Lessons from Fray Bentos: forest industry, overseas investments and discursive regulation

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Globalisation in the forest industry has its own particular characteristics which are due to a high degree of capital intensity and limits in raw material supply. Investments in new capacities are expensive and the rate of forest regeneration is slow in the traditional resource areas in the conifer-dominated forests of the global North. The supply problem has lead forest companies to establish tree plantations and pulp mills in the temperate and tropical zones. This has largely modified global forest-industrial relations. I examine here how and why the establishment of the Fray Bentos pulp mill in Uruguay by a Finnish company, Metsä-Botnia, turned into an international conflict. I also show how the political reactions to the mill planning in fact relied on and further developed the international mechanisms of forest-industrial regulation. The partners of the mill project were forced to prove that the fears expressed by critical parties would not come true. The article ends with some suggestions to improve social sensitivity of forest-industrial projects by studying more systematically the dependencies between the forest industry and the environing society.

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Discursive regulation in forest industry

The construction of Metsä-Botnia's giant pulp mill in Fray Bentos, Uruguay, was completed in September 2007 and pulp processing began two months later. The start was delayed by the officials of the country and it finally took place without much ceremony. The reason for this was a lengthy conflict between Uruguay and Argentina about the location of the mill. Fray Bentos, seated along the river Uruguay, is a border town between the two countries and concerns of cross-border pollution widely alarmed the Argentinians.

The building of the mill was shadowed by relentless tensions between the two countries which were initially forged by strategic omissions of cross-border diplomacy in the mill planning but became fully inflamed by the delicate economic and political setting in Argentina. The conflict was originated in 2002 when the government of Uruguay gave permission to Spanish Ence and Finnish Metsä-Botnia to build two pulp mills at Fray Bentos without properly consulting the Argentinian point of view. Local protests in Argentina, co-ordinated by a civic alliance in Gualeguaychu (Asamblea Ciudadana Ambiental Gualeguaychu), in 2006–2007 turned into massive demonstrations and blockades at the bridges across the river Uruguay. The Argentinian non-governmental CEDHA (Centro de Derechos Humanos y Ambiente) and World Rainforest Movement, headquartered in Montevideo, Uruguay, also actively participated in the critique (Kröger 2007; Lang 2007; CEDHA 2007; Pakkasvirta 2008).

This article analyses the facets of the conflict as an example of the unruly dynamics around individual moves of globally active forest companies. The conditions of pressure-building in Fray Bentos are identified and related to the more general changes in the ongoing global reorganisation of forest-industrial operations.

The conflict of Fray Bentos is a marked example of the social manufacturing of politico-economic risks in the current forest industrial contest over

global resources and markets. The Fray Bentos debate offers a view of the contingent side of globalisation by revealing some of the background processes that, while meeting in a particular multicultural setting, result in a chain of unruly events. The difficulties of Metsä-Botnia's Uruguayan project also help us to identify the social dynamics inherent in the expansive network relations between key companies and their suppliers and customers.

In the ongoing globalisation, the leading forest companies have grown into vertically integrated networks of production units, management divisions, business operators and research centres that function as industrial regimes with global power over state regulation and international trading organisations. The establishment of large corporations with a web of subsidiaries has also resulted in a distancing of the phases and places of production. The new corporations have become connected to mills and communities in remote places of which they have only limited knowledge. Locally, the emergence of absentee ownership has in turn brought pressures to change the established routines of dealing with employees, unions, local communities and the environment. Consequently, the contest of flexibility toward company-favouring compromises posits the neighbouring supply areas against one another. Local losses in this contest easily turn into economic success in neighbouring areas (Beckley 1996; Mather 1997; Krogman and Beckley 2002).

This type of global competition advances through local enclaves of development which supply raw material and semi-processed goods to be further refined in the international chain of product upgrading. In the forest industry, extraction of timber and wood processing have created one-company locations which are linked to markets as isolated branches of non-locally controlled production. The contract between the elites of the enclaves and the representatives of the corporations make up the local power regime (Beckley 1996; Solecki 1996).

Overseas dependencies in the forest industry were initially forged in the era of colonial expansion when European merchant capital largely monopolised the production processes in the supply areas. The early enclaves were not merely passive instruments of resource extraction but they often behaved pro-actively, by inviting and supporting the key companies. In fact, according to Sandberg (1992: 2), these enclaves, as partners, hosts or clients of the companies, "have been, and continue to be, presented with opportunities to move in a variety of directions, but remain financially dependent on, and ideologically committed to a few large monopoly capitalist firms." According to Hayter et al. (2003), industrialisation of resource peripheries, characterised by high levels of external control and standardised exports, often become areas of instability and crisis, as the leading companies prefer to exploit only the most accessible supplies. The costs of production tend to rise in time, resulting either in production limits or substitution of capital for labour. Both moves increase local vulnerability and a sense of powerlessness. Moreover, tensions between industrial, environmental and cultural concerns often deepen the crisis, adding pressure to reorganise the local production enclaves by shutting them down or by securing production by special contracts with the local elites. The threat of abandonment is a central determinant of the negotiations, and it is also the means of keeping the monopoly (Beckley 1996; Hayter et al. 2003).

The global contest of raw materials and market shares in the forest industry has broadly followed the stages identified by the analysts of neoliberal resource extraction and environmental governance (see Walker et al. 2000; Jepson 2002; Mansfield 2007a). The particular features of the forest sector, due to a high degree of capital intensity and slow rates of forest regeneration, have however left some rudimentary marks on forest-industrial development. The sector is in general slow in its moves and deeply path-dependent, as investments in new capacity are expensive and always bring along severe impacts on market relations (Collins 1998; Saether 1998; Lehtinen et al. 2004). On the other hand, the slow rate of wood increment in the traditional supply areas, mostly located in the coniferous-dominated forests of the northern hemisphere, has tied the industrial actors to long-term planning. Initial colonial routines of over-exploitation have largely been replaced by practices of sustained-yield forestry. This has emphasised the relations of annual wood increment and cut in forest management and it has also broadly standardised the forestry practices. The scientific authority, folded in the measures and guarantees of sustained-yield, has also effectively strengthened the overseas control of forest use (Lowood 1990; Demeritt 2001; Correia 2007; Wong et al. 2007).

The neoliberal governance of forest resources in both the northern and southern hemispheres stems from the colonial motives to draw common-prop-

erty forests under private control, and transform them into commercial assets of prioritised wood production (Mather 1997). Privatisation, taking place either through expanding private ownership or in the form of concessions, has increasingly led some people to consider forests as instruments of profit-making, instead of areas to live in and off. Some remnants of early colonial thinking from the period before the sustained-yield measures can, for example, be traced in the neoliberal uneasiness rating forests as temporary investments, instead of resources to manage with long-term care. New technologies of immaterial upgrading, including for example the newly-risen attention to forest and ecosystem services, have moreover sped up the development (Nygren 1998; Tsouvalis 2000; Schwartz 2006: 166–197). Finally, this development has questioned the dominance of pulp and paper demand in forest management, and forced companies to strengthen contacts with tree plantations to secure their fibre supply (Marchak 1995; Collins 1998). The fast-growing tree plantations in the temperate and tropical zones have accordingly become mixtures of colonial and neoliberal governing. They function as enclaves of bulk fibre production and as financial assets under private control, but they are also used as assets of 'greenwashing'. In the era of human-induced climate change, establishing plantations is synonymous to creating carbon sinks, which is a strong means of overcoming local oppositions concerned, for example, about the disappearance of water reservoirs close to plantations (Mather 1997; Sonnenfeld 1999; Lohmann 2003).

The gradual weakening of the state's regulatory role in forest-industrial governance is in general linked to the internationalisation of the companies. Both the threat of running down production of the old mills and the intensified contest over new contracts between the potential clients have thoroughly transformed the forest-political relations. However, the companies have continuously needed support for their expansive strategies both from the client countries and multilateral institutions. This co-dependence, in the form of loans, credit guarantees, promises of risk sharing and tax exemptions, has secured some regulatory role for international and state agencies. Some agencies that provide long-term risk capital for private industry demand Environmental Impact Assessments (EIA) of any larger projects they become involved in. This was also the case in Metsä-Botnia's project in Fray Bentos (Faroppa and Annala 2004). The clients also have some degree of power due to their specific legislation and socio-political circumstances even though this type of elasticity, as was briefly discussed above, is rather limited.

Despite the intensified race between partner candidates, and the resulting strengthening of companies' power, no clear trend of deregulation can however be witnessed in forest-industrial development. Instead, the somewhat decreased importance of state regulation has been compensated by re-regulation in the international context. As the case study below shows, the forest industry is today increasingly counselled and constrained by international politico-economic and socio-environmental assessments. The companies have not only been drawn under the guidance of multilateral financiers, but a whole range of international stakeholders has emerged, partially forwarding and forwarded by neoliberal forms of governance but, also, partially applying non-tradable principles derived from ethical socio-environmental concerns.

In the current form of globalisation companies are thus not offered an unlimited economic space to run their operations. While gradually freeing themselves from the regulatory measures of their home states of production, forest companies have grown increasingly dependent on the new translocal networks of which they are a part. The governance of the corporations has, for example, changed greatly as shareholder motives increasingly influence the decision-making of the company managers in charge (Saether 2004). The network dependency is also reflected in the growing pressure of environmental and trade demands argued for by non-governmental and intergovernmental organisations.

As part of this type of regulatory turn toward discursive regulation (Donner-Amnell et al. 2004; see also Walker et al. 2000; Mansfield 2007b), forest companies have faced various critical alliances of local activists, environmental and indigenous protesters as well as consumer groups (Sandberg 2004; Reed, 2007; Kortelainen, 2008). The critics have demanded the broadening of the participatory sphere in decision-making within the supply areas and mill communities, and they have also asked for concrete moves toward social and environmental certification of the whole chain of production. The overall social embeddedness of the companies has in this way significantly changed (see Oinas 1997, 1999). On the other hand, the new setting has laid much responsibility on the ac-

tors of the networks and, especially, on the consumers of the end products. Today, how the companies behave within the new arenas of multilayered co-operation and, in particular, how they integrate the old and new partners within their strategies increasingly depends on the strength of the background pressure (Donner-Amnell et al. 2004).

To summarise, discursive regulation refers to the renewing international regulatory milieu where the main forest actors are increasingly forced to integrate and balance the diversifying demands from inside and outside the forest-industrial sector. In the new regulatory environment, shareholders and stock market analysts expect profitability and increased stock value, governments stress tax revenue and domestic investments, forest owners ask for higher timber prices, employees look for salary increases and permanent employment, while environmentalists underline ecological values and stricter forest certification. Finally, a widening spectrum of other actors, both of aboriginal and immigrant origin, and also the trans-local consumers of paper, publishers and media houses, and tourists, are fighting for a legitimate role for themselves in the decision-making process. This is the web of dependencies through which requirements for broader responsibility and participation in forest-industrial co-operation takes shape in globalisation.

Within the framework of discursive regulation, this article analyses the conflict of Fray Bentos in and through three interrelated spheres of co-negotiation, namely the spheres of company-client relations, cross-border dependencies and ideological confrontations. The three spheres were constructed as a result of the analysis that first identified the key phases of the conflict and thereafter examined their connections to the general changes in forest-industrial relations (explicated in this chapter). The particular method of the conflict analysis is explicated below, after a brief historical introduction of Botnia Fray Bentos.

In general, by the three-partite analytic division it will be shown how the discursive regulation approach helps in assessing specific local-global arrangements (e.g., overseas partnerships) in the fluidity of politico-economic and ideological controversies. The neoliberal vision of free trade is finally questioned by showing the actual processes and also the regulatory signals attached to the promotion of forest-industrial investments. The analysis ends with a summary that sketches some outlines for inter-culturally sensitive preparation of new forest-industrial projects. A brief historical overlook of the Fray Bentos conflict will first introduce the mill as part of an ongoing reorganisation of forest-industry.

How did the political risk turn into a cross-border conflict?

The history of Botnia Fray Bentos reaches back to the early 1990s when Kymmene, a Finnish forest company, and the multinational oil company Shell started co-operation in eucalyptus farming in Uruguay. The joint enterprise, Compania Forestal Oriental (FOSA) started with planting experiments in 1991 in order to gain knowledge about the feasibility of commercial plantation. Soon the experiments with the fast-growing eucalyptus expanded into industrial management and harvesting, and the shipping of the fibre to Kymmene's mills in Europe began. The decision to build the Fray Bentos mill modified the setting in the early 2000s, and Shell soon withdrew from the project by selling its share of FOSA to the Finns (Aukia and Pitkänen 2005). In 2006, moreover, FOSA merged with Tile Forestal, another central actor in eucalyptus farming in Uruguay, and the plantation area of the new company, Forestal Oriental, increased to close to 100 000 hectares, an area now large enough to cover approximately 70 per cent of the annual fibre consumption (totalling 3.5 million m^3) of the Fray Bentos mill (Botnia 2007a).

The launch of the eucalyptus co-operation was received in Uruguay with an ecological critique which was supported by overseas concerns. The eucalyptus plantations were seen as harmful to local ecosystem functions, especially soil and ground water conditions, but they were also considered as a competitor and risk to agricultural and dairy practices. In addition, the shipping of eucalyptus to Europe was criticised as offering only a minimal local economic return to the supply areas (Lang 2007). Despite the critique, Forestal Oriental gradually became a central actor in Uruguay, harvesting its own eucalyptus fields and also purchasing timber from local land owners (Faroppa and Annala 2004; Botnia 2007a).

Botnia Fray Bentos is a subsidiary of Finnish Metsä-Botnia, a joint enterprise of UPM-Kymmene and Metsä-Liitto group.[1] In 2000 Metsä-Botnia founded a joint branch unit, Baltic Pulp, in Latvia with Södra, a Swedish forest company, and the Latvian state. The plan was to build a large unit by

the river Dvina, but local support was lost due to environmental reasons. The river Dvina is the fresh water supply to Riga, the capital city of Latvia, and concerns of the water quality affected the general attitude. Södra and the state withdrew from the project in 2003, and Baltic Pulp was finally shelved in February 2005. Soon thereafter, Metsä-Botnia made the final decision to invest in Uruguay, now aiming at a mill almost double the size of the planned Baltic mill, reaching the capacity of a million tons of pulp per year (Botnia 2007a).

The expansion of pulp production was supposed to become an important source of income to both principal partners of Botnia Fray Bentos, and expectations were high among the companies and their owners. During the 2000s, international expansion turned into expensive setbacks to both UPM and Metsä-Liitto, including its main industrial unit, M-real (Ojala and Lamberg 2006). The setbacks were caused by bad timings of investments, over-capacity problems and lowering prices of most paper grades, and any good news was then needed to compensate the economic losses and strengthen the companies' profile in the eyes of the shareholders.

To succeed in the global forest-industrial contest today means constant efforts to lower the prices of raw material and production. This can be most securely done by investing in regions with even flows of cheap fibre, by concentrating production in automated mega-units and by making contracts with new clients that are willing to minimise the investment risks of the companies. This combination of demands is leading toward free trade zones and distantly-owned plantations, witnessed also in Uruguay. The new contracts are, however, intensely evaluated by the surrounding society and signs of rising social or environmental strain are often criticised (Marchak 1995; Sonnenfeld 2002; Wong et al. 2007). Tellingly, for example, Metsä-Botnia's jump across the Atlantic, from Latvia to Uruguay, did not help in freeing it from local critique – quite the opposite. Today, as has become clear for all the parties, companies cannot easily avoid becoming targets of diverse social and environmental critique when starting large projects in an international context, and coping with them requires particular management skills.

The Finnish-Uruguayan partners had more than a decade, since the first experiments of eucalyptus farming until the final decision of the pulp plant, to prepare themselves and the surrounding society for the mill project. That decade was not enough for the partners to clear the political risks to such an extent that the support from Argentina for the location of the plant could be confirmed. Consequently, in 2006–2007, the Fray Bentos mill became a hot spot between the two countries, and for a while it also seemed to forge some troubles in continental economic and political co-operation, especially in the context of the South-American Trade Agreement, Mercosur. The political price of the plant soared.

Fray Bentos thus turned into an important lesson in forest-industrial globalisation. It became an example of how not to proceed if aiming to avoid fierce international confrontation. Botnia Fray Bentos therefore offers a window on the production of risks in pulp and paper production. It also guides us to rethink the governance of mill planning: How to discover beforehand and prevent confrontational dynamics? A thorough preparation benefits all the partners and these types of social and environmental impact assessments are often also officially demanded, especially in cases of large development projects (Burdge 1998). Still, something went wrong in Fray Bentos. This is the something analysed below.

Alliances and oppositions: A drama in three acts

The conflict will be examined here by concentrating on the major economic and political successions, and the drama of their co-entanglement, in and around the mill planning and construction. Fray Bentos is seen as a socio-spatial process co-forged within the wider setting of changing company-client relations, cross-border tensions and ideological confrontations. Fray Bentos is thus regarded as a local-global conflict that brought into surface some of the elementary pressures bound to the histories of overseas activities (see Massey 2005; Bærenholdt and Grånas 2008).

These pressures, and the aggregate outcomes of their meetings, are identified below by concentrating on the most tense episodes, or layers, of the conflict and assessing them as part of the more general forest-industrial change. The study singles out phases of the project and traces the actual promises and doubts that fuelled the grouping of alliances and oppositions. The individual events are compressed into three schemes, or zones of contact, that condition the local-global dynamics of discursive regulation.

Concretely, the study was carried out by identifying from the conflict debate the articulations that address and further re-shape the most critical linkages to the general reorganisation of forest industry (discussed in the introduction of this article). Particular attention was paid to signals of change. The chosen method is an application of 'postcolonial reading' where the researcher documents the weak and often undervalued formulations in the studied material that upon closer examination appear as pivotal articulations about the central movement in the broader (colonial) context of social change (Said 1993: 106; Barry 2002: 194–202; Kuortti 2007: 155). This type of critical reading is performed in two phases in this article. First, the weak but pivotal signals are simply identified as part of the deepening confrontation. It is shown how initial undervaluing, that is, an unresponsive way of facing the question, has centrally fuelled the combat. This part of the research is pure documentation of evolving alliances and disagreements. At least one illustration of such convolution is exemplified in each of the three spheres of conegotiation, or zones of contact, that are analysed below under respective subtitles. Second, the risky elements which are clearly present in the studied debate but which have not yet turned into public disagreement will be gathered from the study material. This is done by focusing on those undervalued features of the Botnia Fray Bentos debate that have not been fully recognised as risks in contemporary forest-based globalisation. This part of critical reading is summarised in the conclusive part of the article in the form of strategic suggestions for overseas actors in the forest industry.

The risks of the client: Republica Oriental de Botnia

Fray Bentos is an enormous project both for Uruguay and Metsä-Botnia. It is thus far the biggest foreign direct investment in Uruguay's history and it is also the biggest investment abroad by Finnish companies. It will, for example, add almost one third to the annual turnover rate of Metsä-Botnia, which reached the level of 1 300 million euros in 2006 (Botnia 2007a). The mill is expected to employ up to 8000 individuals, of whom 300–350 at the mill, and it is estimated to have a 1.6 per cent influence on the gross national product of Uruguay (HCGE 2004: Botnia 2007b). These prospects and promises put much responsibility on Metsä-Botnia. The project links Uruguay, a small country of 3.4 million inhabitants, to forest-industrial globalisation.

Uruguay has actively searched for forest-industrial contracts, and the country has also agreed with Ence, a Spanish company,[2] to co-operate in pulp-processing. Ence has decided to build a pulp mill south from Fray Bentos, not too close to the border of Argentina. In addition to these two contracts, in 2006 Uruguay published a plan to support building three more pulp plants in the country (Kröger 2007). Founding pulp mills in Uruguay is tempting as the fast-growing eucalyptus offers a competitive alternative to pulp production in the traditional forest-industrial centres of the global North adjusted to long rotation times of conifer-dominated forests. Pulp processing provides, however, only raw material for paper mills located closer to the global consumption centres. Economic return from pulp production is heavily dependent on supply and demand relations and related fluctuations in market prices.

Since their foundation, the Finnish plantation projects in Uruguay have been shadowed by local environmental criticism to expansive land-use and fresh water consumption. The plantations became, however, certified in the early 2000s by the Forest Stewardship Council (FSC). This resulted in concerns of "greenwashing" that would weaken local opposition and erode the international credibility of the FSC (Carrere 2006; WRM 2006).

The confrontation with Argentina also silenced the domestic disagreement, as it appeared necessary for the small country to fully defend itself against the pressure of the big neighbour. Critical agricultural and environmental concerns were in particular pushed to the margins (Lang 2007). However, the ecological and cultural disadvantages have not been solved in the plantations and their surroundings, as has been witnessed for example in Brazil where Veracel pulp mill, jointly owned by Brazilian-Norwegian Aracruz Celulose and Finnish-Swedish Stora Enso, has faced severe criticism from environmentalists, smallholders and landless people (De´Nadai et al. 2005). In general, the tree plantations in South America compete against agro-industrial land uses, and they are often thoroughly mixed up with the unsolved questions of land ownership. Trans-Atlantic co-operation in pulp and paper production in Uruguay has also met the concerns of agro-industrial entrepreneurship and, for example, Forestal Oriental's eucalyptus plantations are locally treated as one competing factor in 'agribusiness' (Kröger 2007).

The tree plantations are regarded as part of agriculture and this greatly confuses the forest-industrial premises of the overseas developers. It has been difficult for Finnish forest professionals to take into account the strong agricultural concerns in South America. The long preparatory stage of eucalyptus farming secured, however, a strong hold on local fibre supply to Botnia Fray Bentos.

The unfolding of the Uruguayan front (against the Argentinian campaign) will most likely take place as the cross-border tensions gradually calm down. This brings along critical rethinking of the past and present of the client. The visibility of the Fray Bentos mill and its plantations will remind people of the fears and promises expressed during the heated years of the conflict. Livestock producers and farmers, including the processors of their products, are curious to see how the free trade zone and its suppliers affect, and become integrated within, agro-industrial practices. Environmentalists will undoubtedly assess the ecological effects of the plantations and mill operations whereas the authorities of the country will carefully watch the employment rates and gross economic returns.

The Fray Bentos mill is built on a specially created tax free zone where exemption from income tax is granted for 25 years. The free trade zone does not need to follow the Mercosur rules either, which prioritise subcontracts within the trade union. The Uruguayan government has also widely supported the establishment of tree plantations and highway routes necessary for intense timber transportation between the plantations and the mill. In addition, the government has promised to pay compensation for any losses caused by, for example, social protest against the mill (MTI 2006). This has resulted in unhealthy competition between industrial developers in general and especially in regard to the agro-industrial sector. The affects of subsidies to rural communities and their means of livelihood as a whole are also matters that have caused political tensions (WRM 2006).

The discursive pressure around Metsä-Botnia's project in Uruguay grows from the fact that the client country had promised much to become an attractive target for overseas investments in the forest sector. The generous offers have brought along a multitude of expectations as local and national developers, farmers, entrepreneurs and environmentalists have all constructed their own views about the costs and benefits of the project. The confrontations can be managed by increasingly protecting the prior chain of production, which is the traditional colonial model of dealing with the problem (see Sandberg 1992; Beckley 1996), or by measures of co-management aiming at multiplying the interactions between the company and the surrounding society (Howitt 2000; Howitt and Suchet-Pearson 2006). These alternatives will be further discussed in the conclusion of this article.

Cross-border learning: from a mistake to a model

The Fray Bentos project brought out Metsä-Botnia's inability to take into account the concerns of Argentina. The vicinity of the neighbour was never fully realised in the mill planning. The Finnish partners of the project have learned from their own history how to live close to a 'big neighbour', and co-operation between Finland and Russia has been particularly intense within the forest sector (Ovaskainen et al. 1999). The long cross-border learning was, however, not made use of by Rio Uruguay. A closer reading of the planning documents of the Botnia mill in Uruguay offers an explanation to this omission.

The detailed summaries of the Environmental Impact Assessment (Faroppa and Annala 2004) and Socio-economic Study (HCGE 2004) offer proof of a narrow technical orientation of the mill planning, characterised by a systematic ignoring of Argentina. When, for example, assessing the effects of sulphur and nitrogen emissions on air quality, and the dominant wind directions, cross-border questions remain unexamined. The EIA report, however, confirms that in specific conditions, such as during periods of temporary shut-downs and start-ups, the detection threshold for the odour pollution will be occasionally surpassed on both sides of the border river (Faroppa and Annala 2004). On the other hand, the socio-economic study concentrates narrowly on the positive demographic and economic effects of the mill and plantations in Uruguay. Argentina and cross-border relations are only mentioned when identifying potential suppliers of imported wood. The limits of data availability serve as the reason for this neglect (HCGE 2004).

The criticism from Argentina was a surprise to the company and, despite its massive strength, extending from the border city of Gualeguaychú up to the political elite of the country, it did not turn into a withdrawal from the border location. The mill became a symbol of failed cross-river diplo-

macy and it will undoubtedly serve as a reminder of the debacle for a long time. However, the mill can in time also become an example of socially and environmentally responsible development while taking full care of the concerns of the critics. The pressure from the surrounding society has forced the mill planners to pay the utmost attention to minimise the environmental strain of the plant and this has already resulted in innovative technological applications in pulp processing. The mill clearly cannot afford the degree of atmospheric emissions, especially odours, that are, for example, part of the daily life in many of the mill localities in Finland (Lehtinen 1991: 108–109; Jauhiainen 2003).

The Fray Bentos mill can thus turn into a model plant, become famous for its technical capacity to minimise the physical environmental strain by limiting all emissions in the air and river, and by fully circulating processed waters and chemicals. On the other hand, the mill can also maximise local support by burning solid wastes to produce cheap electricity for public consumption and by processing local liquid wastes in its sewage plant. Promises of these types of measures were already listed in the planning documents (Faroppa and Annala 2004) but, finally, only the daily running of the mill will prove the ecological efficiency of the mill to the surrounding communities.

The mill critique from the Argentinian side originally arose from the fear of pollution. It was argued that pulp processing is gradually being removed from Europe due to its environmental strain (CEDHA 2007). This was proven to be completely untrue by the representatives of Metsä-Botnia (Botnia 2007b) but what was then left untold was the fact that the company's withdrawal from Latvia just before the final decision to invest in Uruguay was strongly linked to the rise of local environmental concerns in Riga. Fears of 'toxic colonialism' (Harvey 1996) have grown in general from the histories of overseas exploitation and by not openly discussing the reasons for Metsä-Botnia's jump across the Atlantic the company only fuelled the worries. Clearly, undervaluing Argentinian concerns strengthened the worries about simple colonial trade motives in Fray Bentos co-operation.

Traces and memories of the latest phases of colonialism also largely explain the Argentinian reactions. Concerns about the Fray Bentos mill are bound to the humiliation under the neoliberal experiments of economic globalisation in Argentina. A wealthy country was thrown into a recession in the 1980s, due in large part to weaknesses in domestic governance and mistakes in international trade policy, and the course was to be corrected during Carlos Menem's presidency under the guidance of the International Monetary Fund. The IMF-controlled corrections resulted in strict structural adjustment favouring privatisation and prioritising foreign investments in the country (IMF 2003; Saxton 2003; Armony and Armony 2005).

High rates of currency flight, inflation and unemployment drove Argentina in the early 2000s into deep political instability and any articulation about concrete threats from outside the country's borders helped to heal the domestic disagreement. The gradually clustering signs of economic upward tendency went hand in hand with the rising popularity of president Néstor Kirchner and, of course, any signs of giving up in a conflict that had become an international 'hot spot', were regarded as risky to the Kirchner regime. Christina Fernández, Kirchners wife, won the presidential elections in October 2007, and the continuation of the regime was confirmed. Two weeks after the elections in Argentina, Botnia Fray Bentos received the final licence from the Uruguayan officials to start pulp production. A representative of Spain had been acting as a mediator between the two countries in the Fray Bentos conflict and now the decision to start the mill, in the middle of Spanish-led 'peacemaking', was received with broad international annoyance.

To summarise, assessments of international dependencies and changes were principally ignored in the planning of the Fray Bentos mill. Politically immature and exclusively technical orientation resulted in a chain of unruly events. The conflict showed how important it is to include detailed assessments of ongoing political and economic changes in the planning routines. Model mills are definitely needed in forest-industrial progression but, in light of Fray Bentos, so are new models of coping with the fears and prospects of the surrounding society.

Ideologies of trade and technology

During the preparation of the mill, Botnia had signed external loans from the World Bank, Nordic Investment Bank and Finnvera, Finland's official export credit agency. The loans together covered 40 per cent of the capital needed for the project. The rest of the capital was invested by the owners of Botnia Fray Bentos (Botnia 2007b). Es-

pecially, the World Bank loan, signed in November 2006, inflamed the critical debate in Argentina, as the Bank's support was regarded as a strong voice against the mill critique. The neoliberal programme guided by the IMF had failed in Argentina, and this experience had left deep suspicions towards the leading institutions of national and global economic governance (Klein and Lewis 2004; Armony and Armony 2005).

This distrust formed the ideological background of the Fray Bentos conflict. Uruguay was seen as a partner in Northern-led neoliberalisation and it was feared that this contract would harm the development of the river valley between the two countries. It was also feared that individual overseas solos would weaken the construction of a strong South American economic coalition to balance the Northern influence. The Argentinian experience of neoliberalisation grows from within the unruly consequences of contracts with global financial organisations (Teichman 2004). The guidance from the North was seen as offering only standard solutions that turn unique regions into subsidiaries of global markets.

The contest between Uruguay and Argentina is also a contest about the future of Mercosur. The trade alliance has aimed at unifying the interests of South American countries by increasing co-ordination of economic strategies, but the recent recessions in Argentina and Brazil have significantly weakened the bloc. On the other hand, the gradual strengthening of left-wing governments in South America in the 2000s, together with the rising critique against the United States' domination in global financial institutions, has underlined the importance of Mercosur. The politicisation of the bloc against the United States supremacy has gained support, for example, from Venezuela as well as from Argentina and Brazil (Teichman 2004; Armony and Armony 2005; Kröger 2007).

Uruguay has been committed to the continental integration within the framework of Mercosur albeit cautiously. International arrogance and unpredictability shown by some of the bloc countries is regarded as a threat to a small country aiming at renovating its economic assets in overseas trade. The country is increasingly linked to Northern economic interests through its pragmatic strategy led by the president Tabaré Vázquez, elected in 2005 (EU 2006). This is the chief ideological tension shadowing the Fray Bentos conflict. Uruguay has become active in its own way, the country is aiming at freeing itself from the small niche between two big neighbours with strong voices in Mercosur. The free trade contract between Metsä-Botnia and Uruguay is a threat to the visions of deepening continental co-operation.

The European Union has an important role in the trans-Atlantic relations, and Spain's active mediation in Fray Bentos needs to be seen in this context. On the other hand, however, the low profile of Finland in the conflict has to be noted. Since it has gained an important position in forest-industrial globalisation (Reunala et al. 1999; Donner-Amnell 2004) it could also have taken a leading role in the conflict resolution. This would also have become an important step forward in consolidating the forest-political co-operation between the European Union and South America. This type of profiling would have brought along an emphasis on political issues, aside from the technical ones, in forest-based co-operation. Finnish forest expertise has, however, gained positive international recognition almost solely at the level of engineering (see Sonnenfeld 1999; Petersson 2001, 2004). It is no exaggeration to say that the weakness of Finnish partners in dealing with political and socio-environmental matters might gradually turn into a question of credibility to Finland and its overseas operations in the forest industry.

Focusing on logistical operational matters is also an ideological choice. Technical orientation suits well to those overseas programmes that forward neoliberal trade premises. Not much attention is then paid to the project's resonance with the client's political culture. Securing privileges, such as free trade enclaves with special support, can only take place with the help of strong state governance and international organisations. This paradox, or compromise, has not really bothered the ideologists or engineers of neoliberalisation (Harvey 2005).

The Fray Bentos case shows well how the Uruguayan compromise is confirmed by the exclusively technical orientation of the Finnish partners. Sensitivity to political and ideological issues would have brought along sensitivity to historical dependencies, and contested memories of them, differentiating the parties of the project. The Fray Bentos reports on social and environmental impacts primarily served as documents to meet the criteria of the external investors to permit loans, whereas the loan agreements in turn functioned as critical justifying elements of the project. This was a full ideological circle that favoured the neoliberal compromise.

Conclusions

The conflict of Fray Bentos was analysed here as a process with three complementary spheres of confrontations and negotiations, first by specifying the client-company relations, then by focusing on the cross-border relations, and finally by shaping the ideological side of the conflict. The question was, how and why the risks of building a large pulp mill along the Rio Uruguay were left to develop into a broad-scale international conflict. Four complementary answers were formulated: undervaluing of the agricultural context of eucalyptus farming, ignoring Argentinian concerns, indifference to the worries about toxic colonialism and, in general, narrow technical orientation. These omissions were identified in this article as the primary causes for the deepening confrontation, as they prevented forecasting the political dependencies and consequences of the mill project.

The failures in the mill planning cast much pressure on further developing the methods of assessing impacts, both environmental and social, in these type of large industrial projects. Border relations, including border river questions, are a well-researched area in geography and related disciplines (see e.g. Paasi 1996; Eskelinen et al. 1999; Mclaughlin Mitchell 2006) and mobilising this learning could have been easily arranged in Fray Bentos by broadening the recruiting strategies of consulting services.

The strengthening of the links between research and planning can, for example, result in concrete suggestions of how to broaden the participatory framework and social justification of overseas projects. This article shows how the discursive regulation approach, which was carried out by critically analysing the key phases of the conflict, helps in identifying the political risks of pulp mill construction in a cultural milieu that differs greatly from the home area of the company. In addition to the specific learning in connection to Botnia Fray Bentos, the case study brought out three general aspects for accomplishing successful overseas investments. These aspects link the particular remarks from Fray Bentos to the broader background processes of forest-industrial globalisation which are below summarised as 'foreground matters' (see Barry 2002: 194–202) by briefly sketching the critical (post)colonial challenges of overseas investments in the forest industry.

First, the case study underlined the necessity to critically reflect upon the historical colonial load of overseas activities. Producing pulp in Uruguay for the paper mills in Europe and China does not leave much economic return to the primary end of the production chain. Instead, concerns of negative social and environmental changes fuel and unite the local critical parties. This problem cannot be solved by information campaigns based on technical consulting reports and by ignoring the specific concerns about toxic colonialism.

Reducing the colonial load in a company's performance starts by reassessing the corporate labour division and routines of resource extraction. Protected lineages and zones of bulk production minimise local interaction and accumulate power at the top end of corporate hierarchy. However, successful international co-operation can also be founded on participatory measures initiated by the company in charge of the project. Some exemplary processes of socio-spatially sensitive forest-industrial entrepreneurship have been studied, for example, in cross-border circumstances (Tysiachniouk and Reisman 2004; Lehtinen 2006; Kortelainen 2008) and as part of the promotion of corporate responsibility (Rytteri 2002; Lawrence 2007; Pakkasvirta 2008; Sivonen 2008). These studies clearly show how important it is to run projects by keeping all company units horizontally open to changes in the immediate surroundings.

Second, complicated relations of ownership behind the subsidiaries should not be allowed to lead into absentee decision-making at the operational level. UPM and Metsäliitto, the principal owners of Botnia Fray Bentos, carry along significantly differing institutional histories. Reaching agreements in company governance is therefore often difficult and can result in quick and poorly prepared strategic moves. For example, the jump from Latvia to Uruguay clearly favoured UPM's motives, connected to the long involvement in eucalyptus plantations. The overseas jump also strengthened UPM's position as the practical leader of Metsä-Botnia's internationalisation. The jump significantly increased the tempo of Fray Bentos development which in turn tightened the schedule of the planning process.

Moreover, the owners of Botnia Fray Bentos have their own owners who intensely look after their returns as shareholders. The sensitive bond between managerial decision-making and shareholders' motives, which varies greatly between UPM and Metsäliitto, causes strategic and operational unpredictability in the companies' joint efforts. The latter, owned by 131 000 forest owners

of Finland, have found it difficult to become fully adjusted to neoliberal changes in the forest industry whereas the former has actively searched for shareholder attraction in stock markets. All this limits much of the horizontal flexibility of such industrial subsidiaries as Botnia Fray Bentos. Arguments for local sensitivity and corporate responsibility are shadowed by continuous negotiations about methods of increasing the efficiency of production in the context of quarterly reporting. The alternative horizontal moves that can bear fruit only in the long run, for example, through favourable changes in political circumstances, need to be formulated in this particular context in such a way that all the partners can recognise the value of such actions. Researchers can help in identifying the options hidden in alternative moves, as has been shown in some related studies (Rytteri 2002; Saether 2002, 2004; Lamberg et al. 2006).

Third, as became obvious in the analysis, a high number of parties outside the forest-industrial sector were affected by the construction of the Fray Bentos mill. Many of them also had to be included in the mill project, either during planning or later in the form of claims and appeals in the media, public demonstrations, or in court. The members of the surrounding society, especially farmers and environmentalists, and all those along the western bank of the river Uruguay, were initially offered no clear role in planning. The positive reports of the consultants apparently confirmed the company and the client about a broad contentment shared among the external parties. After the international conflict unfolded, local disagreements inside Uruguay were pushed into the background and, instead, international and overseas relations came to the forefront. After the failure of direct negotiations between Uruguay and Argentina, Spain offered to help. Ence, the Spanish company, withdrew from Fray Bentos while Botnia continued and Finland remained silent. Finally, Mercosur and the International Court in Hague became arenas of running the conflict. Studies on similar types of local-global confrontations have been completed (Marchak 1995; Nygren 1995; Dauvergne 1997; Lawrence 2007), but no signs of utilising this type of scholarship could be identified in the pulp mill planning in Fray Bentos.

To summarise, in large overseas investments, where cross-cultural links and divisions are to be met and modified, early integration of parties in the planning process is critical. In addition, broader utilisation of scientific research would greatly help to foresee the chains of dependencies and consequences. Historical awareness and socio-spatial skills of the project initiators are crucial, as are the skills of those preparing social and environmental assessment reports. Fray Bentos turned into a warning, as the project was narrowly focused on the logistics of pulp production. The risks of similar failure can only be avoided by including elements of political and cultural sensitivity and co-respect in overseas activities.

NOTES

[1] Kymmene and United Paper Mills merged in 1995 to become UPM-Kymmene and later shortly UPM, which is the prior owner of Botnia Fray Bentos. The Metsäliitto group, which is a lobby organisation for the family forest owners in Finland, owns directly and via its industrial branch, M-real, a 49 per cent share of Botnia Fray Bentos. Metsäliitto and UPM had already in the mid-1970s founded a joint pulp producer, Metsä-Botnia, that has gradually become an important international actor. Metsäliitto is the principal owner of Metsä-Botnia but UPM governs Botnia Fray Bentos with its direct share of 12.4 per cent and indirect 47 per cent share of Metsä-Botnia. Metsä-Botnia owns 82.1 per cent of Botnia Fray Bentos (Aukia and Pitkänen 2005; Botnia 2007a).

[2] Ence, or Grupo Empresarial Ence, concentrates on forestry and tree plantations, sawn timber, plywood, pulp and sanitary papers in Spain, Portugal and Uruguay. Annual turnover exceeded 620 million euros in 2006. The Spanish company, founded by national capital in 1968, became fully privatised in 2001. It has experienced a thorough restructuring of ownership during the 2000s (Ence 2007).

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