

Pulp and paper between peace and war

SERGEY M. SHEVCHENKO

The breakup of Yugoslavia resulted in a cruel war, the loss of traditional economic connections, and eventual political and economic restructuring of the region. Surprisingly, the pulp and paper industry in the tiny republics of Croatia and Slovenia survived, and, very probably, will recover as it's integrated into the European economy.

At the end of June 1993, the American movie "Dracula" by Francis Ford Coppola was being advertised extensively in Zagreb. It's hard to imagine this stylish Victorian story could add anything new to the sense of horror Croats already felt in a capital surrounded by missiles seized by insurgents, and a region torn by war.

Croatia has lost over one-third of its internationally recognized territory in a war some call a success, though the end remains uncertain. The toll has been high: 6000 killed, 20,000 wounded, 14,000 missing, and 600,000 refugees including 250,000 from Bosnia and Hercegovina.

Yet, life goes on; people cope and even prosper. Zagreb looks beautiful, people drink cappuccino sitting under the tents on the streets, industry and transport work pretty good, no shortages are expected, displaced persons are accommodated, medical care is excellent, and legal order is maintained in government-controlled territory. Moreover, scientific and educational institutions work, numerous museums, exhibitions and theaters are open, and the most popular piece of the season is a kind of political cabaret which is critical of ex-Yugoslavian politicians.

A look back

Yugoslavia was the most successful amongst all the Communist countries, but it lacked internal stability because of historical contradictions and Serbian domination.

The northern republics of Croatia (22,000 square miles, population 4.8 million) and Slovenia (8000 square miles, population 2 million) were more industrially developed and westernized. The forces which kept the Yugoslavian republics together were the amorphous Communist regime with its ideology of unity and national equality, the threat of aggression from the East, and the Western Block's interest in maintaining Yugoslavia as an alternative to totalitarian communism.

After the collapse of communism in Eastern Europe, those factors could not preserve the federation anymore. Nationalism was rising, accompanied by complete loss of people's support for

Forests in Gorski Kotor, northern Croatia



the Communists in Croatia and Slovenia and fast transformation of former Communists into militant nationalists in Serbia.

The crucial events which have broken the federation were the unanimous vote for independence in the northern republics and Serbia's veto of the Croatian candidate for the federal president. It made peaceful transformation into a confederation impossible.

Right after the secession of the two northern republics in 1991, the Yugoslav People's Army became the Serbian army and began fighting the war which lasted just 10 days in Slovenia but smolders in Croatia and burns intensively in Bosnia and Hercegovina. The official position of the Croatian government is that this is not a civil war but aggression by Serbia. In fact, the situation is more complicated because it has been somewhat influenced by mistakes made by the nationalistic Croatian government. Unlike Slovenia, Croatia in its internationally recognized borders is multiethnic (about 12% Serbs). So it was necessary to promote formal and real equality for all the population. A disbelief by local Serbs in the Croatian state, stirred up by nationalists, resulted in criminal activity in some regions which evolved into actual uprisings supported by Serbia.

Croatia and Slovenia

A makeshift memorial to victims and heroes of the current war in Ban Jelačić Square in downtown Zagreb



Now, economical bonds between the north and south of Yugoslavia are broken. In Croatia itself, one-third of the territory is excluded from normal economic life, some vital traffic arteries are cut, and this unacceptable situation is frozen by the UN Peace-keeping Forces.

There is a real war in Bosnia and Hercegovina, which was the major wood and pulp supplier for all Yugoslavia. Now its economy is semiparalyzed, and no acceptable stable solution exists for this desperate country. Local people call all these events "the last Peasant's War in Europe." To some extent, it is an artificial conflict provoked by politicians and "theoreticians" who saw no other way to keep power, but now it is developing along its own rules.

The story of Mesud Smailagi, former director of the Yugoslav Institute for Cellulose and Paper in Banja Luka, Bosnia and Hercegovina, illustrates the general situation in the zones of active conflict and its effect on individuals. Right after the Serbian national party came to power, all Croats and Moslems were driven out of enterprises and the institute. How? By imposing minimal salaries and obligatory enrollment into the Serb army (refusal resulted in dismissal, without exceptions). All the non-Serbs were removed from any head positions.

The next stage was turning people out of their houses. The pressure was so strong that in the beginning of 1992 a massive exodus started. In the middle of 1992 in Prijedor, 30 miles from Banja Luka, about 6000 people were placed into a concentration camp; many thousands were killed in that region. The majority were permitted to move after paying extortion and signing a statement giving all their property to the Serbian state (the legally nonexistent Serb republic of Bosnia and Hercegovina). Any remaining valuables were confiscated at the border. There were about 100,000 Croats and Moslems in Banja Luka. A few thousand still live there, having no money to pay to be refugees.

After all this, Smailagi has found himself among numerous Moslem refugees in Croatia. Now he is a legal resident and has a job, but the institute which employed 80 people of different nationalities and used to be the major pulp and paper scientific center in Yugoslavia consists now of 15 Serbs. Its scientific activity is paralyzed; the laboratory does a little work for the army. Of course, it would not be correct to blame all Serb colleagues because

Dolac food market, downtown Zagreb



even those who disagreed could not help being terrorized by the regime. The situation was very similar to that in Germany in the 1930s when the Nazis came to power.

Pulp and paper in Croatia

Paper production accounted for 2.7% of Croatian industry in 1992. Surprisingly, productivity was rising, exceeding 104% in the first two months of 1993 compared to 1992. Even so, it's below 1991 levels and far from the 1990 peacetime levels (final product stocks are down 20%, a decrease of 40% in total volume of production indices). In absolute figures, in 1990, the last year of a united Yugoslavia, Croatia produced 470,000 metric tons of paper and cellulose products, including 182,000 tons of packaging paper, 95,000 tons of unbleached semichemical pulp, 15,000 tons of unbleached kraft pulp, and 2000 tons of bleached sulfite pulp.

Modern Croatia has just three active paper mills. They are located in Zagreb, Rijeka, and Beliše. The oldest, in Zagreb, celebrated its 100th anniversary in 1993. However, the factory went bankrupt and was idle for two years until the Economic Bank of Zagreb took ownership in 1992. During 1993, 60–70% of its capacity has been used, and Josip Brajković, director, believes that it will be 80% next year.

The Zagreb mill has two major papermaking machines, a 1981 Andritz (55,000 tons/year, test liner, packaging, floating paper) and 1961 (reconstructed, 1989) Valmet (18,000 tons/year, printing and writing paper). The major needs are to modernize technologically and to increase productivity and quality. The mill employs 465 people who do the same job as 1200 workers did 15 years ago.

The Fužine mill, near Rijeka, produces 50,000 tons/year softwood thermomechanical pulp. The pulp is all exported to Italy, just across the narrow Adriatic Sea. This mill also produces 35,000 tons/year of cigarette and filter paper, which used to be a highly profitable product. Fužine has run into some marketing problems, but its position is the best both in regards to market and the influence of the war.

The war has had a strong impact on the Beliše mill, which is located in a risky zone in Slavonia, near Osijek. This mill produces semichemical pulp and packaging paper (150,000 tons/year). Op-

"Rugjer Bošković" Institute, Zagreb



Anton Grabeljek, chancellor on economic affairs to the Slovene Embassy to Croatia



Rovinj, Istra Peninsula, northern Croatia—a city at peace



erations are normal now, but in the acute phase of the conflict it was shelled several times and seriously damaged. However, even then, overnight repairs kept the mill working.

The major impact of the war on the Croatian paper industry is in a loss of the sources of raw materials. Major wood reserves used to come from the regions of Knin and Plitvice, which are not under governmental control. It should be noted that large segments of Croatia are predominately populated by Serbs. Absolute populations in those rural, forest and mountain areas are small. However, these territories are very important for traffic and even more as natural reserves, i.e., for the pulp and paper industry.

The only Croatian pulp mill—in Plaški near Ogulin—is located in this region controlled by Serb insurgents and has shut down. Therefore, Croatia imports cellulose from Russia, Slovenia, and elsewhere. Miljenko Delić, the head of printing paper production at the Zagreb mill, said good quality cellulose comes from Arkhangelsk, Bratsk, and Kotlas in Russia but the supply is irregular.

In truth, the effect of the war on the pulp and paper industry in Croatia is less significant than the effect of the world economic recession, Brajković believes. Even exploding shells did not stop production in Beliše, but not one of the mills uses its full capacity because of the glutted market in Europe. Too much paper comes to Europe from Russia and the Far East, for example. Capacity is

down in all Western European countries this last year, but Brajković and Delić were optimistic about the future development. The northern Yugoslavian republics are in a process of integration into the Western economic system, and the only factor determining the trade is price. Croatian papermakers hope book publishers will be enticed by locally produced paper that is low priced and of high quality.

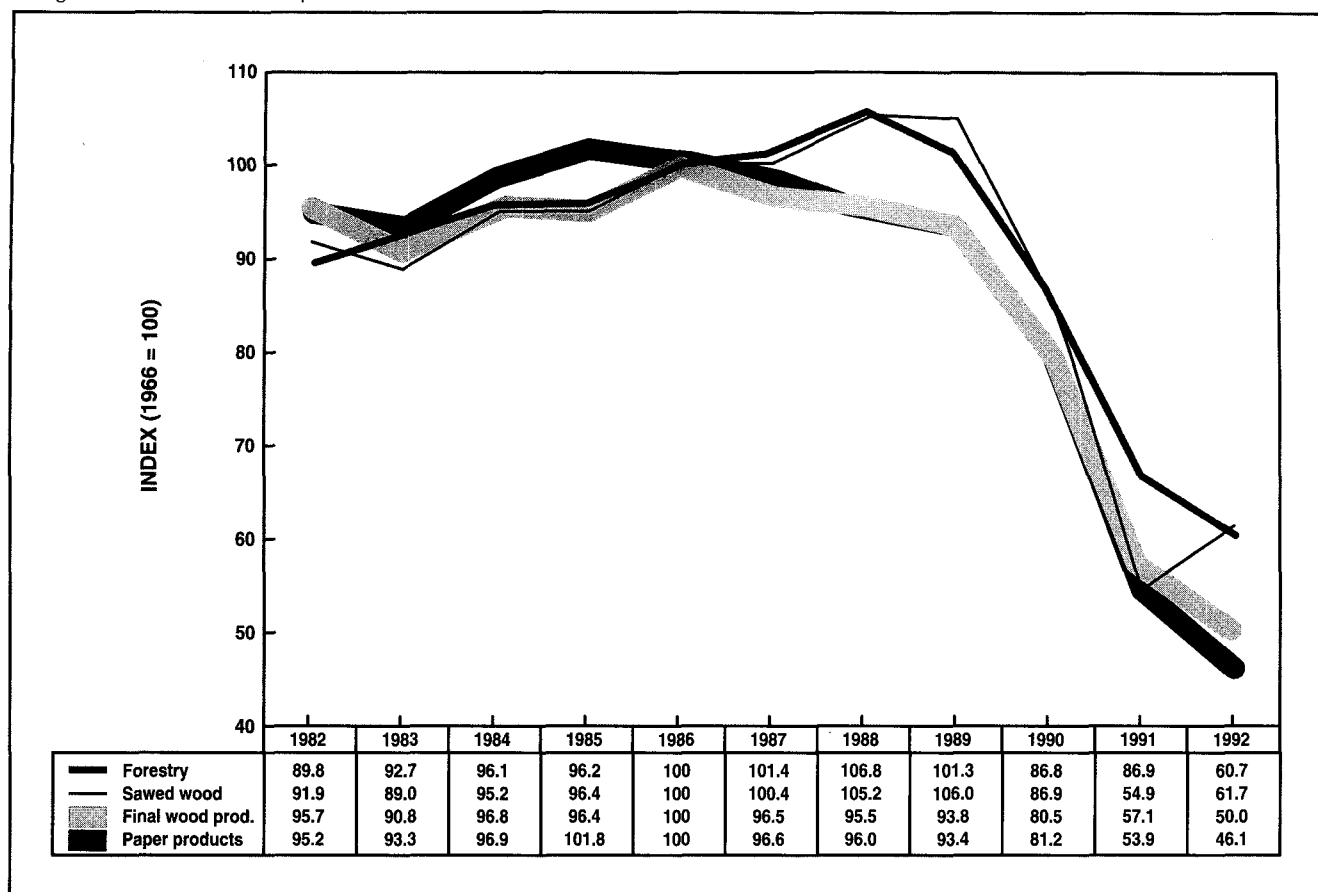
Croatia and Slovenia need only a few engineers, and pulp and paper science is almost nonexistent. In Croatia, specialists are being trained at the Faculties of Technology and Forestry of Zagreb University, but the major professional training is at the mills. Routine practice in both republics is to send personnel for professional training to neighboring Austria and Germany, where good scientific schools and educational standards exist. Slovenian managers are often trained in the United States and in Finland. As to applied institutes, there is a small institute for testing of pulp and paper products in Ljubljana.

Pulp and paper in Slovenia

Half of Slovenia is covered by forests, so the wood processing industry has a long and significant tradition. The forests are now in the dynamic process of denationalization. When that process is completed, the share of public forests will be reduced to some 20% (from 38% this year). It may lead to some problems because fragmented holdings do not lend themselves to rational management (the fragmentation of private forest property and related small-scale market production of wood is the chief economic feature of the private forestry sector in this country).

Currently, wood processing accounts for 1.9% of gross domestic product (GDP) and employs 35,000 workers. Traditionally an export industry, furniture production alone accounts for 5.8% of Slovene exports, while wood and related products combine for an additional 1.6%. Paper production accounts for 1.9% GDP and employs 17,000 workers. The paper industry is also an important exporter, with a 5.4% share of total exports, ranking sixth among Slovene export industries. Major manufactured products include lumber, wood pulp, and all types of paper.

Changes in the volume of wood products in Croatia



The major pulp and paper mill in Slovenia is Videm, located in Krško, just across the Croatian border. It was the greatest mill in former Yugoslavia. It produces 100,000 tons/year bleached and 30,000 tons/year unbleached sulfite (magnesium base) pulp. Videm Papir, the parent paper mill, consumes 30% of this pulp and uses cellulose, deinked pulp, and stone groundwood (SGW) to produce 155,000 tons/year of recycled and packaging paper. About 1500 people are employed by the pulp and paper industry in Krško. Videm Papir is the major producer of newsprint paper in the region. In the last year, it was successful in producing recycled paper of Western quality.

The mill has four large papermaking machines. All the equipment and technology are imported. Paper is being exported to Germany, Italy, Poland, Egypt, Indonesia, and other countries. The loss of the Yugoslav market became the major problem for Videm because of its great capacity. It has been successful in finding new ways of marketing. Thus, Vigram, a joint Croatian-Slovenian company which represents Videm in Croatia, sells 2000 tons of paper a month. The commercial company Sava Papir, founded by Videm and Leykam Muertztaler from Austria, sold 9500 tons of paper in 1992. Before founding the company, the patrons in Leykam considered the Slovenian market as promising, anticipating that demand for their products would grow with the improvement of living standards. Sava Papir will thus become

another link in the chain of wholesale businesses Leykam operates throughout Europe.

Other mills are Ljubljana in Vevče (17,000 tons/year bleached sulfite pulp, 30,000 tons/year paper); Sladkogorska in Sladki Vrh (22,000 tons/year paper, 9000 tons/year cardboard); Radeče (10,000 tons/year cardboard and specialty papers such as document and banknote paper); and cardboard mills in Količev (21,000 tons/year), Ljubljana (20,000 tons/year), and Cerak (12,000 tons/year). The mill in Gorišane Medvode near Ljubljana, the capital of Slovenia, closed sulfite pulp production for ecological reasons but continues paper production.

Pressure from environmentalists is rather high in Slovenia, and all the mills have some problems of pollution. The Medvode mill was the most acute case. Its waste waters went directly into the capital's drinking water reservoirs. It was too expensive to modernize all the technological processes in Medvode, so now the major source of pulp in Slovenia is the mill in Krško.

Integration with Europe

Market and raw material problems are similar in Croatia and Slovenia. The economic shock came with the loss of the Yugoslav market. The local market is obviously too small for the Slovenian pulp and paper industry, which used to obtain wood from less developed regions in Croatia and Bosnia and Herzegovina and

I. Economic conditions in the former Yugoslavian republics in 1992

Factor	Croatia	Slovenia	"New" Yugoslavia (Serbia and Montenegro)	B&H	Macedonia
Inflation, %/month	30	1.1	60	-	30
Unemployment in December 1992, %	17	11	57	-	25
Annual production:					
a) billion \$	8.5	9.5	12.4	-	-
b) decrease, %	20	11	36	-	-
Export, billion US\$	4.2	4.5	2.2	-	-
Average salary (net) US\$/month	70	400	50	3-20	40
Percent of property of former Yugoslavia	28.5	16.4	36.5	13.2	5.4

serve all Yugoslavia. The war severed trade with the territories most rich in wood reserves—sources of cheap pulp as well as the market for low-grade goods—and considerably reduced internal consumer demand.

In both countries, the limited internal market is open to foreign companies which can offer paper products of higher quality and lower price. Routine accusations of dumping just reflect the inefficiency of local industry competing in an open economy. The only real prospect is in raising the quality of goods in order to compete in the European market. This is what is happening, but exports still do not make up for the general stagnation and the loss of markets in the southern Yugoslav republics.

The major problem is in cellulose supply. Yugoslavia had enough forest reserves to supply pulp for paper production. However, pulp mills were mostly located in Bosnia and Hercegovina. They used both Bosnian and Croatian wood. None of the pulp mills in Bosnia and Hercegovina are currently active, including that in Drvar which was a long-term partner of Slovenian Videm. The Incel paper mill in Banja Luka is under Serb control and no information is available. The pulp and paper mill in Prijedor, which produced writing paper, was in a zone of military activity and massive repressions.

The major pulp and paper mills of former Yugoslavia were located in Krko (Slovenia), Maglaj (Bosnia and Hercegovina), and Sremska Mitrovica (Serbia). The latter still operates, but there are

no connections between Serbia and the northern republics. The situation in Maglaj is the most disappointing. The Natron mill was very modern. It used to be the major source of kraft pulp in Yugoslavia (95,000 tons/year cellulose, 92,000 tons/year paper, mostly packaging, test liner, semisynthetic). It operated successfully, exporting special types of paper to the United States and the Middle East. But now it is seriously damaged by Serbian artillery and the director, A. Smajlagi (a Moslem), and the commercial director, H. Sovi (a Croat), both are refugees in Austria.

The experts in Croatia and Slovenia see no way for their economies to develop except through integration in the EC. Their pulp and paper industry urgently needs foreign investments for modernization. The programs of privatization which are on the way are primarily geared toward obtaining fresh capital from abroad. However, effective privatization and reorganization need to diminish the number of employees, but that raises social tension. This is the typical problem of all ex-Communist countries. But the most important point is that the investment risk is much higher in Croatia, until the war ends.

Before the collapse of Yugoslavia, the Croatian economy was developing dynamically. During the war, 30% of total industrial capacity has been destroyed. Direct and indirect damage in the next five years will exceed the total national product from the prewar year of 1990. Annual use of wood fell from 5.6 million cubic yards in 1988 to 3.3 million cubic yards in 1992 (net).

The possible risks to investors because of the war are counterbalanced by several other factors as the economy of the new state is being constituted and state ownership is being transformed into private ownership. Investors have the best opportunity in this period for ownership at low cost, attractive taxation concessions, and an excellent choice of partners and personnel.

Slovenia is politically safe, though it has 70,000 Bosnian refugees to care for. According to the assessment carried out by the Centre for International Cooperation and Development, the overall short-term risk in Slovenia is lower than that of any Eastern European country, though still high in comparison to Western Europe. According to an analysis by the Geneva Institute for International Studies, Slovenia needs just two years to reach an average EC wage.

Considering how tightly integrated were the economies of the former Yugoslavian republics, it would clearly benefit them to maintain their cooperation, at least between the two northern republics which have no serious political contradictions. The exchange of forest products between Croatia and Slovenia fell in

Croatia and Slovenia

the recent two years because of the general crisis, but it is still important for both economies (second only to oil products). Croatia imports pulp and exports packaging materials and used paper. A mutual exchange of a wide range of paper products exist. The uncertain political situation has restricted this trade severely, prompting recent meetings of top representatives of the pulp and paper industry of Croatia and Slovenia.

Anton Grabelj ek, counselor on economic affairs of the Slovene Embassy in Zagreb, is actively organizing such meetings in hopes of making the exchanges easier. It is obviously necessary to reduce taxes and establish special trade relations between the two countries. Mutual duties are as high as for any other country, and some artificial regulations lead to paradoxical situations. For example, it is cheaper to transport some paper products from Slovenia to Croatia through Austria than directly.

Bright future or the Balkans *au naturel*

The brave new world created so fast on the ruins of the Communist miniempire is, for now, more a throwback to the past. It looks like this region passed by the historical island of stability and came back to its natural Balkan state, environmentally friendly to Dracula only. The northern republics have found themselves in a better position than the southern ones.

Slovenia happily escaped the war, facing instead the problems of EC integration. Those will soon be overcome thanks to pretty good management and internal discipline. Croatia has to find a political solution which will permit it to reintegrate its territory into one democratic state, after which rapid economic progress is expected. There is no satisfactory political solution for Bosnia and Hercegovina, which probably will be divided into an agglomerate of unstable protectorates. Serbia, which became a conscienceless instrument of antinational forces, may pretend to be just a source of raw materials, in company with Montenegro until the latter tolerates their political alliance as a "new Yugoslavia." Macedonia is isolated politically and economically and will see little development soon.

The best solution for all the former Yugoslav republics would be to re-establish some sort of confederation. Mutual mistrust and hatred flamed by "ethnic cleansings" and massive bloodshed prevent that.

The northern republics—Croatia and Slovenia—are rather stable democratic societies which are strongly interested in reintegration with the Western political and economic system. In their habits, social and economic structure, people's attitudes and education, they are similar to other Central European (ex-Austro-Hungarian) states such as the Czech Republic, Slovakia, Hungary, and Austria. The people are strongly motivated to develop their countries into respectable members of the world community. Otherwise, all the losses on the way to independence would be senseless.

Professor Nenad Trinajstić, a leader in modern theoretical chemistry, explained the motivation to continue working under recent conditions. "Our country, the Republic of Croatia, is attacked by Serb fascists. Fascism is a destructive ideology which is against any

progress. It's most important to counterpose to it something constructive. This is why it's so important to preserve science, art, and the general culture through the current critical situation. This is the only way to defeat fascism. We cannot win with a weapon, they are armed to the teeth, we are not. But to oppose the destructive fascist forces with constructive activity is the major motivation of many researchers in Croatia and by society as a whole."

The situation in Croatia is stable but not very good. The sharp fall of incomes (six times!) forced many Croats to choose bread over newspapers and contributed to a fall in paper consumption. According to Duško Peri, head manager of Vigram, annual paper consumption per capita is 55 lb in Croatia and 175 lb in Slovenia, but it could easily increase to 200 lb when the war ends. Peri expected a decrease in pulp and paper production and consumption in both republics through the end of 1993, followed by a slow increase. Slovenia is in the better position and may be treated as a model for the successful transition from socialism to a market system with a clear strategy for development.

When thinking about business with former Yugoslav republics, it is important to understand the difference between them and not wait for a final solution of all the problems and contradictions. History knows no final solutions. The Balkans give us one more example of that. Some degree of instability will remain in Southern Europe forever. German, Austrian, and Italian business people who accept this reality operate in Croatia and Slovenia rather effectively.

The Croatian paper industry imports all its cellulose and a great deal of recycled paper, and it will be so in the foreseeable future. Moreover, both Croatia and Slovenia do not produce any equipment and need also to import almost all chemical reagents. All these goods come from Western Europe mostly, and European branches of American companies play some role on this market. The major problem is the cost of shipping; therefore, technology and machinery are the exports Croatia and Slovenia most need in order to modernize and be competitive. The same is true for Bosnia and Hercegovina, whose industry will be restored after the war ends. ■

Shevchenko is NRC senior research associate at the U.S. EPA Environmental Research Laboratory, Athens, GA 30605-2720, and principal research scientist at the Academy of Forestry, St. Petersburg 194018, Russia.