

Anna-Maija Matilainen (in *The Changing Governance of*

Renewable Natural Resources in Northwest Russia, ed. by S.

Nysten-Haarala, p. 105-128)

Struggle for the Ownership of Pulp and Paper Mills

Introduction

The present paper deals with the pulp and paper industry in Northwest Russia and changing ownership patterns. During recent years the pulp and paper industry in Russia has undergone heavy restructuring and consolidation. Some pulp and paper producers have started to build holding companies in order to strengthen their position on the markets. Large foreign forest enterprises have found the opportunities of Russia's forest sector as well and many of them have made a significant entry into Russia. Furthermore, the pulp and paper industry has attracted the interest of Russian oligarchs. Their more active role on the Russian pulp and paper business has evoked a great deal of confusion. Since the beginning of 2000s enterprise takeover wave has shaken up the pulp and paper industry in Russia. Russian forest enterprises are concentrating into larger units and more powerful enterprises are emerging into the Russian forest sector. Large and relatively lucrative pulp and paper mills have been the main targets of takeover attempts.¹ Accordingly, the hostile takeover attempts have had a great influence on the whole forest industrial sector in Russia. Furthermore, the long-lasting and complicated takeover battles have generated harsh criticism and lively debate over possibilities to regulate enterprise takeovers.

In this article I review the actors in the pulp and paper industry in Northwest Russia and some prominent ownership disputes around the pulp and paper mills. Russian newspaper articles both in national and regional newspapers have provided me with information on ongoing debate over takeover battles. I review court practice as well since the defects of Russian court system and the laws regulating court proceedings as well as rampant corruption have offered a fertile ground for ownership struggles. Also the interviews, which were made during Governance of Renewable Natural Resources in Northwest

Russia project, have provided me with useful background information on the pulp and

¹ In this article I have reviewed ongoing ownership disputes around Russian pulp and paper mills until the summer 2007.

paper business in Northwest Russia. My focus on the role of law in takeover battles. Laws, particularly the law on insolvency and the law on joint stock companies, have been used rather creatively in takeover attempts in Russian pulp and paper industry. There are several cases in which enterprise takeover is an underlying motive of a bankruptcy petition. Particularly, the 1998 edition of the Russian law on insolvency was widely used as an enterprise takeover instrument until 2002, when a new law came into force. Companies seeking to seize control over another companies have also taken advantage of the minority shareholders' rights regulated by the Russian law on joint stock companies.

US and European models have had a great influence on the Russian law on insolvency as well as the law on joint stock companies. Borrowing legal rules from one legal system to another has been discussed widely in comparative law and the study dealing with these issues is vast. The debate is connected with the interaction between law and society and how legal systems evolve in relation to one another. In a nutshell the main question is whether law reflects society or whether society is shaped by the law. For instance Alan Watson contests the theories that regard law as a mirror of a society. According to him legal rules, norms and systems may be successfully borrowed even where the circumstances of the host or recipient are different from the donor. He suggests that changes in legal systems are based on legal transplants. (Watson 1993) Pierre Legrand, on the other hand, stresses the idiosyncrasies of diverse legal cultures which makes borrowing legal rules from another legal systems challenging. (Legrand 1996, Teubner 1998) Gunther Teubner suggests that some areas of law are more or less strongly coupled to social processes, and that the degree of success of a transplant depend on the degree of coupling. (Teubner 1998) There are different opinions whether the term "legal transplant" describes the phenomenon appropriately.² According to Gunther Teubner the concept "legal irritant" expresses things better than "legal transplant" which creates a wrong impression that a foreign rule remains unchanged when it is applied in a new environment. (Teubner 1998)

² In order to keep my focus clear I have not entered the terminological debate in detail. Differences notwithstanding fundamentally the debate is about the same phenomenon borrowing legal rules and models from another legal systems.

Some main actors in the pulp and paper industry in Northwest Russia

The state controlled pulp and paper industry as well as other industrial sectors during the Soviet era. The industrial policy of the Soviet Union was predominantly oriented towards development of large-scale production with the objective of self-sufficiency within the domestic market and total employment. (Dudarev et al. 2002). The concept “forest industry complex” came into use after the World War II. It refers to production complexes comprising of mechanical and chemical forest industry units. The basis of the complex was pulp and paper mill incorporating saw mills and other wood processing industries (Eronen 1999). The Russian pulp and paper industry faced totally new conditions, when the Soviet Union collapsed. Forest enterprises could not any longer rely on the state to find markets and to provide investment capital. Also several new actors came in on the Russian pulp and paper business as pulp and paper mills were privatised (Kortelainen and Kotilainen 2003). My purpose here is not to list exhaustively all the pulp and paper producers that operate in Northwest Russia, but just give some examples. In the Russian pulp and paper industry four different groups of actors can be classified: 1) company managers and employees 2) Russian holding companies 3) Russian businessmen or oligarchs, and finally 4) foreign enterprises. (Kortelainen and Kotilainen 2003, see also Kortelainen and Nystén-Haarala’s article in this volume)

The majority of large Russian pulp and paper mills were privatised in 1993-1994. That period of time was difficult to the mills and adverse situation on the world market made them uninteresting to both foreign timber concerns and Russian investors. Therefore, in most cases, employees and managers became owners of newly privatised pulp and paper combines. (Butrin 2004b) Also privatisation programs gave certain privileges to the company insiders. OAO Kondopoga pulp and paper mill in the Republic of Karelia and OAO Solombala pulp and paper mill in Arhangelsk region are good examples of relatively successful pulp and paper combines that have remained under control of company managers and employees.

AO Kondopoga pulp and paper mill, which is located in the town of Kondopoga, is a significant newsprint producer. The mill was privatised in 1994. The privatisation was peaceful and 80 % of the company shares went to the labour collective (Butrin 2004b). German pulp and paper dealing company Conrad Jacobson is a major foreign shareholder of the company. Also the Republic of Karelia owns company shares. The town of Kondopoga is heavily dependent on OAO Kondopoga. This became evident during interviews made in Kondopoga and Petrozavodsk in the autumn 2004. (More about the interaction between company and town in Jarmo Kortelainen and Soili Nystén-Haarala's article in this volume.) OAO Solombala pulp and paper mill is located just outside of the city of Arhangelsk. It is specialised in manufacturing and exporting high-quality unbleached sulphate pulp. (Solombala pulp and paper mill) The combine remained in the hands of its managers and employees, since it was privatised and converted into an open joint stock company in the early 1990s. (Butrin 2004b) Recently, Solombala pulp and paper mill has entered into a new holding company Solombalales. (Dimitrev 2007) In addition to Solombala pulp and paper mill Solombalales comprises of sawmill and wood processing enterprise, several logging companies and other enterprises which support the functions of the holding company. (Solombala pulp and paper mill) Both OAO Solombala and OAO Kondopoga pulp combines have managed to avoid ownership struggles so far. However, in the summer 2004 market rumours suggested that company Basic Element has offered to buy Solombala pulp and paper mill. (Antanta Capital 2006)

In Russia the privatisation of forest enterprises resulted in severing the traditional ties of the industry. Even combines that previously had been part of a larger complex were separated. (Kortelainen, Kotilainen 2003, Dudarev et al. 2002) Recently, the ownership of Russian forest enterprises has become more and more concentrated. Many Russian forest enterprises have started to build holding companies. Usually these holding companies comprise of one or more pulp and paper mills, suppliers of raw materials, other wood processing enterprises and enterprises, which are responsible for the distribution of end products. Ilim Pulp Enterprise, Arhangelsk pulp and paper mill and Continental Management are mentioned here as examples of large holding companies, which operate in Northwest Russia.

Initially, Ilim Pulp Enterprise specialised in the distribution of Ust-Ilimsk and Kotlas combines' products. However, soon it became clear that business stability and efficiency depended on consolidation of production processes and the company adopted the policy of building a single vertically integrated company comprising among other logging, distribution and marketing. (Ilim Pulp Enterprise) Ilim Pulp Enterprise controls some large pulp and paper combines such as Kotlas pulp and paper mill in Arhangelsk region. In Irkutsk region it runs Bratsk pulp and containerboard mill and Ust-Ilimsk pulp mill. In summer 2007 Ilim Pulp Enterprise was reorganised and renamed as Ilim Group.³ Recently, Ilim Group has strengthened considerably its position in the Russian forest sector. In August 2007 Ilim Group and International Paper agreed to establish a new joint venture. According to press reports International Paper has bought 50% of the shares of Ilim Holding S.A. By means of the joint venture both companies seek to strengthen their position on the pulp and paper business in Russia. (Griškovec 2007)

Arhangelsk pulp and paper mill is located in the city of Novodvinsk in the Arhangelsk region. The company produces pulp, paper, board and fibreboard. Arhangelsk pulp and paper mill was turned into a joint stock company in 1992. Until 2003 the mill was part of a huge timber holding company Titan Group. Since 2003 Austrian company Pulp Mill Holding has functioned as a managing company of the mill. Arhangelsk pulp and paper mill controls several logging enterprises and OAO Arhbum, which is an exclusive supplier of the mill. (Arhangelsk pulp and paper mill). During recent years Arhangelsk pulp and paper mill has been in the middle of ownership disputes. Pulp Mill Holding and Continental Management have struggled for the control of the mill.

Continental Management Timber Industrial Company is also a significant actor in Russian pulp and paper industry. Oleg Deripaska's company Basic Element, which was known as Siberian Aluminium (SibAl) until 2001, controls the company.⁴ According to Continental Management's webpages the company was established on March 2002

³ I use both names depending on timing.

⁴ I use both names depending on timing.

pursuant to Basic Element group's decision to develop a lumber-related line of business. In Northwest Russia Continental Management operates in sawmill and wood processing industry. (Continental Management Timber Industrial Company) Continental Management has been seeking to expand its business networks vigorously. The company has generated a lively debate among the Russian pulp and paper producers, since it has attempted to takeover some large pulp and paper mills. Continental Management and Ilim Pulp Enterprise struggled for the control over Kotlas, Bratsk and Ust-Ilimsk combines for several years. Recently, it has attempted to seize the control over Arkhangelsk pulp and paper mill and OAO Volga.

New holding companies are being established in the Russian forest sector as well. Investlesprom is mentioned here as an example of newcomers in the Russian pulp and paper industry. The holding company operates in Northwest Russia and it comprises of several pulp and paper mills, logging companies, saw mills and other wood processing enterprises. For instance Segezha pulp and paper mill, which is located in the Republic of Karelia, is an essential part of the holding company. (Investlesprom)

Large foreign forest enterprises have also shown growing interest in the pulp and paper business in Northwest Russia and some Russian pulp and paper combines are already controlled by them. Russia's huge natural resources and growing markets offer great opportunities for foreign investors. However, with great opportunities there are also huge risks involved. (Ernst&Young 2007) Jarmo Kortelainen and Soili Nystèn-Haarala review in their article AssiDomän's failure to run Segezha pulp and paper mill in the Republic of Karelia. Nonetheless, some foreign direct investments have been more successful. Svetogorsk pulp and paper mill in Leningrad region and Syktyvkar pulp and paper mill in the Republic of Komi are both controlled by foreign companies. These mills are among the most successful pulp and paper combines in Russia. The Syktyvkar pulp and paper mill is controlled by Austrian company Neusiedler, which is part of Mondi Europe owned, in turn, by company Anglo-American. International Paper bought Svetogorsk pulp and paper combine already in 1998. As already mentioned, recently International Paper has started to co-operate with Ilim Group.

The ownership disputes around Russian pulp and paper mills

In Russian and foreign media the ownership disputes around the Russian pulp and paper combines have been called as "forest wars" after the so-called "aluminium wars" of the mid-1990s. According to the newspaper Kommersant the starting point of so-called "forest wars" in the Russian forest sector was the struggle for the control over the Ust-Ilimsk Forest Industry Complex between Continental Invest and its partner Energoprom. (Butrin 2004a) As a result of the conflict Oleg Deripaska's Siberian Aluminium (SibAl) entered the Russian forest sector. As Energoprom had seized the control over Ust-Ilimsk Forest Industry Complex, the management of Continental Invest asked SibAl for help. Under the auspices of SibAl Continental Invest managed to win back the control over Ust-Ilimsk combine. However, SibAl, in turn, swallowed up Continental Invest and in this way it acquired a new resource: managers with an in-depth knowledge of the forestry business. Then the group started to look for other target enterprises and its gaze alighted on the neighbouring Bratsk Forestry Plant, which belonged to Ilim Pulp Enterprise. SibAl acquired the plant by means of bankruptcy procedure. However, the ownership change was only temporary and eventually Ilim Pulp Enterprise managed to win back the control over Bratsk Forestry Plant and, furthermore it bought Ust-Ilimsk combine as well. (Latyina 2002, Pronin 2003 Kilmenko 2003)

The struggle for the ownership of Ust-Ilimsk Forest Industry Complex had far-reaching outcomes and in many respects, it determined the development scenario of the entire industrial sector. (Butrin 2004a) A real takeover wave in the Russian forest sector was launched by SibAl together with its allies. Accordingly, in 2001 the group announced their plan to move a significant amount of capital from the aluminium, oil, and banking sectors to the forest industry and particularly to pulp and paper production. Their objective was to establish a large timber holding company in Russia. This meant a serious takeover threat, since the main assets of Ilim Pulp Enterprise as well as Arhagelsk pulp and paper mill were considered to be the basis of this new holding company. (Butrin 2004a,c)

In 2002 Basic Element (former SibAl) established Continental Management on the basis of the assets of Continental Invest. A new conflict between Continental Management and Ilim Pulp Enterprise began in spring 2002, when Continental Management attempted to seize the control of Kotlas and Bratsk combines. (Klimenko 2003) During the takeover attempt Continental Management acquired 61% of the shares of Kotlas combine and 83% of the shares of Bratsk combine. (Sikamova 2004a) In the summer 2002 newspaper Vedomosti reported that Ilim Pulp Enterprise was going to lose the Kotlas pulp and paper mill, since Continental Management had started to co-operate actively with the combine's clients and renegotiate contracts with them. (Novolodskaja, Temkin 2002) Nonetheless, Ilim Pulp Enterprise refused to give up the control over its major combines. Also employees of Kotlas combine supported Ilim Pulp Enterprise. The employees of the mill regarded Continental Management as an intruder and according to newspaper reports there was even a threat of an armed conflict between the conflicting parties. (Bratkov 2002, Volkov 2004) The dispute around Kotlas and Bratsk combines lasted until 2004. Eventually the rivals managed to reach a settlement. The end of the long-lasting ownership dispute was regarded as a positive signal and the agreement between Ilim Pulp Enterprise, Continental Management and its partner Promyšlenno-stroitel'nyj bank was reported widely by Russian newspapers. Ilim Pulp Enterprise retained control over Kotlas and Bratsk combines. According to the newspaper reports Promyšlenno-stroitel'nyj bank became a shareholder of the companies belonging to Ilim Pulp Enterprise and it gave up its share ownership in Continental Management. Promyšlenno-stroitel'nyj bank owned 20% of the shares of Arhangelsk pulp and paper mill and on the grounds of the agreement the bank sold these shares to Continental Management. (Sikamova, 2004a)

Obviously, the sale of the shares of Arhangelsk pulp and paper mill to Continental Management was a significant turn of events. Soon after the conflict between Continental Management and Ilim Pulp Enterprise, a new ownership dispute started in the Arhangelsk region. Newspaper reports illustrate that the management of Arhangelsk pulp and paper mill was very aware of the hostile takeover threat. (Sikamova 2004c, Butrin 2004c) Arhangelsk pulp and paper mill was controlled by Titan Group until the autumn 2003. In the summer 2003 an Austrian company Pulp Mill Holding, which was one of the foreign

shareholders of the mill, obtained permission from Russian antimonopoly officials to consolidate 75% of the company shares. Some specialists suggested that the main purpose of this friendly takeover was to protect the company against hostile takeover attempt. (Fëdorov 2003) According to press reports Pulp Mill Holding managed to consolidate only 65% of the shares of Arhangelsk pulp and paper mill. The transaction was contested by a minority shareholder of the mill - Hover Group. As a result of Hover Group's lawsuit, Moscow Arbitration Court held that the consolidation of the shares of Arhangelsk pulp and paper mill was illegal. In newspapers this turn of events was considered as a serious warning signal of a hostile takeover. (Butrin 2004c) In addition, it was suggested that Hover Group worked together with Continental Management. Nonetheless, Continental Management argued that it has not any connections with the lawsuit filed by Hover Group. (Sikamova, Ščerbakova 2004)

Continental Management has managed to increase its share ownership in Arhangelsk pulp and paper mill. As already mentioned, on grounds of the agreement between Ilim Pulp Enterprise, Continental Management and Promyšlenno-stroitel'nyj bank Continental Management acquired 20% of the shares of Arhangelsk pulp and paper mill. Furthermore, it bought 12,5% of the shares of Arhangelsk pulp and paper mill from Wilfried Heinzl. (Hrennikov, Ščerbakova, Sikamova 2004) Continental Management has actively participated in the governance of Arhangelsk pulp and paper mill. There is a deep mistrust between Continental Management and Pulp Mill Holding. The conflicting shareholders have not managed to reach understanding of how the company should be run.

In addition to above mentioned corporate conflicts the ownership struggles around Sokolsky pulp and paper mill and OAO Volga have attracted the interest of Russian media as well. Sokolsky pulp and paper mill is located in Vologda region. Vektor and Gruppa Fox struggled aggressively for the control over Sokolsky pulp and paper mill. According to newspaper reports there was even an armed conflict between the parties in the autumn of 2004 and some people were injured in a clash with the armed troops. In newspapers the conflicting parties accused each other for violence. (Pravda Severa 2004,

Sikamova 2004b) Nowadays, it seems that the situation in Sokolsky pulp and paper mill is more peaceful and the mill is now a part of the newly established holding company Investlesprom. (Lesgazeta.ru 2007) OAO Volga, on the other hand, is in the middle of ownership disputes. OAO Volga, which is located in Nizhniy Novgorod region, is controlled by Ost-Vest Group. According to press reports Continental Management had offered to buy OAO Volga already in 2004. Ost-Vest Group refused to sell the company, since it planned to build a holding company on the basis of OAO Volga. (Hrennikov, Simakov 2005) Ever since OAO Volga has been the subject of numerous inspections and audits carried out by local and state authorities. Also the company management has been accused for tax evasion. It is suggested that all these difficulties are connected with the takeover attempt. (Čičurina 2005)

The enterprise takeovers in Russia

Takeovers, their motives and consequences and whether takeover market operates efficiently have been the subject of numerous theoretical and empirical studies. The existing study is vast and it is beyond the scope of this article to review it in detail. An enterprise takeover is more than just a transfer of ownership. Typically the acquired firm undergoes a major reorganisation. Whether these changes create or destroy value have caused considerable controversy among businessmen and scholars. Those threatened by the changes that restructuring brings about argue that takeovers are damaging to the economy, harmful to the morale and productivity of organisations and pressuring the executives to manage for the short-term. Thus, enterprise takeovers destroy rather than create value. (Jensen 1988) However, others argue that takeovers are motivated by value improvements. Takeovers represent productive entrepreneurial activity that improves the control and management of the assets and help to move them to more productive uses. Changing technology or market conditions require restructuring of corporate assets. On the other hand, in some cases takeovers occur because incumbent managers are incompetent. (Jensen 1988, 1986) Enterprise takeovers reduce agency costs stemming from the separation of ownership and control. Company's efficiency is increased ex-post

by replacing managers who are either less competent or are not acting in the shareholders' best interest. (Burkart, Panunzi 2006)

Enterprise takeovers are classified as friendly or hostile depending on managers and shareholders' attitudes towards takeover bid. A hostile takeover is an attempt to gain control over the financial and economic operations or assets of the target company in the face of resistance from the target company management and shareholders. (Radygin et al. 2003) However, it is suggested that this simple distinction is not as clear as it seems. Transactions may contain both hostile and friendly elements and many voluntary transactions would not occur without threat of hostile takeover. (Jensen 1988, Schwert 2000) "Hostile takeover" is also a well known term in Russia. Some Russian scholars prefer to use the concept "redistribution of ownership" instead of the terms "merger and acquisitions" or "takeover" in order to underline the characteristic features of enterprise takeovers in Russia. (Radygin et al. 2003, Beljaeva, Beljaev 2005) It seems that abuse of legal system and corruption are inextricably connected with the Russian hostile takeovers. (Markov 2007) However, it has been highlighted that it is incorrect to presume that hostile takeover activities always involve use of dubious methods. They can be carried out in a legal manner as well and hostile takeovers can increase the efficiency of the acquired company. (Demidova, 2007, Čujasov 2007, Pozdnjakov 2006)

Russian scholars tend to argue rather unanimously that hostile takeovers became a prevailing practice after the 1998 financial crisis. Laws regulating mergers and acquisitions were new and legislation was considered to be too complicated. Managers and shareholders as well as authorities of securities market and judges were not familiar with new laws. Also Russian securities market was rather underdeveloped. Therefore, hostile takeovers were regarded as the cheapest and simplest way to acquire control over an attractive company. In big cities like Moscow hostile enterprise takeovers were used as a device for acquiring real estates. In these cases typically new owners had not any long-term business interest and eventually acquired enterprises were liquidated. (Beljaeva, Beljaev 2005) This article deals merely with the takeover attempts in the Russian pulp and paper industry. However, ownership disputes are not unknown

phenomenon in other industrial sectors either. According to Vladimir Volkov since 1998 the principal targets of enterprise takeovers in Russia have been: a) lucrative export-oriented enterprises such as aluminium, steel or cellulose production and electric machine-building, b) enterprises of the so-called "fuel and energy complex" c) ore-processing plants and enterprises that supply vital raw materials to metallurgical enterprises, d) enterprises in consumer industries such as food, alcohol and cosmetics and e) any enterprises possessing valuable assets that could profitably be sold. (Volkov 2004)

Mergers and acquisitions are regulated by the Russian law on joint stock companies. Provisions dealing with mergers and acquisitions can be found from Russian civil code as well. The law on joint stock companies regulates acquisitions of shares of company and the procedures, which have to be followed during the transaction. Other laws such as antimonopoly regulation must be taken into account as well. The protections set forth in legislation are designed to ensure that the shareholders of any company to be acquired receive fair market value of their investment, even if the company is acquired in a hostile takeover. However, in practise regulation on mergers and acquisitions has been superseded by powerful informal practises. The abuse of legislation and involvement of the state and local authorities in takeover battles is considered to be a serious problem. (Hakimov 2004, Volkov 2004, Markov 2007) The institution of bankruptcy and the minority shareholders' rights regulated by the law on joint stock companies have played a key role in ownership struggles in the Russian pulp and paper industry. Later I will review in more detail what kind of possibilities these laws have offered to the companies planning takeovers. Other laws like criminal legislation have been used as takeover tools as well. The groups planning takeovers search all the time new takeover methods, as old ones become too risky. All kinds of fabricated charges have been pressed against the shareholders and managers of the target enterprises in order to put pressure on them. (Loginov, Tormozova 2007)

Foreign models have had a significant influence on the Russian law on insolvency as well as the law on joint stock companies. The abuse of legislation in the Russian hostile takeovers illustrates that borrowing legal rules from one legal system to another is a

challenging task. Transplanted law does not necessarily match with preexisting conditions and institutions. Legal rules, which work well in one country, might bring unexpected outcomes when moved to another country. As Teubner puts it, a foreign rule is irritant or outside noise in a legal system. It irritates not only the minds of lawyers who apply the rule but law's binding arrangements as well. A foreign rule triggers a whole series of new and unexpected events in the environment in which it is transferred. A foreign rule itself undergoes transformation as well and it does not continue to play its old role when it is applied in new circumstances. (Teubner 1998) It seems that even the Russians have been surprised at the widespread practice of using law as a weapon in business conflicts. However, it would be incorrect to assume that bankruptcy and company legislation have been abused in the takeover battles only because of foreign models have had influence on them. The performance of legal rules depends upon the environment in which they are applied. According to Douglass, C. North formal rules, like laws, can be altered relatively quickly, but informal constraints, such as customs and codes of conducts, change more slowly. In Russia the transition to a market economy led to the destruction of the old formal institutional framework and the emergence of new formal rules. However, many informal constraints have survived despite the huge changes. (North 1990, 1997) Also Alena Ledeneva underlines the central role of informal practices or, unwritten rules, in Russian economy. When formal rules and mechanisms of enforcing them are inefficient and people do not respect formal rules, different kinds of informal practices "to get things done" become crucially important. (Ledeneva 2001)

The abuse of legislation in hostile takeovers in Russia is closely connected with corruption and involvement of state and local authorities in business conflicts. The actions of economic subjects depend on the means available on them and legal rules become means rather than constrain if economic subjects have a strong influence on the interpretation and enforcement of laws. (Volkov 2004) It has been suggested that the characteristic feature of Russian hostile takeovers is extensive use of so-called administrative resources. (Demidova 2007, Volkov 2004) This term refers to the capability of the groups planning takeovers to assemble and co-ordinate network of actors who are powerful enough to support the acquisition of property. Often, the actors of such

network belong to the state and are mobilised by the group planning takeover through a combination of formal and informal methods. The use of "administrative resources" allows the group planning takeover to reach at least three main objectives (1) assure that law is applied in favour of takeover (2) to ensure security during takeover process and (3) to create insecurity and exercise pressure in relation to the opponent (Volkov 2004).

Russian courts have played a key role in the hostile takeovers in Russia. The groups planning takeovers have taken advantage of the defects of the Russian court system and corrupted judges. It seems that jurisdiction of Russian courts is not clear. Corporate conflicts have been heard by both arbitration courts and courts of general jurisdiction. In practice corporate conflicts have been disguised as disputes concerning for instance labour issues which could be heard by the courts of general jurisdiction. In addition there are instances where the same lawsuit has been heard by two or more different courts. (Prockurjakova 2006) No doubt, this state of affairs generates a great deal of confusion. Another serious problem is that often lawsuits connected with takeover battles are brought in courts, which are located as far as possible from the target company's registered office. Often the groups planning takeovers seek to bring the suits in the courts in which they could more likely obtain the decisions which support takeover attempt. (Prockurjakova 2006) This also hinders the owners of the target company to defend their rights efficiently in a trial. The defendant does not necessarily get sufficient information on court proceedings. Travelling can be difficult and different time zones have to be taken into account as well. (Čujasov 2007) It is widely acknowledged that corruption plays an important role in the takeover battles in Russia. (see for instance Volkov 2004, Čujasov 2007) Court decisions are often prearranged. Fast trial and enforcement of judgements are essential for the success of takeover. The management of the target enterprise is often paralysed with a surprise attack.

The characteristics features of ownership disputes in the Russian pulp and paper industry

The ownership disputes around Russian pulp and paper mills are commonly classified as hostile enterprise takeovers by the Russian press. The management of the mills as well as

shareholders and employees have heavily resisted takeover attempts. In certain extreme cases such as Sokolsky case there have been even armed conflicts between competing shareholders. It seems that the ownership struggles around the Russian pulp and paper mills are to some extent connected with the privatisation of these enterprises. Ownership arrangements, which are based on the privatisation of enterprises, have turned out rather vulnerable. There are several instances in which the decisions and choices which were made during the privatisation process of pulp and paper mill have been later contested in order to alter the ownership structure of the mill. For instance the sale of the shares of Kotlas pulp and paper mill was arranged in this way. A minority shareholder of the mill filed a suit in the district court of Kemerovo and alleged that the majority shareholder of the combine, Ilim Pulp Enterprise, had failed to observe the privatisation agreement of 1994. According to the plaintiff the management of Ilim Pulp Enterprise had not fulfilled the investment plan prescribed by the agreement and this had caused damages to the mill. The court ruled in favour of the plaintiff and ordered compensation from Ilim Pulp Enterprise equivalent of 60% of the shares of Kotlas combine. As an outcome, a significant block of shares of Kotlas combine were at first confiscated and then later on put up to sale. The shares were bought by Continental Management's front company. Also the sale of the shares of Bratsk combine was arranged in a similar way. As a result of the minority shareholder's suit a significant amount of the shares of the Bratsk combine were confiscated and later on sold. (Volkov 2004, Jeremenko 2004)

During the takeover battle the privatisation of Arhangelsk pulp and paper mill and particularly the establishment of a holding company Severnaja Selluloza has been contested as well. Holding company Severnaja Selluloza was founded in 1994. At that time 20 % of the shares of Arhangelsk pulp and paper mill were owned by Arhangelsk region. During the privatisation of Arhangelsk pulp and paper mill these shares were transferred to the share capital of Severnaja Selluloza. Several years later this transaction has become the subject of a long-lasting criminal investigation. (Rebov 2005) According to press reports at the end of 2005 16% of the shares of Arhangelsk pulp and paper mill were confiscated on the grounds of this criminal investigation. The confiscated shares belong merely to Pulp Mill Holding. It is suggested that the criminal investigation as well

as the confiscation of the shares are closely connected with the struggle for the control over the mill between Pulp Mill Holding and Continental Management. (Pravda Severa 2007, Temkin 2006, 2005b)

Finally, there has been controversy over the privatisation of OAO Volga as well. In 2005 local officials of Nizhniy Novgorod region, who were responsible for property issues, brought a suit against OAO Volga in arbitration court alleging that decisions made during the privatisation of the enterprise in 1994 were null and void. However, according to press reports the court ruled eventually in favour of OAO Volga. The main argument of the court was that the period for filing the suit had expired. Also it was suggested that the plaintiff did not have the right to sue. (Fil'cov, Miljaev 2005) The representatives of the pulp and paper mill considered that the underlying motive behind the lawsuit was a hostile takeover attempt. (Regnum 2005)

The state and local authorities as well as Russian media have played a significant role in the ownership disputes in Russian pulp and paper industry. Ownership struggles around Arhangelsk pulp and paper mill and OAO Volga illustrate, how both conflicting parties have used their administrative resources during takeover battle. So-called "ordered inspections", carried out by different state officials such as tax authorities, have been a common phenomenon in the takeover battles in the Russian pulp and paper industry. According to press reports both Arhangelsk pulp and paper mill and OAO Volga have become the targets of numerous inspections and audits carried out by different state authorities. (Kistanov 2006, Pravda Severa 2006) For instance the representatives of OAO Volga have told that the number of inspections and audits have increased substantially, after the management of the combine had refused to sell the company to Continental Management. (Hrennikov, Simakov 2005) The groups planning takeovers have used Russian media as a device for mobilising the state and local authorities. Typically the group planning takeover publishes an announcement in a newspaper in which it is suggested that the target company has for instance substantial tax arrears. As an outcome alleged tax arrears attract the interest of tax authorities and they start a tax audit. Furthermore, the groups planning takeovers have taken advantage of their

connections to the State Duma. Some members of the State Duma have helped these groups by persuading other state authorities to initiate different kinds of inspections and audits. (Kistanov 2006) Undoubtedly, inspections and audits harm everyday operations of the target enterprise, since they cause extra work. Inspections and audits have been used as a device for collecting information on the target enterprise as well. The group planning takeover needs information on the target company's management, financial status and ownership structure etc. Collecting information can be a hard task, since usually Russian companies are not very transparent. In practice there are several instances where the state officials such as tax authorities have acted on behalf of the groups planning takeovers and collected for them information on the target enterprise. (Hakimov 2004)

On the other hand, the takeover targets have used their administrative recourses as well. Arhangel'sk pulp and paper mill and OAO Volga have started to work together against hostile takeover attempts. This kind of an alliance of large enterprises is not so common in Russia. Representatives of both companies have told in newspapers rather frankly about what kind of difficulties their companies have met during takeover battles. The management of the OAO Volga has also worked together with the state and local authorities in order to defend the company against a takeover attempt. Both Arhangel'sk pulp and paper mill and OAO Volga have actively participated in the work of different state committees. For instance, they have worked together in a special committee whose objective is to monitor hostile takeovers and to find solutions to the problems caused by ownership struggles. The committee has been established by the Russian Chamber of Commerce and Industry. (Rossijskaja Gazeta 2006) Also the Russian Association of Organisations and Enterprises of the Pulp and Paper Industry RAO Bumprom has openly supported these companies as they have campaigned against hostile takeovers.

Finally, all kinds of media campaigns have been rather common in the ownership struggles around the Russian pulp and paper mills. National and regional newspapers have reported in detail on the takeover battles in the Russian forest sector. Conflicting parties have taken advantage of the media's interest as well in order to promote their own point of views and put pressure on their rivals. For instance news dealing with the

negotiations between Ilim Pulp Enterprise, Continental Management and Promyšlenno-stroitel'nyj illustrate this well. (Hrennikov 2003)

Hostile enterprise takeovers behind bankruptcy proceedings

At the macro level the objectives of bankruptcy legislation can be considered to be for instance: (1) reducing business risks by liquidating inefficient enterprises, (2) redistributing industrial assets in favour of efficient enterprises and (3) developing a competitive environment. On the other hand, at the micro level bankruptcy norms can assist in: (1) protecting creditors' rights, ensuring financial discipline and raising the trustworthiness of credit transactions, (2) reorganising enterprises and carrying out their fiscal restructuring and (3) improving the quality of company management, redistributing the property in favour of efficient owners and replacing inefficient managers. (Dolgopyatova 2003)

The 1998 edition of the Russian law on insolvency was regarded as a great step towards more efficient and better functioning enterprises. The former law, which dated from 1992, had in practice turned out inefficient and it barely functioned at all. (Tompson 2003) Indeed, number of bankruptcies skyrocketed, since the law on insolvency came into force in 1998. However, the main reason for this development was that, bankruptcy was used as a device for redistributing ownership rights and control over enterprises. (Volkov 2004) So-called "ordered bankruptcies" proved to be relatively profitable business and soon firms and groups which were specialised in this kind of business operations emerged in Russia. Typically lawyers with comprehensive knowledge of the nuances of insolvency legislation constituted the core of the group. Former judges, officials from law enforcement agencies and other state structures directly related to the economic regulation participated in the bankruptcy business as well. The primary task of these firms and groups was to chase down appropriate takeover targets for their clients and help their clients during bankruptcy proceedings. (Černigovskij 2001)

The 1998 edition of the law on insolvency had several shortcomings and the groups planning takeovers found out that by means of bankruptcy procedure it was relatively easy to engineer the change of the management of target enterprises. Bankruptcy proceedings could be initiated rather easily and even minor creditors could file bankruptcy petition. The law permitted arbitration courts to initiate bankruptcy procedures against an enterprise, whose outstanding debt exceeded the equivalent value of 500 monthly minimum wage⁵ and the debt was not repaid within three months after the due date. (Volkov 2004)

Thus, a prerequisite for using bankruptcy as a takeover tool was that the target company owed some money to the party planning a takeover and the target company had not repaid the debt in time. The group planning takeover could persuade already existing creditors to collaborate with it. Typically, the group planning takeover simply bought the debts of the target company in the form of a bill of exchange. (Radygin, et al.) 2005 Russian legislation provided that the debtor should be informed about the change of creditor. However, in practise the debtor was given no notification at all, since the group planning takeover did not want to warn the target company beforehand. Instead of the notification as required by the law the target enterprise was sent, in a registered letter, an empty sheet or some advertising material. Later on also the demand for payment was sent to the target enterprise in a similar manner. Then in a trial postal receipts and copies of the documents presumably contained in the letters thus mailed served as evidence of that the debtor had failed to repay the debt in time and the creditor had a right to file a bankruptcy petition. There are also several cases where rather dubious methods were used in order to hinder the target company from repaying its debts. For instance the creditor sent the debtor incorrect bank requisites. (Černigovskij 2001, Radygin, et al. 2005)

One of the greatest shortcomings of the 1998 edition of the law on insolvency was that the functions of temporary and external managers were supervised inefficiently. In

⁵ In Russia a minimum wage is regulated by the federal law on minimum wage. Also provisions dealing with salaries can be found on the Russian labour code.

principle, temporary and external managers' main task was to balance the interests of the debtor and the creditors and to ensure that the rights of the all parties are respected. (Tompson 2003) However, in practise temporary and external managers merely attended the interests of parties planning takeovers.

Temporary managers were appointed by arbitration courts but very often the court decisions were prearranged and the representatives of the parties planning takeovers were nominated as temporary mangers. (Volkov 2004) Temporary managers had to ensure among other things that bankruptcy was not ordered one but in practise they ignored even the most obvious indicia of "ordered bankruptcy".⁶ They were also responsible for gathering information on the assets and debts of the bankrupt enterprise but often temporary managers manipulated the debts of the target company in order to ensure that the bankruptcy proceedings take the course desired by the groups planning takeovers. (Radygin, et al. 2005)

As bankruptcy proceedings went on bankruptcy creditors appointed external managers. External mangers replaced the management team of the bankrupt company. They had wide powers and it was during the external manager's administration that enterprise takeover occurred. (Radygin, et al. 2005) Arbitration court had to confirm the appointment of an external manager on the basis of the minutes of creditors' meeting. In practise the groups planning takeovers could rather easily get their own representatives appointed as external managers. Temporary managers were responsible for taking the minutes of creditors' meeting but no-one ensured that the decisions of the creditors' meeting were actually written into the records. There are instances where arbitration court appointed a person as an external manager against the will of the bankruptcy creditors, because the temporary manager had manipulated the minutes of the creditor' meeting. (Volkov, et al. 1999)

⁶ Radygin et al (2005) describes a bankruptcy case, where a temporary manager confirmed that there was no indicia of a premeditated bankruptcy. However, later it become clear that the debtor had been willing to repay the debt but the creditor had purposely hindered the payment. The creditor had given the debtor incorrect bank requisites and therefore, the debtor could not pay the debt in time.

The administrative resources of the groups planning takeovers played an essential role in this takeover scheme. The groups planning takeovers had to ensure that their representatives are appointed as temporary and external managers by court. Also efficient trial and rapid enforcement of judgements were essential for the success of takeover. Rather often special police forces and other armed troops were used in order to ensure the change of the management of the target enterprise. They ensured that external managers could start to run the company. Also the security service of the acquired enterprise was replaced with new management's own security personnel in order to ensure that the old management never returns. As a new management team had started its work, in practice it proved to be very difficult for the old management to reverse the situation. (Volkov 2004)

The outcome of the takeover depended on the objectives of the aggressor. Sometimes a new management was only interested in quick, short term profits. On the other hand, in some cases a new management had a long term business interest and the acquired company remained in the control of a new management team. (Volkov, et al. 1999, Volkov, 2004) Long term business interests have been the main motive of the hostile enterprise takeovers in the Russian pulp and paper industry. Continental Management has attempted to takeover pulp and paper mills in order to create a large holding company in Russia.

Bankruptcy proceedings were used as a hostile takeover instrument in the metallurgy, oil and gas industries as well as in the pulp and paper industry. For example in the case of Bratsk Complex Holding takeover was carried out by means of bankruptcy procedure. By the end of the 2001, the electricity debt of Bratsk Complex Holding to the local energy company Irkutskenergo was 750 million roubles. In the same year SibAl had acquired 30% of the shares of Irkutskenergo and appointed a new management. Bratsk Complex Holding offered to repay the energy debt in order to avoid bankruptcy. SibAl engineered the change of the management of Bratsk Complex Holding by means of minority shareholder's lawsuit. As a result of the suit the court dismissed the incumbent management of Bratsk Complex Holding. This court decision was enforced rapidly with

a help of court bailiffs and armed guards. As a new management team started its work, it cancelled immediately the repayment agreement with Irkutskenergo. Accordingly, Irkutskenergo, which was controlled by SibAl, could initiate bankruptcy proceedings. SibAl managed to seize the control over Bratsk Complex Holding only temporarily. Eventually, conflicting parties reached a settlement and Ilim Pulp Enterprise retained control over Bratsk Complex Holding. (Volkov 2004, Pronin 2003) The practice of using bankruptcy as a hostile takeover tool generated harsh criticism in Russia. Therefore a new law on insolvency was adopted in 2002. The new law and more close supervision of its application diminished considerably the abuse of bankruptcy in hostile takeovers. (Volkov 2004, Beljaeva, Beljaev 2005.)

The Russian law on joint stock companies and hostile enterprise takeovers

Obviously, the objective of the minority shareholders' rights regulated by the Russian law on joint stock companies is to provide minority shareholders possibility to influence on the governance of the company and protect them against the misconduct of controlling shareholders. The hostile takeover attempts in the Russia pulp and paper industry illustrate that minority can sometimes oppress majority as well. According to Volkov the abuse of minority shareholders' rights in takeover battles was rather rare practice before 2001. It became more popular through attempts to change the ownership of the major enterprises in the pulp and paper industry. (Volkov 2004)

According to press reports minority shareholders' lawsuits have been rather common in the ownership disputes around the Russian pulp and paper mills. Several lawsuits have been filed against Arhangelsk pulp and paper mill by minority shareholders. For instance in August 2005 a minority shareholder of the mill Watech Ltd brought a suit against the pulp and paper mill in the arbitration court of the Arhangelsk region. Watech Ltd. alleged that the contract between Arhangelsk pulp and paper mill and its exclusive distributor Arhbum was disadvantageous to the mill. According to Vedomosti Watech Ltd. was strongly supported by Continental Management and the lawsuit was regarded to be closely connected with ongoing ownership dispute. (Temkin2005a) Also in the same year

there was controversy between Watech Ltd and Arhagelsk pulp and paper mill over minority shareholder's right to get information on the financial position of the mill. (Rebov 2005) Furthermore, minority shareholder's lawsuit were in a central role in the struggle for the control over Bratsk Complex in 2001. The company's old management team was dismissed as an outcome of minority shareholder's appeal and a new management helped the attacking party to initiate bankruptcy proceedings. Also the sale of the target company shares has been arranged by means of minority shareholders' suits. Minority shareholders' lawsuits were the starting point of the controversy over the ownership of Kotlas and Bratsk combines in 2002. As already mentioned, minority shareholder contested the privatisation of Kotlas pulp and paper mill and as a result of the lawsuit significant block of shares of the mill were sold to the front company of Continental Management. The sale of the shares of Bratsk pulp and paper mill was arranged in a similar manner.

Minority shareholders' lawsuits have played an important role in the hostile enterprise takeovers in Russia. Also minority shareholders' right to call an extraordinary shareholders meeting has been abused by the groups planning takeovers. Both moves are designed to change the management of the target company. In order that the group planning takeover could use minority shareholders' rights, it has to own a sufficient amount of shares of the target company. This can be a difficult task, if the target company is controlled by company insiders such as employees and managers and they are not willing to sell their shares. However, it is possible to take advantage of minority shareholders rights without share ownership, if already existing minority shareholders agree to collaborate with the group planning takeover. If there are conflicts of interest between minority shareholders and controlling shareholders it can be sometimes rather easy to persuade minority shareholders to contribute to hostile enterprise takeover. (Ključko 2003) In practice there are also cases in which minority shareholder is purely artificial. Thus, later it has turned out that the minority shareholder that had filed a suit did not actually own any shares at all. (Volkov 2004)

Precautionary measures have been abused rather often in the Russian hostile takeovers and there are cases where minority shareholders have brought a lawsuit against the target company in order to obtain a court ordering for precautionary measures. As an outcome of such minority shareholders' lawsuit courts have put different kinds of restrictions on the shares belonging to a majority shareholder. (Volkov 2004) For instance shares belonging to majority shareholders have been confiscated or the majority shareholder has been prohibited from voting in shareholders' meetings. In practice also on the grounds of court ordering the target company's governing bodies as well as registrar, which is responsible for keeping shareholders register, have been prohibited from making certain decisions or carrying out their duties. (Romanenko 2007). As a rule in shareholders' meeting decisions are made with a simple majority excluding the decisions which according to the law require a qualified majority of three-quarters. In practice precautionary measures have proved to be a useful device for engineering decision-making in shareholders' meetings. Often such court ordering is based on minority shareholder's claim that some acts of the majority shareholder have caused damages to the minority shareholder and the appropriate protection of minority shareholder's interest involves enjoining the majority shareholder from voting in shareholders' meeting. (Ključko 2003, Čujasov 2007) As the majority shareholder is prohibited from voting in the shareholders' meeting by a court ordering, the minority shareholder can control the decision-making in shareholders' meetings.

The boards of directors of the target companies have played a central role in takeover battles, since the change of management team is essential for success of any hostile takeover attempt. It is crucially important for the group seeking to takeover another company to have its own representatives elected as members of the governing bodies of the target company. According to the Russian law on joint stock companies the members of the board of directors are elected by the shareholders' meeting and therefore in practise shareholders' meetings have been major battlefields of ownership disputes. Any shareholder, who owns no less than 10 % of shares with voting rights has a right to ask the board of directors to call an extraordinary shareholders' meeting. In practice often the board of directors cannot help but arrange this meeting, since the law on joint stock

companies protects shareholders and the discretionary power of the board of directors is very limited. (Ključko 2003) If the board of directors refuses to call extraordinary shareholders' meeting without a sufficient reason⁷ or if it fails to make its decision without a delay, a shareholder is permitted to call an extraordinary shareholders' meeting without the support of the board of directors. In these cases shareholders have rather free hands to organise the meeting as they want. They can decide the date and the place⁸ of the shareholders' meeting as well as the content of the agenda of that meeting. (Ključko 2003) Minority shareholders' right to call extraordinary shareholders' meeting without the support of the board of directors has been abused by the groups planning takeovers. In practise, often minority shareholder's request has been formulated deliberately so that the board of directors of the target company cannot help but refuse to call an extraordinary shareholders meeting. Accordingly, this gives the shareholder planning takeover an opportunity to organise the extraordinary shareholders' meeting as it pleases. (Romanenko 2007) Also if the majority shareholder is prohibited from voting in the shareholders' meeting by court ordering for precautionary measures, the shareholder planning takeover can control decision-making in the shareholders' meeting.

Shareholders' competition for the seats in the board of directors has led to situations where several shareholders' meetings have been organised one after another by conflicting parties. For instance in the ownership struggle around Kotlas and Bratsk pulp and paper mills Continental Management and Ilim Pulp Enterprise struggled for the seats in the boards of directors of the companies. Both conflicting parties organised their own shareholders' meetings the main objective of which was to elect the members of the boards of directors. As a result both Kotlas and Bratsk combines had two boards of directors in the summer of 2002. Obviously there was a serious struggle between Continental Management and Ilim Pulp Enterprise for whose board of directors was more competent. (Hrennikov 2003, Temkin 2004) No doubt, parallel management teams cause serious difficulties for any company. The situation in Kotlas and Bratsk mills was uneasy in 2002 also because in addition that the companies had two competing management

⁷ The circumstances in which the board of directors can reject the request of shareholder are regulated exhaustively by the Russian law on joint stock companies.

⁸ Naturally byelaws may contain some provisions concerning with the place of shareholders' meeting.

teams they had two shareholders' registers as well. (Hrennikov 2003, Temkin 2004) In 2004 the arbitration court of the Arhangelsk region dealt with disputes around Kotlas pulp and paper mill.⁹ The dispute was mainly about the validity of the decisions made in shareholder' meetings and which of the two registrars should be regarded as the legal registrar of Kotlas pulp and paper mill. The company had two shareholders' registers, since the company had two boards of directors and general managers. One management team had changed the registrar of the company. However, the competing management team, in turn, did not recognise the change of registrar. The trial in the arbitration court of the Arhagelsk region illustrates well the complex situation in Kotlas pulp and paper mill in 2004. Both competing management teams had their own representatives in court proceeding and the representatives of Kotlas pulp and paper mill had very different opinions about how the dispute should be resolved.

Concluding remarks

In the Russian pulp and paper industry takeover attempts have resulted in long-lasting struggles for the ownership of the mills. Naturally, Russian pulp and paper producers as well as RAO Bumprom have been very concerned about negative influences of hostile enterprise takeovers on the investment climate of the Russian forest sector. (Rossijskaja Gazeta 2002) Hostile enterprise takeovers involving abuse of legislation have also evoked a lively debate over possibilities to restrict this kind of takeover activities. It seems that new and better laws are seen as a solution to the problems caused by hostile takeovers. Accordingly, since the end of 2006 Ministry of Economic Development and Trade and the State Duma have worked with the draft of a proposed law the main objective of which is to restrain abuse of legislation in hostile enterprise takeovers. (Prockurjakova 2006) Obviously, the legislator seeks to fill the loopholes in the laws that have been used as takeover tools. The same tactics were in use already in 2001 when the law on insolvency was amended. Widespread practice of using bankruptcy as a takeover tool was the main reason why the law on insolvency was amended and therefore, a

⁹ Arbitration court of Arhangelsk region decision no. 05-12378/02-588/17 and no. 05-9374/03-17

special attention was paid to the rules which had in practice functioned as takeover instruments. (Radygin et al. 2005)

In the law project a special focus is emphasis on the defects of the Russian court system and Russian company legislation. According to the draft corporate conflicts will be heard exclusively by the arbitration court of the place of the target company's domicile. Therefore it is suggested that the meaning of the concept "corporate dispute" should be defined in detail by the law. (Romanenko 2007) These amendments are considered to hinder the groups planning takeovers from bringing lawsuits in courts which would most probably support their purpose. A strict definition of the term "corporate conflict" is also suggested to make it more difficult to disguise corporate disputes as other kinds of conflicts. (Sterkin 2007, Prockurjakova 2006) Furthermore, the abuse of precautionary measures in the Russian hostile takeovers is regarded as a serious problem. Therefore, it is suggested that the prerequisites for deciding on precautionary measures should be tightened. (Romanenko 2007) There are also plans to amend Russian company legislation as well. It is suggested that shareholders' right to call an extraordinary shareholders' meeting should be restricted in order to avoid the situation where conflicting shareholders organise competing shareholders meetings. As these parallel shareholders' meeting are often called in order to elect a new board of directors, it is also suggested that restricting shareholders' right to convene extraordinary shareholders' meetings would solve the problems caused by parallel management teams. (Romanenko 2007)

The 2002 edition of the law on insolvency diminished the role of bankruptcy in the Russian hostile takeovers. However, one should notice that in the same year also the Russian law on joint stock companies was amended and minority shareholders' rights were strengthened. The groups planning takeovers tend to look for new takeover method as old ones become more risky. Perhaps they found out that the minority shareholders' rights regulated by the law on joint stock companies served their objectives better than the law on insolvency.

No doubt law reforms are important. However, new laws are unlikely to be a sufficient measure to restrict abuse of legislation in hostile takeovers. For instance Russian company legislation does not differ considerably from its western models. Nonetheless, in Russia company legislation has not functioned as expected. The law has become a weapon. Thus, the problem is less to do with the letter of the laws than with the environment in which these laws are applied. The Russian court system has several shortcomings but it is not just inappropriate legislation that makes Russian court inefficient. The underlying reason why laws are used as weapons in business conflicts is that the economic actors can have a significant influence on how laws are applied and enforced. Corruption plays a central role in ownership disputes. State and local authorities are deeply involved in business conflicts. Recently there has been a great deal of debate on corruption in Russia. When Russian newspapers are reviewed it is obvious that corruption is criticised more and more openly. It is suggested that in Russia forms of hostile enterprise takeover activities are likely to undergo changes. Since legislation changes and bribery becomes more expensive and risky, aggressive attacks become more rare practice and hostile takeover methods become more discreet. (Loginov, Tormozova 2007)

Continental Management has been one of the most aggressive enterprises in the Russian pulp and paper industry. Nonetheless, its takeover attempts have not been successful. Perhaps, the target enterprises have been more powerful than Continental Management expected. The managers and shareholder of the pulp and paper mills have fought back. It is difficult to predict whether forest wars will continue in Russia and, if they will what kind of forms ownership disputes will have. However, it is rather evident that the ownership of pulp and paper mills is concentrating in to fewer hands and stronger enterprises will emerge into the Russian forest sector.

References

Antanta Capital Investment bank (2006): Russia's Timber Industry an Area of Uncertainty, 25.4.2006. http://www.antcm.ru/ftproot/Files/wood_250406eng.pdf.

Arhangelsk pulp and paper mill: <http://www.appm.ru>.

Beljaeva, I. Ju., Beljaev, Ju. K. (2005): Rossijskij rynek clijanij i pogloščenij: Èvolucija i perspektivy razvitija. Financy i Kredit, no. 26, 19.9.2005.

Bratkov, Vitaly (2002): Epidemic of proletarian mutinies in the Arkhangelsk region. Pravda.ru, 10.7.2002.

Burkart, Mike C., Panunzi, Fausto (2006): Takeovers. ECGI - Finance Working Paper, No. 118/2006. Available at SSRN: <http://ssrn.com/abstract=884080>

Butrin, Dimitry (2004a): Timber industry 2000-2004. Kommersant 11.11.2004 Available at http://www.kommersant.com/tree.asp?rubric=3&node=43&doc_id=487624. All the article in Russian as of July 5, 2004.

Butrin, Dimitry (2004b): Timber industry 1991-2000. Kommersant 20.8.2004. Available at http://www.kommersant.com/tree.asp?rubric=3&node=43&doc_id=307741. All the article in Russian as of Jan. 29, 2002.

Butrin, Dimitry (2004c): Lesnaja celesoobraznost'. Gazeta.Ru-Komentarii. Available at http://www.gazeta.ru/comments/2004/05/a_112010.shtml.

Continental Management Timber Industrial Company: <http://www.lpkkm.ru>.

Černigovskij, Maksim (2001): Bankorotsvo Zakazyvali? Kommersant, no. 103P, 18.6.2001.

Čičurina, Jekaterina (2005): Bitva za "Volgu" Vedomosti, no. 240 (1521) 21.12.2005.

Čujasov, Andrej (2007): Mehanizmy nezakonnoogo pogloščeniya predpriyatij. Pravo i Èkonomika, no. 3, 30.3.2007.

Demidova, E. (2007): Braždebnyye pogloščeniya i zaščita ot nih v usloviah korporativnogo rynka Rossii. Voprosy Ekonomiki, no. 4, 25.4.2007.

Dimitrev, Valerij (2007): Vozroždenie lesnoj Colombaly obošlos' bez inostrannogo kapitala. Pravda Severa, 26.9.2007.

Dolgopyatova, Tatjana G. ed. (2003): Russian Industry: Institutional Development. State University Higher School of Economics. Moscow 2003.

Dudarev, Grigory, Boltramovich, Sergey, Efemov, Dimitry (2002): From Russian Forests to World Markets. A Competitive Analysis of the Northwest Russian Forest Cluster. ETLA, Research Institute of the Finnish Economy. Taloustieto Oy Helsinki 2002.

Eronen, Jarmo (1999): Cluster Analysis and Forest Industry Complex. Helsinki, Finland, Research Institute of the Finnish economy, Discussion Paper no. 682, 1999.

Ernst&Young (2007): At the Crossroads. Global Pulp and Paper Report 2007. Helsinki 2007

Fil'cov, Roman, Miljaev, Pavel (2005): "Ost-Vest Grup" ottojala "Volgu" Vedomosti, no. 88 (1369), 18.5.2005.

Fëdorov, Ivan (2003): Prodaža kak cpcob zaščity. Lesnaja novosti, no. 16, 25.9.2003.

Griškovec Jekatarina (2007): Amerikancy dovedut "Ilim" do gotovoj produkcii. Kommersant, No. 148, 20.8.2007. T

Hakimov, Timur (2004): Vraždebnyje pogloščeniya: Tehnologija, strategija i taktika napadenij. Imuščestvennyje otnošenija Rossijskoj Federacii, 26.4.2004.

Hrennikov, Il'ja, Simakov, Dimitrij (2005): Novaja Mišen' "Bazèla" holding Olega Deripaski zainteresovalsja CBK "Volga". Vedomosti, no. 12 (1294), 26.1.2005.

Hrennikov Il'ja, Ščerbakova Anna, Sikamova, Anžela (2004): Novyj vitok "lesnyh vojn" Možet načat'sja posle pokupki strukturam "Bazèla" 12,5% akcij Arhangel'skogo CBK. Vedomosti, no. 37 (1077), 4.3.2004.

Hrennikov Il'ja (2003): Lesnye vojny prodolžatsja. Vedomosti, no. 237 (1037), 25.12.2003.

Ilim Pulp Enterprise: <http://www.ilimpulp.ru>

Investlesprom: <http://www.investlesprom.ru>.

Jensen, Michael, C. (1986): Takeover controversy: analysis and evidence. Midland Corporate Financial Journal, Volume 4, No. 2, Summer 1986. Available at SSRN: <http://ssrn.com/abstract=173452> or DOI: [10.2139/ssrn.173452](https://doi.org/10.2139/ssrn.173452)

Jensen, Michael, C. (1988): Takeover their causes and consequences. Journal of Economic Perspectives, Winter 1988, Vol. 2, No. 1, pp. 21-48. Available on the Social Science Research Network (SSRN) Electronic Library at: <http://papers.ssrn.com/ABSTRACT=173455>

Jeremenko, Valerij (2004): Istorija odnogo konflikta. Upravlenie kompaniej, no. 1 26.1.2004.

Kazakov, Aleksej (2005): Zagložniki sovremennyh čingichanov. Gudok, 5.10.2005.

Kistanov, Mihail (2006): Bumažnaja vojna. Izvestija (Rossija), no. 72 (27113), 24.4.2006.

Ključko, Vladimir (2003): Perehvat upravljenja v akcionernom obščestve: napadenie i zaščita. Rynok cennyh bumag (Moskva), no. 1, 13.1.2003.

Klimenko, Jaroslav (2003): Vojna Bez pobeditelej. Ekspert, no. 48(403), 22.12.2003.

Kortelainen, Jarmo, Kotilainen Juha (2003): Ownership Changes and Transformation of the Russian Pulp and Paper industry. Eurasian Geography and Economics, 2003 44, No. 5, pp. 384 - 402.

Ledeneva, Alena (2001): Unwritten rules: How Russia really works. Centre for European Reform (CER), May 2001.

Legrand, Pierre (1996): European Legal Systems Are Not Converging. The International and Comparative Law Quarterly, Vol. 45, No. 1. (Jan., 1996), pp. 52-81.

Lesgazeta.ru (2007): Bank Moskvy formiruet holding. Rossijskaja lesnaja gazeta, lesgazeta.ru, no. 5-6 (187-188), 11.02.2007.

Loginov, Aleksej, Tormozova, Tat'jana (2007): Korporativnye konflikty i rejderstvo v Rossii. Rynok cennyh bumag (Moskva), no 12, 30.6.2007.

Markov, Pavel (2007): Sovokupnost' problem teorii i praktiki nedružestvennyh poglošč. Pravo i ekonomika, no. 2, 28.2.2007.

North, Douglass, C. (1990): Institutions Institutional Change and Economic Performance. Cambridge University Press 1990.

North, Douglass, C. (1997): The contribution of the New Institutional Economics to an Understanding of the Transition Problem. WIDER Annual Lectures 1, March 1997.

Novolodskaja Svetlana, Temkin Anatolij (2002): "Ilim Palp terjaet CBK I ožidaet silovogo zahvata kombinata. Vedomosti, no.117 (680), 9.7.2002.

Pozdnjakov, Aleksej (2006): Možet li zahvat byt' družestvennym? Argumenty i fakty, no. 40, 4.10 2006.

Pravda Severa (2004): V hode šturma Sokol'skogo CBK postradali devjat' Čelovek. Pravda Severa, 10.11.2004

Pravda Severa (2006): Korporativnye konflikty. Pravda Severa, 8.02.2006.

Pravda severa (2007): Istorija arestovannyh akcij ACBK. Pravda Severa, 14.3.2007.

- Pronin, Vladimir (2003): 600 dnejev lesnoj vojny "Bazovyj element" protiv "Ilim Palp" enterprajz. Slijanija i Pogloštšenija, no. 5/6, 2003.
- Prockurjakova, Julija (2006): Rejderam zakon propisan. Rossijskaja biznes-gazeta, no. 46 (583), 5.12.2006.
- Radygin, A., Entov, R., Shmeleva, N. (2003): Problems of Mergers and Takeovers in the Russian Corporate Sector. Problems of Economic Transition, vol. 46, no. 7, November 2003, pp. 5–64.
- Radygin, A. D., Gontmakher, A. E., Kyzuk, M. G., Mezheraups, I. V., Swain, H., Simachiov, Yu. V., Shmeleva, N. A., Entov, R.M (2005): The institution of bankruptcy: development, problems, areas of reforming. Consortium for Economic Policy Research and Advice. Moscow 2005.
- Rebov, Dimitrij (2005): Bor'ba za ACBK razgare. Pravda Severa 16.12.2005.
- Regnum (2005): CBK "Volga" prosit polpreda i FSB opedit' rol' nižegorodskih vlastej v korporativnoj vojne vokrug CBK. Regnum 12:38 31.03.2005
www.regnum.ru/news/430585.html
- Romanenko, Dimitrij (2007): Korporativnye konflikty: Možno li stavit' točku? Rynok cennyh bumag (Moskva), no. 12, 30.6.2007.
- Rossijskaja Gazeta (2006): Na trope lesnoj vojny. Rossijskaja Gazeta, no. 86 (4052) 25.4.2006.
- Rossijskaja Gazeta (2002): Prekratit' "lesnye vojny"! Rossijskaja Gazeta, no. 90, 23.5.2002
- Schwert, William, G. (2000): Hostility in takeovers: in the eyes of beholder? Journal of Finance Vol. 55, No. 6, (Dec 2000), pp. 2599-2640
- Sikamova, Anžela (2004a): Konec lesnoj vojne. "Ilim Palp" podpical mirovuju c "Bazelom" i PSB (SPB). Vedomosti, no. 201 (1241), 2.11.2004.
- Sikamova, Anžela (2004b): Bitva za CBK. V hode šturma Sokol'skogo CBK postradalo devjat' čelovek. Vedomosti, no. 198 (1238), 28.10.2004.
- Sikamova, Anžela (2004c): Novaja lesnaja vojna vozmožno pazgopaetsja za Arhangel'skij CBK. Vedomosti, no. 215 (1255), 23.11.2004.
- Sikamova, Anžela, Ščerbakova, Anna (2004): Lesnye vojny. Èpisod III. Osporena konsolidacija akcij Arhangel'skogo CBK. Vedomosti, no. 81 (1121), 17.5.2004.
- Solombala pulp and paper mill: www.sppm.ru.

Sterkin, Filipp (2007): Zakon rejda. Vedomosti, no. 45(1819) 15.3.2007.

Temkin, Anatolij (2005a): Novaja lesnaja vojna Bazèla. Vedomosti, no. 161 (1442), 31.8.2005.

Temkin, Anatolij (2005b): Novaja ataka na ACBK. Y Pulp Mill arestovany 16% akciij kombinata. Vedomosti, no. 226 (1507), 1.12.2005.

Temkin, Anatolij (2004): Lesnye vojny ne kontšajutsja. Vedomosti, no. 50 (1090), 25.3.2004.

Temkin, Anatolij (2006): Akcii ACBK ostalis' pod arestom. Vedomosti, no. 30 (1157), 21.2.2006.

Teubner Gunther Legal Irritants (1998): Good Faith in British Law or How Unifying Law Ends up in New Divergences. The Modern Law Review, Vol. 61, No. 1. (Jan., 1998), pp. 11-32.

Tompson, William (2003): Reforming Russian Bankruptcy Law. International Company and Commercial Law Review 4, Sweet & Maxwell Ltd. Available at www.bbk.ac.uk/polsoc/staff/academic/bill-tompson/reforming-russian-bankruptcy-law

Volkov, Aleksandr, Gurova, Tat'jana, Timov, Viktor (1999): Canitary i marodery. Èkspert, no. 8 (171), 1.3.1999.

Volkov, Vladim (2004): The Selective Use of State Capability in Russia's Economy: Property Disputes and Enterprise Takeovers, 1998 - 2002. In Creating Social Trust in Post-Soviet Transition. Ed. János Kornai, Bo Rothstein, Susan Rose-Ackerman. Palgrave Macmillan 2004.

Watson, Alan (1993): Legal transplants. An approach to comparative law. Second edition, The University Georgia Press 1993.