

UPM plans to build a new pulp mill in Central Uruguay – Frequently asked questions

INVESTMENT AGREEMENT

1. What is the purpose of Investment Agreement?

UPM and the Republic of Uruguay (ROU) have signed an agreement which outlines the local prerequisites and infrastructure development for a possible pulp mill investment in central Uruguay. This agreement reflects the mutual understanding of a stable and predictable environment for long term industrial development. Link to the document [Investment Agreement in short »](#)

2. What was the negotiation process like?

As part of a normal business negotiation processes, the discussions are between the parties involved, in this case ROU and UPM. The discussions covered a number of topics, including infrastructure development, fiscal and regulatory topics, rural and educational development initiatives, environment, forestry and land planning as well as labour and energy conditions.

The Investment Agreement details the roles, commitments and timeline for both parties. It was signed within the Uruguayan legislation and has been shared publicly in the Presidency official website, [link to the document »](#)

3. What is the juridical basis for the Investment Agreement?

The agreement between ROU and UPM is based on the law of Promotion and Protection of Investments.

Either party can terminate the agreement at its discretion at any time prior to final investment decision. If a positive final investment decision is not made by UPM by 15 February 2020, the agreement will terminate. Termination will not cause liability on either party.

4. Why consider reinvesting in Uruguay?

Uruguay could be a competitive alternative for UPM to address global pulp market opportunities in the 2020s, through a long-term investment for the next 30 to 50 years. The country has strong political and social stability, as well as democratic tradition based on transparent government policies.

UPM's regional and global customers value the stable quality of the Uruguayan eucalyptus pulp. The country has forest availability, growth and quality of wood. In addition, it has a legal framework for forestry promotion, a clear land ownership structure and protection of native forests.

High education level and the investment promotion regime ensure competitiveness on international markets. Uruguay operations have proven solid performance after UPM's presence in the country for more than 25 years.

5. What are the potential benefits of the project?

The central-northeast region of Uruguay is the relatively least developed in terms of the proportion of households below the poverty line and the conditions for regional competitiveness. There are also shortcomings in the socio-economic dimension and infrastructure conditions.

All these restricts the development of economic activities by the private sector, as well as job opportunities and community development. Upgrading the rail, roads and port, could contribute to overall development by providing better access to education, jobs and medical services in rural communities.

Strengthening capabilities in the areas of technology, innovation and environmental protection would maximize the positive impact of the planned mill. The project is expected to generate new skills; products and services; develop local economy; and about 600 small and medium-sized enterprises. In addition, it is estimated to increase GDP by 2% and to generate about 8,000 permanent jobs throughout the value chain, plus over 120 MUSD per year in tax collection.

PLANNED PULP MILL

6. What is the estimated investment in the planned pulp mill?

The preliminary estimate for a pulp mill investment is approximately EUR 2 billion. In addition, a successful project requires off-site investments in plantation land and forestry, road network and nursery capacity, harvesting and transport equipment, rolling stock for the railway, export facilities and training.

Beyond this initial investment phase, the company would continue investing in maintenance and development of the forestry and the mill processes over the lifecycle of the mill.

7. What is the expected annual production capacity and where would the mill be located?

The single line pulp mill with proven environmental performance and best available techniques (BAT) would have an annual production capacity of approx.2 million tonnes of eucalyptus pulp. This would make it the largest single line pulp mill in the world.

The pulp mill would be built in the department of Durazno on the southern side of the river Rio Negro, 4–5 km downstream from the city of Paso de los Toros and Centenario village.

This project is subject to regulatory approvals from the agencies involved, as well as socio-economic and environmental impact assessments.

8. How much taxes will the project generate?

The project is estimated to generate over 120 MUSD per year in tax collection throughout the value chain.

The mill would operate under the Uruguayan Free Trade Zone regime* paying the annual cannons. Everything outside the mill – from forest nurseries and plantations to logistics and transportation – would be subject to local taxes in Uruguay.

UPM always adheres to local tax legislation and regulation in all locations where it operates.

* This is one of the tools provided by Uruguayan National legislation, as a way to attract foreign investments, as in many other countries. Main objective of this regime is to integrate the country into regional and international markets. Further, it is an alternative way to fulfill existing gaps, for example, in infrastructure, and match the "balance" in terms of relative competitiveness of the country. Currently there are 11 Free Trade Zones in Uruguay with 1,560 companies from industry to commerce, logistics, services or mixed-oriented businesses.

9. Does UPM have enough wood to supply a second pulp mill?

UPM is well prepared to supply wood for a potential new pulp mill.

The main sources are the company's own forests and the Fomento program (third party out-growers). Over 500 rural growers have agreements with UPM within the Fomento program.

10. How would the planned pulp mill impact the environment?

UPM has submitted the environmental and social impact study, as part of the process required by Uruguayan regulations to obtain the Preliminary Environmental Authorization.

According to the study, all the potential impacts are acceptable and manageable by implementing appropriate mitigation measures.

The new mill will not have negative impacts to human health, living conditions, urban structure, and land use, cultural environment, wildlife and conservation sites, soil, bedrocks or groundwater. The compliance with the BAT ensures the best possible environmental performance.

More information: [Environmental and social impact study, public presentation »](#)

11. What would the impact of the mill be in the river Rio Negro?

According to the study, the direct impact of the new mill to Rio Negro would be minimal, based on proven technology secured with Best Available Techniques (BAT).

With the planned mill and the implementation of the measures agreed in the Investment Agreement, the Rio Negro water quality would remain at the existing level**.

With the implementation of the Rio Negro initiative and ensuring that best practices are carried out by all relevant stakeholders, water quality could be even improved in medium to long term.

**Available environmental data indicate that the nutrient load to the river has grown rapidly and the state of water quality is getting worse. The extra nutrients enter the river mainly with surface runoff from land under different uses.

12. What is the minimum water flow in the river required by UPM?

The minimum flow will be in accordance with the authorities' general environmental guidelines and the results of the Environmental and social impact study for the pulp mill.

It will be within the usual variation range in the Rio Negro to the lower values and therefore no flood is to be expected in Paso de los Toros, San Gregorio or other towns due to the implementation of the minimum flow.

The minimum flow rate would likely contribute to the reduction of algal blooms in medium-long term positively impacting the water quality and the biology of the river.

The operation of the dams will be under the management of Uruguayan authorities.

13. How would the project affect the national energy matrix?

As the Uruguayan energy demand grows 3% annually, the country needs to set stable and predictable energy sources on the long term. UPM's project represents a source for the next 20 years, which could help the country in supporting its growth strategy with renewable energy.

The potential pulp mill would start to contribute to the energy matrix within 4 to 5 years, when the factory begins to operate. The mill would contribute to consolidate the transformation of the energy matrix, as it would increase renewable energy production by 10%.

The current biomass energy mainly comes from forest industry. Pulp mills' power generation is renewable and predictable. The planned pulp mill would be self-sufficient in electrical consumption and no fossil fuels would be used for energy production.

14. What kind of labour principles are needed for a project of this scale?

The location, scale and characteristics of the project reinforce the need for a comprehensive plan based on local and international experiences, to be developed under a fluent dialogue with the involved parties. On this basis, the labour framework agreement was signed by the Government, PIT-CNT, business chambers and UPM in September 2017.

The agreement creates the needed conditions and established the route map to the necessary actions and definitions for the construction of a possible pulp mill. It shows that workers, construction companies and the government are fully engaged to plan and work in advance to create the needed conditions for a successful project.

15. What changes will the rail bring to the society and people along the railway?

The central Uruguayan railway project brings new business opportunities to the Uruguay inland, such as cost-efficient transportation of pulp, grain, wooden products and containers as well as the possibility to develop passenger traffic. All users will benefit by connecting the country's inland to a competitive export deep-sea port in Montevideo.

A well-functioning modern rail is an integral part of many metropolis around the world. Rail is the safest and most environmentally way for long distance heavy logistics. The state rail will be modern, efficient and based on European standards, best practices and high safety culture.

The railway is owned by the state and operated by several operators which pay user fees to the state. UPM would be one of the operators and would provide the critical mass of about 50% of the total cargo capacity which is of about 4 M tons annually. Maximum amount of traffic for UPM operations is about 7 + 7 trains per day.