

# View Pick

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Ladies and Gentlemen

Emerging Market economies have proved as resilient players in the global economy since 2008. But the situation has recently been disrupted by financial turbulence; strong signals from developed economies are yet to be seen while their levels of activity remain low. The global growth presents much more uncertainties than spots of confidence with slightly growing in 2014. The consequences of the exit from unconventional monetary policies will continue to be among the main sources of uncertainty.

Finland brings innovation and skills to the global market. Responsible Resources & Roots Engagement emphasises research and advisory in Arctic Investments.

Best summer greetings,

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# Economy challenged by Fragility

Emerging Market economies had proved resilient players in the global economy since 2008. But the situation has been recently disrupted by financial turbulence. Not yet strong signals from developed economies while their levels of activity remains low. All in all the global growth presents much more uncertainties than spots of confidence with slightly growing in 2014. The consequences of the exit from unconventional monetary policies will continue to be among the main sources of uncertainty.

The volatility recently observed on certain markets underscores the fragility of the economic recovery, and uncomfortably, the risks have shifted to the emerging markets. Anticipations of the Fed's reduction in its assets purchase program provoked bond yields higher in developed countries and drove some emerging currencies markedly lower.

Due to their grater vulnerability to foreign capital outflows, the emerging markets with the biggest current account deficits suffer the greatest currency depreciations, forcing their monetary authorities to increase their key rates. The situation became severe because it came simultaneous when growth in emerging markets presented signs of slowing, including in China and Russia.

Despite better economic data, the developed countries continue to challenge with a fragile growth. They would remain hindered by ingoing private and public deleveraging process. In the United States, growth may remain moderate and be waiting only a slow improvement of the employment situation. As for the fiscal policy, the expectations are driving to a less restrictive harbour.

In the euro area, improving economic indicators are a positive sign. Business activity is still markedly below its 2008 level and substantial adjustments still appear necessary. Therefore, although yields continue to tighten between core and countries with high debts problems, resurgence of tensions in the Euro zone remains an Achilles' heel.

## Large Emerging Economies looking for Balance

The turbulence affecting the emerging markets that are most dependent on foreign capital is not likely to end soon. Emerging market economies seem less vulnerable than in the 1990s. Their currency regimes became more flexible. China and Russia are facing a structural growth slowdown for 2014. **In China**, investment is likely to slow, particularly as regulation on grey banking is tightened, at a time when the debt of non-financial corporate sector has reached record levels. The rebalancing towards a consumption-driven growth does not seem to be progressing to the point where it can relay investment. **In India** the growth expectation remains below potential, hurt by high public debt and persistently-high inflation. In Russia, consumption, the main growth driver over the recent period, is expected to be weaker. In 2014, growth will only be sustained by increased public spending.

In short:

**Euro Area:** In the second quarter of 2013, the euro area put an end to six quarters of economic contraction in arrow. The figures should not optimise the fact that the adjustment process will be very slow and will be considerable on growth in the long run. Therefore, euro area growth is projected to be negative once again in 3013 and the slightly positive in 2014.

**The German economy** recorded growth of +0.7% in second quarter of this year, mainly driven by domestic demand. The solid labour market should continue to underpin private consumption and real estate investment. However, the economy will remain impeded by an uncertain external environment until the end of 2013. The export trend should pick up in 2014 with growing business activity.

**French economic activity** rebounded sharply in second quarter of 2013. But it is too early to assume an earnest recovery is back again. The business climate has brightened considerably in the past few months. The rebound was partly due to non-recurring events, including higher household energy consumption due to seasonably cold temperatures. True is that crisis is not over and is still encumber the economy. Public finances adjustment measures drag down purchasing power. The labour market continues to be poor form and, as a result, household purchasing power would stagnate, after the sharp drop in 2012, thus weighing heavily on consumption. The weak and uncertain outlook for domestic and foreign demand, as well as tighter credit, is expected to affect demand for corporate development. The financial situation of companies would therefore remain tense.

**In Italy**, the economic outlook is mixed and uncertain, investment has struggled to regain its footing and is projected to drop again sharply in 2013, like in 2012, and then stabilise in 2014. Under the effects of the recession and austerity measures, household purchasing power is expected to decrease in 2013 and 2014, after contracting in the past five years. Drops will gradually become less severe as the economy slowly heals. On the public finance side, the political situation will complicate the measures that have to be taken to bring public finance to improve sustainably. The deficit would not be reduced significantly and the public debt, which is already high, would continue its ravages. The risk is that these factors will overshadow markets again, which would result in tougher lending conditions for Italian debt.

**The Spanish GDP** has stabilised after falling sharply since mid-2011. However, the economy is still facing a host of major challenges including the clean-up of banking sector and an adjustment of public finances' and external accounts. The contraction in the Spanish economy is projected to be only slightly less in 2013 versus 2012, before stabilising in 2014.

**The Bank of England** announced a shift in monetary strategy: it will not increase its key rate as long as the unemployment rate stays above 7%. Consequently, its ultra-accommodative monetary policy is expected to be maintained over the next months. Public programs to prop up credit should continue to underpin the property market. The expansion of this market would help private consumption somewhat, which continues to be weighed down by high inflation and slow increase in the labour market. Lending to non-financial companies continues to decline, but at a slower pace. The "Funding for lending" scheme should increase SME funding, especially since investment intentions by industrial companies has increased the most for the six years, as tension have eased in the euro area. In England, growth is expected to come out to 1% in 2013 and 1.3% in 2014 amid a soft international environment.

**In the United States**, the economic activity is expected to recover over the coming quarters, encouraging the Federal Reserve to gradually scale back its asset purchase program. Growth should however remain moderate; unemployment rate will consequently only reduce slightly. The gradual fiscal adjustment is not likely to be jeopardised by political discussions in the next few weeks.

Large sentiment consensus from both entrepreneurs and households pleads in favour of ongoing improvement in growth. In response to anticipation of shift of the monetary policy stance, mortgage rates have risen and would dampen activity on real estate market. American households would continue to benefit from positive wealth effects produced by the bullish stock market. Exceptional decrease in the public deficit should not prevent political debate from intensifying over the coming weeks on topics such as finalising the budget and increasing the debt ceiling. Fiscal tightening should stay in place, which would keep the lid on growth. With inflation under 2% and unemployment above the 6.5% threshold, the Fed is not expected to increase its key rate before 2015. The ongoing improvement in jobs is likely to encourage the bank to slowly reduce, before the end of this year, the size of its monthly asset purchases. Uncertainty surrounding the date of these announcements will continue to weigh on changes in long-term interest rates and risk premiums throughout the year.

**In Japan**, growth is expected to be underpinned in 2013 by domestic demand and will be lifted by a brightening international environment in 2014. Therefore, GDP growth is projected to be around 1.5% in 2013 and 2014. For the recovery, the government could announce a temporary fiscal stimulus plan in order to compensate the restrictive impact of the consumption tax hike planned in 2014.

A slight recovery continued in the second quarter, with a growth rate of 0.9% QoQ, due to a strong public and private consumption and rebounding productive investment. Benefiting from an improvement in the labour market, private consumption is expected to remain relatively strong until the planned increase in the consumption tax goes into effect in April 2014. In July, the unemployment rate reached its lowest level since 2008 and the summer bonuses were higher.

Despite all, nominal cash earnings continue to fall slightly. Inflation increased to 0.7% per year in July but was largely due to the energy prices increase. The property market is expected to continue to rebound in 2013, driven by the increase in bank loans. Non residential investment is only slated to grow slightly. Japan has to decide whether or not to go ahead with consumption tax hike in 2014, which would help the recovery but could jeopardise its fiscal credibility.

# FINNWAVES

## *The first Russian pharmaceutical company starting production in Finland*

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Cytomed, the Russian pharmaceutical company, has gained a permission to build a new pharmaceutical plant in Lappeenranta in Finland, close to the Russian border. It is the first Russian pharmaceutical company to start a production in Finland. The company's products will be marketed and sold primarily in Russia. According to YLE, the Finnish Medicines Agency Fimea has given green light to the company, and the Lappeenranta plant is expected to begin its operations next spring. There's still a lot of work to be done testing our equipment and validating our processes, commented Cytomed chief executive **Julia Volkova** to YLE. The company was founded in Russia in 1989. It has registered and implemented drugs to treat immunity-deficient conditions, prostate glands, hormonal imbalance and influenza and respiratory diseases.

[www.cytomed.fi](http://www.cytomed.fi)

## *Wärtsilä powers pipe laying vessels for Brazil*

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Finnish engineering company Wärtsilä has received a major order to supply propulsion solutions for six new offshore pipe laying vessels to operate in Brazilian waters. The vessels are being built by IHC Merwede, headquartered in The Netherlands. Three of the ships are to be built for Subsea 7, the seabed-to-surface engineering, construction, and services contractor to the offshore energy industry. The other three vessels have been ordered by Seabras Sapura, the Sapura Kencana and Seadrill partnership entity. All six vessels are scheduled to be delivered during the first half of 2015 and the second half of 2016. They will be deployed to serve the Brazilian offshore market by Petrobras, the multi-national energy corporation. Wärtsilä will begin deliveries in February 2014, with further deliveries following at four month intervals.

[www.wartsila.com](http://www.wartsila.com)

## *Finnish VTT makes CO2 advance*

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A consortium led by VTT Technical Research Centre of Finland has developed a new technology that captures the carbon dioxide emissions of power plants more economically and ecologically. The new technology, developed through the Flexiburn-CFB project, combines oxyfuel based carbon dioxide capture with the flexibility and financial benefits of circulating fluidized bed combustion. In addition, the same power plant can continue operation also when capture is impossible, for example during temporary outages of the CO2 transport and storage facilities, thus reducing the investment risk. The advantages of the process include high efficiency, fuel-flexibility and the option of using a large proportion of biomass in the fuel. The increased price of energy and exhaustion of good-quality fuel reserves mean it is currently more profitable to use lower-quality fuels. The fuel-flexibility enabled by this new technology will reduce dependency on imported coal and create cost savings, since cheaper options, including waste coal, can be used for fuel. The functionality of the technology was proven at a demonstration plant in Spain (30 MWth), the world's largest operational circulating fluidised bed oxyfuel combustion plant. The project also developed a commercial-scale concept for a 300MWe plant. Meeting global emission reduction targets means every year dozens of additional power plants will have to implement carbon dioxide capture systems. Until now, capture technologies have been at the trial stage and their implementation slowed by the prohibitive cost of the available methods. Political decisions and legislative changes will be necessary before widespread implementation of this new technology.

[www.vtt.fi](http://www.vtt.fi)

## Biohit launches a new quick test for celiac disease

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Biohit, the Finnish biotechnology company, has launched a diagnostic quick test which allows the diagnosis of celiac disease from fingertip blood sample. The test is targeted to healthcare professionals. According to the Finnish company, the new test differs from other currently available in its ability to test all the antibodies in a human body. Biohit confirms that the diagnosis from a fingertip blood sample will only take ten minutes.

Quick test is an efficient method to diagnose celiac disease. The test measures gluten antibodies in serum and negative results exclude celiac disease. Compared to endoscopy, fingertip blood test is a much more pleasant way to make the diagnosis (Medical Director of Biohit, Professor **Kari Syrjänen**).

Celiac disease is relatively common autoimmune disease in which the rye, wheat and barley protein (gluten) causes inflammation and damage of intestinal mucosa, which interferes with the absorption of nutrients. According to company's CEO **Semi Korpela**, the new test doesn't completely remove need to endoscopy, but reduces the costs because it cuts the number of unnecessary endoscopies. The quick test cost is a fraction compared to conventional diagnosis by endoscopic biopsy.

The new test is CE-IVD registered and at the time of market entry available in European countries. Biohit was established in 1998, the company is headquartered in Helsinki, Finland. The company has subsidiaries in China, Italy and United Kingdom

[www.biohithealthcare.com](http://www.biohithealthcare.com)

## MetGen Oy

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The enzyme manufacturer based in Kaarina, Southwest Finland, has made it into the 2013 Global Cleantech 100, a list of the world's most promising cleantech companies. The list, compiled by the international consultancy company Cleantech Group, promotes companies that are expected to achieve significant performance in the environmental technology sector over the next five to ten years. The companies on the recently published list were selected from among almost 5,900 unlisted cleantech companies from 60 different countries.

The final selection of the 100 most promising companies was made by a jury of global experts in the sector. MetGen, which develops and manufactures enzymes for the pulp and paper industry and for the production of bioethanol, has recently shown dynamic development. The company received an equity investment of EUR 2.2 million at the beginning of the year.

The manufacturer completed an investment round with some of the leading investors in the industry; it improved the performance of the enzymes significantly and has completed industrial trials with various partners.

The Global Cleantech 100 announcement confirms that we address unmet industry needs and that we are on the right track. Companies from 18 different countries made the Global Cleantech 100 this year. MetGen was the only Finnish company.

<http://www.metgen.com/www.cleantech.com>

## Lift technology reaches new heights

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Finnish lift and escalator maker Kone says it has invented a new technology which means elevators can now travel to heights of one kilometre. That's twice the distance currently feasible and means new buildings can get taller. The company says its UltraRope system, comprising a carbon fibre core and a high-friction coating is extremely light saving energy and space. Operationally, the system is less vulnerable to building sway in high winds. Kone CEO **Matti Alahuhta** believes the technology will revolutionise the elevator industry for the tallest segment of buildings across the globe and gain widespread acceptance. According to the Council on Tall Buildings and Urban Habitat, more than 20 buildings measuring 600 metres are being built around the world. The increased urbanisation of the world's population is likely to fuel this demand further. Kone UltraRope has been developed and tested in real elevators as well as in simulation laboratories at Kone's R&D facilities in Finland.

[www.kone.com](http://www.kone.com)



## Metso ready for plant rebuild to Sweden

Metso, the global technology and service company, will supply Swedish BillerudKorsnäs with a cooking plant rebuild, a brown stock washing plant and a screening plant for its mill in Gruvön in Sweden. The value of the order was not disclosed by the Finnish company. The rebuild will efficiently utilise the wood raw material and lower the chemical consumption in the pulping process. In addition it will substantially reduce the energy consumption within the process as presented by Alf Sondell, Production Manager at BillerudKorsnäs, Gruvön mill. BillerudKorsnäs was formed in 2012 and it has eight production facilities and sales offices in ten countries with about 4,400 employees. The Gruvön mill in Sweden has a production capacity of 685,000 tons per year and it produces kraft paper, sack paper, container board liquid carton board, cupstock and market pulp. BillerudKorsnäs is a leading provider of renewable packaging material. [www.metso.com](http://www.metso.com)



## Vaisala gets Second Wind

Vaisala, the specialist in environmental and industrial measurement, has expanded its presence in wind energy through the acquisition of US company Second Wind Systems. Second Wind, located in Newton, Massachusetts, specialises in remote sensing technology and data services for the wind energy industry. The company's technology provides wind farm developers with dependable wind data they need to plan, finance and operate efficient wind generation facilities. The acquisition of Second Wind fits well our strategic goal to expand Vaisala's presence in the renewable energy markets, according to **Richard Pyle**, Director of New Weather Markets customer group. The combination of the two companies brings unique and comprehensive measurement solutions that are needed to help take the industry to the next level of optimising and integrating wind energy. The wind energy industry needs to evolve to compete with traditional generation sources. Increasing the capability and accuracy of meteorological measurements is critical to keeping pace with advancements in turbine technology. [www.vaisala.com](http://www.vaisala.com)



A handwritten signature in black ink, appearing to read 'R. Pyle'.

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