

Statement on behalf of the Government of Uruguay Orion project - Uruguay Pulp Mill

The project you are about to consider is important to the economy and citizens of Uruguay. It represents huge economic benefits, jobs for underemployed people in Uruguay, and it is a capstone in a twenty-five year strategy to develop forest production as the initial link in a long value chain of industrialization for Uruguay. However, the substantial economic benefits that this project presents do not blind the Uruguayan government's responsibility to protect environment in which its citizens live and work. The care and caution taken to design, plan, execute and monitor this project, is reflective of how seriously the Government of Uruguay (GoU) takes its responsibility to protect the environment. This statement will detail the substantial efforts that the GoU exerted to make this project an economic and environmental success story.

The strategy to develop forest production started in the early 1980s with the cooperation and advice of the World Bank. Tax exemptions and other economic incentives were granted temporarily to promote the planting of Eucalyptus. In a few years, approximately 800,000 hectares of forest were planted. Incentives were then removed and by now the Uruguayan forest sector is competitive without government support. The country started processing trees into rolls and later on, into chips. The value chain was then extend when saw mills began producing wood products for domestic and international consumption. The next link to this value chain is cellulose production. The production of cellulose is therefore a **fundamental component** of this long term strategy.

With respect to how this strategy will pay off in economic terms, this project will add more than **2 percentage points** to GDP in Uruguay. It will increase exports by 8 percent and will create an estimated 12,000 jobs during the construction and 8,000 when the Plant is operational. Equally important, the project will promote growth in interlinked sectors such as road transport, ports, railways, communication, chemical industries and others. The positive economic impacts are already evident as the project is attracting additional foreign and domestic investment. The project under your consideration today **is in itself a turning point of the overall development process of Uruguay**, allowing the country to progress in its industrialization.

The substantial economic benefits that this project presents made it imperative that the GoU be most thorough in addressing both environmental as well as legal aspects of the project so as to guarantee its viability. Environmentally, this is a first class project. The project is no threat to the environment, and may even help improve the quality of the river once related initiatives financed by the company are implemented. As mentioned in the Cumulative Impact Study (CIS)¹ "the mills will employ state-of-the-art process technologies in every respect and it is anticipated that once they are operational, they will perform better than any of the companies' existing mills with respect to environmental performance." The Hatfield report adds that "...these mills will probably perform to a

¹ The CIS main objective was to analyze the cumulative impact of the Botnia (Finnish) and the ENCE (Spanish) plants originally envisioned to operate at 8 km. of distance from each other. The ENCE plant decided to relocate and its future location is yet unknown.

standard of the top five in the world...” The Plant will not only comply with the current European standards as set up in the IPPC of the EU but will also comply with the standards that will enter into effect in Europe in 2007.

Environmental studies concur with these favorable conclusions. The conclusions attained by the environmental impact assessment presented to the Uruguayan environmental authority (DINAMA) were later ratified by the original IFC’s EIAs (April 2005) and yet again by the most recent CIS carried out by IFC’s independent consultants: the **combined operation** of the Plant under your consideration and the one of ENCE **pose no risk whatsoever for the health or livelihood of the populations at both sides of the River Uruguay**. The CIS clearly states that there will be no negative impact on water quality in either of the two countries and that there will be no negative impact on air quality either. Furthermore, the studies conclude that there will be no adverse economic or social impact in Uruguay or Argentina.

The legal aspects surrounding the cellulose projects have been addressed. Key among them was the requirement for notification included in the bilateral treaty that regulates the use of the River Uruguay. International law in general and the bilateral Estatuto del Rio Uruguay in particular require notification and information to the other party but do not require the consent of the other party to proceed with a project. Nevertheless, after the GoU gave the Government of Argentina (GoA) timely and complete notification about the pulp mills Argentina agreed to the construction and operation of the two plants. On March 2, 2004, the Foreign Ministers of Uruguay and Argentina agreed that the Plants could be built as planned and that the GoU would provide the GoA with all pertinent information regarding the plants’ construction. Once in operation, CARU (the administrative bi-national commission for the River Uruguay) would monitor the quality of the water in the river.² The then Argentine Foreign Minister, Dr. Bielsa, presented this agreement in a formal written statement to the Argentine Senate. At the end of 2004, in his official Annual Report on the State of the Nation, Argentine President Nestor Kirchner recognized this agreement, as well as the implementation plan adopted by CARU. He stated: “[B]oth countries signed a bilateral agreement putting an end to the controversy over the installation of a cellulose plant at Fray Bentos. This agreement respects on the one hand the Uruguayan national character of the works, which was never challenged, and on the other hand the existing regulations that regulate the waters of the River Uruguay through the CARU.” As part of the agreement, a plan for the protection of the river was envisioned. In fact, President Kirchner report states: “In conformity with the ‘specific concurrence of both Delegations to the CARU’ regarding the possible installation of cellulose plants on the bank of the River Uruguay a ‘Plan for Monitoring the Water Quality of the River Uruguay in the Areas of the Cellulose Plants’ was designed that together with the ‘Plan for Environmental Protection of the River Uruguay’ contributes to maintaining the quality of this water resource”.

Reiterating the statement the Argentine president made in his Annual Report, Argentine Foreign Minister Bielsa also submitted a report to the Argentine Chamber of Deputies in

² This agreement was confirmed by the Argentine and Uruguayan delegations to CARU and is reflected in its formal Minutes (15 May 2004).

which he stated again that: “This is an agreement that respects, on the one hand, the Uruguayan national character of the works and, on the other, the regulations in force that regulate the waters of the River Uruguay through the CARU.” “In this way, comprehensive procedures of control were developed with regard to the River Uruguay that will continue after the plants begin to operate.” “The controls over the two plants will be greater than those that our country applies to our own plants along the River Parana, but were nevertheless accepted by Uruguay...” In February 2005, CARU began implementing the agreed Monitoring Plan by collecting samples of the water from previously agreed monitoring locations.

In spite of these accords between Uruguay and Argentina, vocal Argentine NGOs and local political actors in Entre Rios (the Argentine province bordering Uruguay) started to challenge the national authorities of Argentina. Local protesters decided to blockade access to the most important international bridge for Uruguay and a key part of the corridor that connects Argentina, Brazil, Chile and Uruguay. The blockades lasted for three months and took place during the peak of the tourist season. Furthermore, these blockades were extended to the second most important bridge, further to the north.

To placate local protesters and convince them to abandon their blockades, in May 2006, the GoA sued Uruguay in the International Court of Justice (ICJ) alleging that the plants would irreparably contaminate the river, and asked the Court for Provisional Measures prohibiting construction or operation of the Plants pending the final resolution of the dispute on the merits. This legal action induced protesters to abandon the blockade³. In July of this year the Court overwhelmingly rejected Argentina’s request by a vote of 14-1. Only the Argentine judge dissented. The Court found that “Argentina has not provided evidence at present that suggests that any pollution resulting from the commissioning of the mills would be of a character to cause irreparable damage to the River Uruguay.”

Executive Directors could rest assured that the lawsuit poses no risk to this project or to the IFC’s investment. The ICJ ruling was issued three months **before** the publication of the CIS. Our lawyers have assured us that this study will be received by the Court as decisive evidence on the issue of the potential impact of the Plant on the river. With the conclusiveness of the CIS, there is no risk that the Court would find the Plant could cause irreparable damage to the river or would need to be modified or dismantled. There is no evidence on which the Court could base such an order as all of the technical evidence supports the construction and operation of this Plant. In fact, the report provides evidence that the combined operation of the two originally-envisioned Plants would not cause irreparable damage to the river, let alone a single one.

Looking forward. Important as it is for the future of Uruguay, this project was surrounded by a dispute between two countries with a long tradition of trust, cooperation and mutual respect. There are reasons to believe that wounds caused to this relationship will heal soon. Economics may soon force Argentina to advocate in favor of the position

³ The bridge was blocked again more recently. In October (13-15), during a long week-end which usually attracts many tourist from Argentina to Uruguay and again in November, during the Iberoamerica Summit in Montevideo.

Uruguay is in today. The financial viability given by the high productivity of forest production in the region will bring more pulp mills to the region. In fact, pulp mills investments are under consideration in several Argentine provinces at present.

While the economics of pulp mill production will help heal the relationship between national governments, efforts will be required to restore the good relations that once characterized much of the history between Gualeguaychu and Fray Bentos. To different extents, all actors involved bear some responsibilities for what needs to be done to improve the existing situation. One example of the efforts to bridge the gap is the GoU's offer to monitor the Plant with citizens on both sides of the international border. The GoA might contribute to inform local population regarding the true impacts of the Plant.

Lessons were learned. The heated discussions around this project contributed to the awareness of environmental issues at both sides of the river. Uruguay strengthened its regulatory and its enforcement capacity over environmental issues and benefited from the cooperation of the Government of Finland on specific regulatory and technical aspects of pulp mills. Argentina upgraded the status of its Secretary of Environment moving it from the Ministry of Health to the Presidency and started tackling pending environmental problems. Both countries reinforced its surveillance over existing pulp mills inducing, in some cases, their upgrade to newer, more environmentally sound, technologies.

All in all, the problems that surrounded this project will fade with time and a technically impeccable project will remain. This project puts together a company with an impeccable environmental record making its first foreign direct investment and a country with a remarkable reputation in terms of governance, democracy, environmental protection and respect for property rights with quality institutions and a life-long tradition of honoring all international commitments. In a few words, the project at stake represents a unique and once in a lifetime opportunity for Uruguay to pursue sustainable development; an opportunity we are asking members of this Board to support.

I thank the IFC staff involved in this project. They worked all along under the pressure of an intense scrutiny and had to confront criticism from both sides of this debate. These were extremely difficult conditions in which to carry out an already complex task. I also thank the Executive Directors and their staffs for the time and attention they have devoted to this project.

In closing, I want to underscore to all concerned that Uruguay will do everything that is required to assure that the Botnia plant is operated in accordance with all applicable national and binational environmental laws and regulations, as well as the terms and conditions of all licenses and permits issued by the GoU and the conditions stipulated by the IFC. We will assure that this is a model plant in all respects. I want also to stress that the GoU's first priority after the project is approved will be to engage with Argentina in an effort to resolve all matters surrounding this project, to bring harmony to Fray Bentos and Gualeguaychu, and to restore the traditionally close and fraternal relations that our two countries have always enjoyed.