

Paso de los Toros pulp mill Uruguay

Sectors: forestry - pulp and paper

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About Paso de los Toros pulp mill

In November 2017, the Government of Uruguay signed an agreement with UPM regarding the required pre-conditions for the construction of a pulp mill by UPM in Paso de los Toros. This mill would have a capacity of 1.9 - 2.4 million tonnes of pulp a year and would require an estimated investment of EUR two billion by UPM.

UPM will decide in 2020 if it proceeds with the investment or not. This is dependent on the implementation of the commitments of the agreement by the Uruguayan government, which include high investments in infrastructure, including upgrading a railway and roads and building a new port. It also includes reforming labour laws, setting up a free trade zone, make legislative changes to facilitate the licensing process, and letting UPM influence the curriculum of University courses. These commitments by the Uruguayan government are estimated to cost over USD two billion ([Seminario Voces, October 2018](#)).

Critics of the project say the contract is unconstitutional as it was not submitted to parliament for approval, and they say it is highly detrimental to the Uruguayan people and its environment and therefore call for the contract to be revoked ([UPM2No](#)).

Brief history

In 2007, UPM was a minority shareholder in the Finnish pulp company Oy Metsä Botnia which inaugurated the [Fray Bentos pulp mill](#), one of Latin America's largest, on a border river between Uruguay and Argentina. In 2009 it became the controlling shareholder, in a deal with Metsä-Botnia. This included the 1.2 million tonnes Fray Bentos pulp mill as well as the 215,000 hectares of eucalyptus plantations, from Forestal Oriental ([UPM, 2014](#)). The pulp mill, inaugurated in 2007, was the target of massive protests and caused a diplomatic conflict between Uruguay and Argentina which was brought to the International Court of Justice ([ICJ](#)).

A few years later, UPM started to negotiate with the government of Uruguay about the possibility to build a second mill. In February 2017, the President of Uruguay travelled to Finland to discuss the mill with UPM ([El Pais, 2017](#)). In November 2017, UPM signed an agreement with the Republic of Uruguay, which set out the conditions the Republic would have to fulfil in order for UPM to build the mill.

In 2018 social movements become more vocal in protesting against the plans for a new mill, and against the contract that the government signed behind closed doors with UPM. Not only are they concerned about the social and environmental impacts of the potential mill, but also about the interference of UPM in national law making, the huge disadvantage for Uruguay in the contract and the lack of due process, which they argue makes the contract unconstitutional.

In September 2018, UPM published a preliminary Environmental Impact Assessment for the mill ([UPM, 2018](#)). After a review process during which Dinama (the licensing agency) requested some changes by UPM, it opened a [public consultation](#) process for the Summary of the Environmental Information ([Informe Ambiental Resumen](#)), in March 2019. Analysts noted several changes in this document, among others a significant rise in the minimal flow requirements for the Negro river, which were raised from 65 to 90 cubic meters per second ([Bacchetta, 2019](#)).

In March 2019, the government published the license that allowed to start the work on the upgrading of the railway, known as Ferrocarril Central, between Paso de los Toros and Montevideo ([Dinama, 2019](#)). People affected by the project, and those concerned about its social, environmental and health impacts, are protesting against the railway as there was no proper information nor consultation of the affected communities, and the whole Environmental Licensing Process is flawed. They have formed an organization called "[NO al tren de UPM](#)", which has started a constitutional initiative to prohibit the passage of the train through the urban area of Municipality C of the Department of Montevideo. Similar initiatives have also been launched in several other towns, including Sarandí Grande, Florida, Durazno and 25 de Mayo.

What must happen

- The government should revoke the agreement with UPM;
- A new agreement can only be made after broad discussion with society and with parliamentary approval;

- The ESIA should include the plantations, both existing and new ones, that will be required to feed the mill;
- UPM should ensure a high level of transparency, among others by publishing the ESIA and all other documents that are relevant for stakeholders, on its [transparency page on the project](#);
- UPM should ensure it has obtained Free Prior and Informed Consent from all communities that will be impacted by the mill and/or the plantations (both new ones and existing ones), as well as for all the related infrastructure such as the railway.
- UPM should adopt Best Available Technology, which includes a Total Chlorine free (TCF) bleaching process.

Issues

Social issues

Social conflicts UPM promotes the project as creating 8,000 permanent jobs (UPM, 2018). However, these are indirect jobs that are expected to be created in the value chain, such as in the forestry and the transportation sector. The project itself will only create 400 - 500 permanent jobs, after the construction phase has been completed (Cuecar, 2018). It is questionable if that many jobs will be created in the value chain. According to official data, only 1,178 jobs were created in the forestry sector between 2007 and 2016, the period in which Uruguay's two pulp mills came online (Fundavida, 2018).

During the construction phase there will be a large influx of migrant workers, estimated at over 5,000 people, just to work on the project. This does not include their families and others who will come, looking for new opportunities. The EIA warns about a possible increase in prostitution, crime and violence in the region of the mill due to the arrival of this large group of migrants (El Observador, 2018). It also warns about an impact of public services like health care, a rise in rent prices and a sharp rise in unemployment figures once construction is completed. According to the agreement, it is the duty of the government to provide public services such as health care, as well as access to (subsidized) credit systems to facilitate access to housing for people with fixed incomes.

Expropriations The project to build a new railway will impact an estimated 35,750 people and over 200 expropriations will have to occur to establish the 275 kilometer railway between Paso de los Toros and Montevideo (MVOTMA, 2018). A movement called "No al tren de UPM", is protesting against the project because of the lack of consultation of the impacted people and the generally flawed Environmental Impact assessment and licensing process. It has also send a letter to the Inter American Development Bank and the CAF (Development Bank for Latin America), asking them to refrain from financing the project (Ecos, 2019). They have also used constitutional provisions to start a petition that require the government to prohibit the railway from passing through the urban areas of the Municipality C, in Montevideo (No al tren de UPM, 2019). Similar initiatives are also taking place in other towns such as Sarandí Grande, Florida, Durazno, and 25 de Mayo.

Water floods Another 10,000 hectares, belonging to 750 families will be lost as it will be flooded by the reservoir that will be used to guarantee a minimum flow of water in the Rio Negro (Fundavida, 2018). This will not only impact the people that will lose their land, but it will also have broader economical impacts, as the lake is a popular tourist destination, and raising its level will flood existing beaches. This has led to strong protests by families that live next to the lake. As a result of this, in December 2018, the affected municipality declared the decision by UTE to raise the water level 'illegitimate', and the minister of Industry, Mining and Energy agreed that further studies were required, taking into account different aspects from the perspective of the country (Minister Cosse, 2018).

Health impacts There are also concerns about the lack of consultation of rural communities, especially about the impacts of the plantations in Uruguay, since these are not covered by the EIAs. Health impacts from the pollution caused by the mills and the plantations. The effluent of the mills contain chlorine and other endocrine disrupters, which contaminate the water and the fish. The mills also emit nauseating odours. Furthermore, many pesticides are used in the Uruguayan plantations, which affect the health of workers and pollute the water of nearby streams and rivers (Lang, 2008).

Cost of living If UPM does decide to build the mill, it will operate in a Free trade zone; it will not pay taxes to Uruguay for the export of pulp. These huge tax cuts have caused protests as the cost of living keeps rising. The huge investments that the government will make will also increase the country's fiscal debt, which will further increase the cost of living, as the government will have to increase revenues to repay the debt (El Pais, 2017). An opinion poll made for UPM shows that 57% of the Uruguayan population does not agree with the tax cuts (Fundavida, 2018). Critics argue that the project, which includes the mill and associated infrastructure, will have a very high cost to tax payers, with very little return (Bacchetta, 2018).

Environmental issues

Impacts on water To address the water availability issue, Uruguay has committed to guarantee that the river will have a minimum flow. This will be done by raising the water level of the Rincon del Bonete Reservoir by about one meter, causing the flooding of 10,000 hectares, and then controlling the release of the water into the Rio Negro (Fundavida, 2018).

Some 200 kilometers downstream polluted river water will flow into the Uruguay river which forms the border between Uruguay and Argentina. The mouth of the Rio Negro is located very close to UPM's first mill in Uruguay, located in Fray Bentos. When this mill was built in 2007, it led to a diplomatic conflict between Uruguay and Argentina, over pollution of the river. Argentina claimed it had not been consulted and feared severe pollution of its touristic beaches. With this second mill that trans-boundary pollution will double, which potentially can lead to a new diplomatic crisis. Despite the Uruguayan Government's claim that it publishes information about the water quality of the Uruguay River, CARU, the Administrative Commission for the Uruguay River, only publishes information about Fecal Coliforms, Scherichia colis and Enterococci (CARU, 2019).

Eutrophication The effluents of the mill will be discharged in the small Rio Negro, which is already suffering from high levels of eutrophication. The 150 kilogram per day (UPM, 2017) to 213 kilogram per day (Bacchetta, 2018) of phosphor that the mill will discharge into the river will worsen the eutrophication process and the growth of cyanobacteria, as will the temperature of the water, which will be on average around 30C (Bacchetta, 2018). In a problematic statement that shows complete subservience, the mayor of Paso de los Toros said that UPM will help clean the river as it will force the government to take action and adopt laws (UyPress, 2018). The already strong eutrophication of Uruguayan rivers, due to intensive agriculture, caused a large bloom of cyanobacteria along Uruguay's coast, in the summer of 2019, making the water unfit for swimming (El Pais, 2019).

Chlorine discharge The mill will also discharge chlorine containing contaminants, as it will use Elemental Chlorine Free technology, rather than the Total Chlorine Free technology for its bleaching process. Chlorine is an endocrine disrupter. A 2013 PhD thesis which assessed the impacts of endocrine disrupters in the lower Uruguay river, found that when *Astyanax fasciatus* wildfish were exposed to pulp mill effluent, their egg production decreased by half and their testes were smaller (Carames, 2013).

In 2018 the government amended the **Law on Hydrobiological Resources** (N° 19.175), limiting research and the publication of results into its eutrophic aquatic ecosystems to authorization from the Ministry (Bacchetta, 2018). Uruguayan researches published a letter in Science complaining about this censorship (Science, 2019).

Impacts on biodiversity The plantations required to feed the mill are located predominantly in the departments of Tacuarembó, Rivera, Cerro Largo and Durazno, and in a lesser extent in Lavalleja and Treinta y Tres. UPM estimates that 180,000 - 220,000 ha of plantations are already established and that an additional 60,000 – 90,000 ha will be required for a sustainable supply of wood for the mill. Most of these plantations were and will be established in Uruguay's natural grasslands (UPM, 2018). Though the EIA for the mill does not specifically apply to the plantations, it does find that the establishment of plantations has negative effects on the biodiversity of birds and mammals that live in these pastures (UPM, 2018).

The plantations will also affect aquatic biota, as they lower the ground water level and reduce the water level of rivers by an average of 38%, and in dry years up to 63%. This happens mainly because the leaves intercept the rain water and later let the water evaporate again, not allowing it to flow into the river or underground reservoirs (UPM, 2018). Existing plantations in the region are already contributing to the high level of eutrophication of the Rio Negro and the Rincón del Bonete reservoir (Bacchetta, 2018).

Human rights

Labour legislation In the agreement Uruguay commits to change labour legislation, especially those that apply to the right of workers to strike. The agreement specifically states that if the new legislation is not “fully satisfactory to the needs of UPM, it could prevent UPM from issuing a positive FID” (UPM, 2018). This meddling of a corporation in a country's labour laws is seen by critics as highly undemocratic and going against the Conventions by the International Labour Organization, which guarantees the right to strike (El país, 2018).

Other issues

The Agreement between UPM and the Republic of Uruguay In 2017, UPM signed an agreement with the Republic of Uruguay, regarding the construction of a pulp mill (UPM, 2017). This agreement has been widely criticised as being unfavourable for Uruguay and its legality has been questioned, as it was not approved by congress. In the agreement, Uruguay commits to fulfil a long list of prerequisites which should create favourable conditions for UPM. These investments are estimated to be worth somewhere between USD one billion (UPM, 2017) and well over USD two billion (Yohai, 2018). On the other hand, UPM commits to almost nothing, apart from deciding in 2020 if it will proceed, or not, with the construction of the mill.

The agreement signed between the Republic of Uruguay and UPM, requires Uruguay, among other things, to:

- Establish a free trade zone for the mill
- Build a 275 kilometers railway between los Toros and Montevideo
- Renovate a network of roads so they can be used by tri-train trucks, including a viaduct in Montevideo
- Ensure a stable waterflow in the Rio Negro river, at no cost to UPM, and provide a guarantee that UPM will have the right to use the water
- Build a port for the export of pulp at the site of the present fisheries port and build a new fisheries port
- Buy all the electricity that the plant will produce at a higher price than the international one, during 20 years
- Let UPM have influence in the curriculum of a new technical degree “*Tecnólogo Control de Procesos*”, to be offered at the Universidad Tecnológica
- Change labour law legislation, especially on the right to strike
- Speed up the licensing process.

Critics argue that in the agreement signed between the government of Uruguay and UPM, there is undue interference by UPM in Uruguay's democratic processes, putting pressure on the government to get access to resources, in exchange for a few jobs. “If carried out, the agreement between the Uruguayan government and UPM will mark a before and after in the history of the country, as a foreign company will have been granted the benefits and attributions of a colonial dependency statute”, said Victor Bacchetta. Uruguay will invest more than half of the total amount of the project, and will receive 0% of the profits, which are estimated to be worth USD 1.5 billion a year (Melazzi, 2018).

Lawyers have stated that the contract is unconstitutional, as the government does not have the mandate to make such deals and many of the commitments it assumed require approval by congress (Movus, 2018).

Since the mill will be established in a free trade zone, Uruguay will not collect taxes from the export of pulp. It will only collect those from the export of timber to the Free Trade Zone. This means there is a very low benefit for Uruguay's people in hosting the mill. Andres Massoler, a senior member of the Ministry of Economy and Finance, resigned during the negotiation period, as he disagreed with the high fiscal benefits that Uruguay was willing to give to UPM (El Observador, 2017).

The commitment to provide or deny permits for the mill, its plantations and the associated infrastructure, within a given time period, as estipulated by the contract, may affect the rigour with which they are analysed.

Uruguay commits to build a 275 kilometers railway between los Toros and Montevideo while UPM does not need to provide any minimum volume guarantees. The agreed price is USD 0.005 per tonne per transported kilometer, which amounts to less than USD three million a year, if UPM were to export all its production. According to Movus, the construction of the railway is expected to cost the government USD 2.2 billion, so it will never recover its investment (Movus, 2018). While UPM will not make any significant financial contribution to the railway, it will have priority access and it has influence over the construction process, as any changes to the original project will have to be approved by it. UPM has stated that it believes that the Uruguayan official rail transport company does not have the required experience to build the railway (Fundavida, 2018).

The government has committed to ensure a stable waterflow in the Rio Negro river and guarantee UPM it will have the right to use the water. This will happen to the detriment of Uruguay's State Energy company ([FundaVida, 2018](#)), which uses the water from the Rincon del Bonete Reservoir to produce hydroelectric power, which is cheaper than the power that UPM will produce ([El Observador, 2017](#)).

The government has committed to build a port for the export of pulp. In September 2018 the government's agency launched a tender for its construction ([Sud Estada, 2018](#)). A problem is that the winner of the tender, which is a concession for 50 years, is required to move at least 1.8 million of pulp a year, yet there is still no guarantee that the mill will be built ([El Observador, 2018](#)). The only private party (Tebetur) that had shown interest to build the port by October 2018, was a company linked to UPM. It won the tender, even before the end of the public consultation round for the project ([Dinama, 2019](#)).

According to the agreement, Uruguay will buy all the electricity that the mill will produce, at a higher price than usually ([Melazzi, 2018](#)). This is criticised, especially since Uruguay already produces more electricity, from windmills, than it consumes ([El Pais, 2018](#)). According to an estimate by [Bacchetta](#), this translates into a governmental subsidy of USD 903 million per year for the company.

The fact that UPM will be involved in developing a new course in "Process control", to be offered at the Universidad Tecnológica, puts in question the academic freedom of the institution and its academics.

Governance

Applicable norms and standards

[AFLEG Declaration and Action Plan](#)

[FSC Principles and Criteria](#)

[ILO Guidelines for labour inspection in forestry](#)

[ILO Safety and health in forestry work](#)

[Land Use, Land-Use Change, and Forestry \(LULUCF\) Guidance for GHG Project Accounting](#)

[WWF Guidelines for Investment in Operations that Impact Forests](#)

Updates

Five arrested in protest against UPMs interference in education

Sep 5 2019

Five people were arrested and the [police shot with rubber bullets](#) during a march in the center of Montevideo, against UPM's interference in national educational programs. In a [speech](#) at the National Trade Unions Center on September 6th, Danae Sarthou denounced the degree of UPM's influence on education. In another [interview](#), the teacher Alma Bolón explains the criticism on the interference of UPM, through its "Fundacion UPM". Among others, there are concerns about the independence of the universities and other educational institutions, the impact on their governance structures, concerns over the state budget funding private educational programs and questions about access to patents.

UPM decides to go ahead with Paso de los Toros Mill

Jul 23 2019

After nine years of preparations, [UPM today decided it will go ahead](#) with a USD 2.7 billion investment in the Paso de los Toros pulp mill. During the press conference it mentioned its environmental permit allowed for further capacity expansion in the future.

On the same day, a court case started in Uruguay against the Ministry of Transport, requesting that it releases the studies on which it based its decision to let the railway that will be used by UPM, go through the centre of Montevideo (also see [press release Movus](#)).

Round table with political parties, on UPM2 impacts

Jul 13 2019

Nine of the eleven political parties that will participate in the presidential elections in October, participated in a [round table](#) organized by Movus, about the impacts of the UPM2 mill. All expressed their concerns regarding this project. Despite repeated efforts by the organizers, the ruling Frente Amplio declined to participate.

Letter against UPM is delivered to Finnish Consul in Uruguay

Jun 28 2019



Ulos UPM - UPM out. Photo: Movus

Uruguayan citizens, representing more than 40 social organizations assembled in the National Coordination against UPM went today to the Consulate of Finland in Uruguay to **hand in a letter** to the government of Finland to express their total opposition to the installation of a new pulp mill of the Finnish company UPM on the banks of the Río Negro.

Please find an English translation of the letter [here](#), and a video of the march [here](#).

Legislative Initiatives to stop the Train of UPM

Mar 30 2019

The collective **NO al tren the UPM** has launched a legislative initiative with the

aim to prohibit the train from UPM to pass the **Municipality "C"**, which is part of Montevideo. Such an initiative is based on article 305 from the Constitution which requires the authorities to take a stance on a petition, if it has been signed by at least 15% of the people that have voting rights. Similar initiatives have been launched in other cities, such as Durazno, [Sarandí Grande](#), [Florida](#), [Durazno](#), [25 de Mayo](#).

Petition to cancel the contract

Oct 30 2018

The Movement "Uruguay sin UPM" has organized a **petition** which asks the government to cancel the contract between Uruguay and UPM. The petition has been signed by thousands of people and is supported by MOVUS, Movimiento Un Solo Uruguay, Movimiento Uruguay Sustentable, la Agrupación Cívica de Río Negro, Casa de Filosofía, Maldonado por la Tierra y el Agua, Colectivo Ecofeminista Dafnias, Cotidiano Mujer, Asociación Rural de Tacuarembó y Mburucuyá ONG and the Mesa Nacional de Colonos, among others ([Ecos, 2018](#)). On 24 August 2018, they organized a protest and **delivered a petition** with 5,000 signatures to the President's office. On 11 October 2018 they organized another protest at the Torre Ejecutiva. The petition highlights the fact that the Project will cost jobs, that it will increase the external debt, increase the area of land that is suffering from erosion, increase the contamination of the Rio Negro, it will flood the beaches of San Gregorio de Polanco, increase the rural exodus, the railway will divide cities, it will change labour laws and study plans. Furthermore, it will be exempt from paying taxes and on top of that, Uruguay will buy its electricity at a subsidised price ([Ecos, 2018](#)).

Financiers

The more than USD 2 billion project will be partly financed by the state of Uruguay and partly by UPM-Kymmene. An overview of UPM-Kymmene's known financiers can be [accessed here](#).

Multilateral development banks

Interamerican Development Bank (IDB)

[Details](#) ▼

Debt – corporate loan USD 500 million 30 April 2019 - 30 April 2036

For the construction of the Central Railroad line in Uruguay. The finance consists of a senior loan of up to USD 440 million and a subordinated loan of up to USD 60 million, financed by IDB Invest and a group of commercial banks and international investors.

source: [ldbinvest.org](#)
[link](#)

Debt – corporate loan USD 70 million 29 April 2019

Road Infrastructure Improvements
source: [link](#)

Related companies

The pulp mill companies owning the pulp mill are UPM subsidiaries Cuecar and Blanvira. The company related to the port is Tebetur (UPM subsidiary). The railway project will be executed through a public-private participation contract between the Ministry of Transport and Public Works of Uruguay

and a special purpose company Grupo Vía Central, which consists of: Sacyr Concesiones (Spain), NGE Concessions (France), SACEEM (Uruguay), and Berkes Construccion y Montajes (Uruguay).

A full list of companies involved in the Paso de los Toros project can [be found here](#).

UPM-Kymmene Finland [show profile](#)
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