-naked

smokers, standing on the street wearing small towels, glasses in hand, unfazed by the chill air and passing traffic.

Once inside the locker-room-cum-beer-hall everything must come off, and there must be no staring.

Full nudity is particularly important if you are with business contacts. Wearing a swimming costume in the sauna would be a faux pas akin to wearing one to play a round of golf.

Once you have stripped off, you can proceed into the shower room and, if you are in a public sauna (as opposed to a private corporate one), join the row of men or women vigorously soaping themselves.

With its bare white tiles and soapy buckets, the shower room can often look like a set in a gritty prison drama. Try not to think about this too much.

In this room there may also be a Finn receiving an ancient-Roman style body

massage and scrub-down on a bench in the centre of the room.

You may find something unsettling about having oil poured on you and then scraped off by a lady with just a spatula, but have a go anyway.

The next stage, now you are clean, is the sauna itself. Most are single-sex.

If you are going into a traditional Finnish sauna, which should be made of wood, it will be hotter than you think. At this stage, the challenge is to try not to yelp or start coughing as soon as you enter. You may be laughed at if you do.

Next you have to consider whether to sit on the top shelf – the hottest part where all the real sauna aficionados are – or in the relative cool below.

Bear in mind that to sit down a rung will mark you

out as a tourist and a bit of a weakling.

Do not touch the furnace under any circumstance.

The subtleties of when to throw water on the coals, when to turn the steam valve and even just how to work the contraption, should all be left to the native Finns. They have had two thousand years of practice. You will only get burnt.

Finally, when you have had enough, take a cold shower. Then go back outside for some drinking and pickle eating before repeating the process.

Private saunas can be rented for parties or business meetings. And many people have them in their houses. Altogether, there are about 3m of them in a country of 5.3m people, so they are not hard to find.

Michael Stothard



Stepping out: the town of Seinäjoki hosts one of the biggest annual tango festivals in the world

Getty





Shift at the sawmill: reliance on forestry has caused economic pain. The leading pulp and paper companies in Finland have been forced to cut production and fire staff

## Emerging markets and biofuels balance fall in European demand

### Pulp and paper

The government and forestry companies are trying to find new jobs for plants and workers, reports Richard Milne

An eight-storey block of flats in east London, a pulp plant that will be Uruguay's biggest private investment, and a recycling plant for plastics and metals in north Wales might not appear to have much in common apart from all being new.

But taken together they point to the future for one of Finland's longest-standing industries: pulp and paper.

The country's heavy reliance on forestry has caused pain, as the likes of UPM-Kymmene and Stora Enso, the leading pulp and paper companies in Finland, have been forced to cut production and fire workers as demand for paper in Europe wanes.

But in other places, particularly emerging markets in Asia

and Latin America, demand is growing strongly, leading to new business areas and investments close to fresh customers.

Jussi Pesonen, chief executive of UPM, says: "All forest industry is important to Finland, so we need to take care of competitiveness. It means that we need to change. And one of those changes is that we need to close production in Europe or Finland. We have plenty of growth opportunities whether it is in [other] geographies or new products."

When a 1950s block of flats in Hackney, east London was going to be replaced recently, it was decided to build the entire new structure with cross-laminated timber – prefabricated boards that are quick to assemble – from Stora Enso, the first time such a building had been put up in the UK.

The Uruguayan pulp plant is on a large scale – it is expected to cost Stora Enso and its Chilean partner \$1.9bn. But when up and running, it could add 2 per cent to the country's GDP. UPM has a plant nearby as well.

In north Wales, UPM's £17m recycling facility was visited by the Welsh first minister and the

Finnish ambassador when it opened last year with capacity to sort about 200,000 tonnes of cardboard, paper, plastic and metals.

Jouko Karvinen, Stora Enso's chief executive, talks about trying to change perceptions of what the company does.

"We want to be the renewable materials company, not the forestry company," he says.

'All forest industry is important to Finland, so we need to take care of competitiveness'

That means investment in research, into whether it is possible to replace carbon fibre with wood or how to build second-generation biofuel plants.

Indeed, UPM and Stora Enso together with Neste Oil, Metsä, a forestry group, and Vapo, the state-run fuel supplier, are all planning biorefineries based on biomass.

UPM announced at the start of this year that it would build a

new type of refinery using crude pine oil and based on hydrogen process technology.

All this leads the industry's association to declare: "Finland is well on the way to becoming a pioneer in biofuels."

But paper still remains important for both the companies and the country. For instance, it still makes up about 40 per cent of Stora Enso's business. Mr Karvinen refers to it as "the cash engine".

On the other hand, there are "growth engines" such as emerging markets and renewable packaging.

"My goal is to keep the cash engine going and fuel the growth engines," he says.

That, he believes, is the best way to protect jobs, even after the company has cut a third of its employees. The government and forestry companies are trying to find new roles for the plants and workers; one site in Finland was sold to Google, which now uses seawater to cool its servers.

Mr Karvinen admits: "For an industry that used to be the foundation of many things in Finland, it's a painful transformation."

Paper and paperboard production fell 12 per cent in the first quarter of this year, a blow considering it is still one of Finland's leading exports, bringing in €8.5bn for the country last year.

The industry association is also sounding the alert over the EU's Sulphur Directive, which regulates sea transport and which it estimates could add €200m annually to costs. Fortunately, the paper industry continues to grow outside Europe with particularly strong demand from Asia.

UPM has one of its most advanced mills close to Shanghai in China, and produces 900,000 tonnes there annually, compared with the 1m tonnes it has closed since the financial crisis.

Mr Karvinen emphasises that paper and pulp companies need to follow their customers, such as media and consumer goods businesses, into new markets.

"Our products do not travel too well. They are not really global products," he says.

"Building something in Asia doesn't mean taking something away. We move where the customer growth is."

### Mobile games

Michael Stothard on an industry that is still tiny but has been invested with high hopes

As Nokia struggles in a market it once dominated and many of Finland's other traditional export industries suffer in the eurozone crisis, the country is looking for a new sector to lead growth into the 21st century.

In saunas and government offices, people are talking about Rovio, the company that makes the wildly successful Angry Birds smartphone game, and how it could spearhead a thriving new gaming sector.

This comes at a time

when many worry that the economy relies on too few industries such as forestry, machinery and electronics, leaving the country vulnerable to global financial shocks.

Jyri Häkämies, the minister of economic affairs, has high hopes that the games sector will spearhead the country's economic diversification.

"Our main challenge is to promote new companies to enter this export market. We hope that the games sector, led by companies such as Rovio, will be one of these industries."

Meanwhile, a recent government newsletter expressed the hope that the games busi-



ness is well on its way to becoming one of the mainstays of the Finnish economy.

It is easy to understand the excitement. Rovio has seen impressive growth in the past five years, since the launch of Apple's iPhone in 2007 helped create a flourishing market for smartphone applications.

The Angry Birds game, where players launch birds from slingshots and fire them at evil pigs, has been downloaded 1bn times.

Partly due to a canny global merchandising

wealthy birds: clever merchandising has brought healthy margins

effort, the company has managed to turn this popularity into a healthy profit, reporting revenues of €75.4m last month, 30 per cent of which came from merchandising. Group margins were a substantial 64 per cent and the number of employees rose from 28 in 2010 to 224.

In Helsinki, the Angry Birds are everywhere and are talked about with a similar sense of national pride as is Nokia.

At the airport, people appear willing to buy an Angry Bird key ring and some gummy sweets for about €15, or a stuffed toy for €10. A few hours drive away is a theme park with an entire section devoted to Angry Birds.

Rovio has ambitions to be as big as Disney and a public listing is now on the cards.

Anders Lindeberg, head

of investor relations, says, "in terms of our financial strength, we could list tomorrow", but adds that there are some corporate governance issues to sort out.

The broader games sector is expanding, inspired by Rovio's success and helped by a young tech-savvy population.

One example is Grey Area, a company that makes a smartphone game called Shadow Cities, which turns your immediate surroundings into a board for a battle of wizards. It has won two rounds of venture capital funding.

"There is a strong ecosystem evolving in Finland partly thanks to Rovio's success," says Ville Vesterinen, co-founder and chief executive of Grey Area.

"The government has thrown its weight behind the games sector in a big

way and it could play a big role in Finland's future and where we find growth."

Other bright young companies that have emerged in recent years include Mountain Sheep, Supercell, and Grand Cru.

Revenues from the gaming sector countrywide have grown nearly 60 per cent to €165m in the past year, according to the Finnish National Centre of Game Business Research and Education.

While these growth figures have, understandably, made many in the government excited, technology analysts and venture capitalists say there are substantial obstacles to overcome before the games sector can become a mainstay of the country's economy.

For a start, the sector is still very small. It has a

total 1,200 employees, compared with 27,000 employed by Nokia in Finland alone. Revenue in 2011 was 0.4 per cent of Nokia's €39bn.

Growth will have to be very strong for a long time to make up for one bad year at Nokia.

The second problem is that, while having one very successful company such as Rovio does help other companies in the area – encouraging venture capitalists to look at Helsinki and creating a hub where ideas can be shared – it is no guarantee of success.

The very reason some Finnish companies have been successful – the radical democratisation of the games market because app stores vastly decrease the barriers to entry – means that the next big company could just as easily come from some other part of the world.

## Centre of good design says no to Guggenheim

### Helsinki

The city has decided that it cannot afford an expensive art museum, finds Michael Stothard

Helsinki's attempts to attract much-needed foreign investment and tourism by fostering its image as a hub of art and design received a blow this month when the city board rejected a proposal to build a Guggenheim museum.

The plan to join the ranks of New York, Bilbao, Abu Dhabi, Venice and Berlin was opposed by eight of the board's 15 members, mainly due to cost concerns and worries that the presence of the US heavyweight would crowd out local art.

It was estimated the project would cost €140m in advance, and then €3.7m a year on maintenance, including a €2m annual fee to the Guggenheim Museum Foundation. All this would have required a near doubling of the arts budget.

At a time when there are government spending cuts, when gross domestic product growth is expected to be a stagnant 0.6 per cent this year, unemployment remains stubbornly above 7 per cent and youth unemployment is close to 20 per cent, enthusiasm for spending extra money on art is low.

While only a third of people in Helsinki were against the museum at the start of the year, by the time government austerity measures had been set out in the spring, three-quarters of the population had come out against it, according to a TNS Gallup poll.

Graffiti reading "Fuck the Guggenheim" can be seen across the city.

An editorial in Helsingin Sanomat, a Finnish newspaper that supported the project, said: "Finland and Europe are going through tough times, which are likely to get tougher. We have become suspicious and cautious. Opposition to Guggenheim is linked with this psychological change."

The rejection was a blow to the man who spearheaded the project, Jussi Pajunen, the mayor of Helsinki. He argues that it was also a blow to the city.

"A successful city has to be a city of culture. All the great cities in the world are strong on culture, and this attracts tourism and investment," he said.

Mr Pajunen and other local business leaders have a vision of their city as an international hub, that capitalises on its proximity to the thriving Baltic states and to St Petersburg in Russia, which is just

over three hours away by a new high-speed rail link.

It also has the advantage of being one of the closest points in Europe to Asia.

They argue that, while Helsinki has drawbacks related to its small size and unwelcoming climate, its main selling point is art and design, which pervade every aspect of the pleasant city from sleek and efficient public services to small artisan shops selling food or glass.

"Finland is a design nation, and one of the areas where we truly punch above our weight," says Pekka Timonen, the head of the Helsinki World Design Capital 2012 programme, an accolade bestowed on the city by the International Council of Societies of Industrial Design, and which aims to reward cities that use design to improve the social, cultural and economic lives of its residents.

He argues that the Guggenheim would have been a significant feather in the cap of Helsinki, raising its cultural profile and making it a more attractive place to visit or even live.

"It would have improved the wellbeing and competitiveness of Helsinki, and made it more of a global city," he said.

'We have become suspicious and cautious. Opposition to Guggenheim is linked with this psychological change'

With or without the Guggenheim, Helsinki is not doing badly.

It regularly tops rankings as one of the world's most livable cities, winning first place in Monocle magazine's list last year and coming seventh in the ranking put together by the Economist Intelligence Unit.

But it is still overshadowed by some of its Nordic neighbours, attracting fewer tourists and less foreign investment. It also has a rapidly ageing population, meaning it is in substantial need of immigrant workers.

There are still some hints that the Guggenheim project might be revived by Mr Pajunen over the coming months, although it is far from certain, and the mayor is reluctant to commit himself.

But Richard Armstrong, the director of the Guggenheim Foundation, said in an email to the FT, "we remain committed to the possibility of being in Helsinki."

In an interview with Helsingin Sanomat in New York, he said: "If mayor Jussi Pajunen wants to wait for the municipal elections in the autumn and try again, it's all right with me, and I think that our board is also willing to wait."



A Guggenheim in Helsinki would need a doubling of the arts budget



# Stora Enso clears bombs in Laos.

During the Vietnam war over two million tonnes of bombs were dropped on Laos. That is why building a Stora Enso eucalyptus plantation always starts with bomb clearing. What is left between the trees is workable farmland, safe for local farmers to grow food and commercial plants. This is not charity, but beneficial to both sides. Find out more about our eucalyptus plantations: [storaenso.com/revive](http://storaenso.com/revive)



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