

## **Pulp friction**

*Tensions on the border between Argentina and Uruguay.*

Uruguay and Argentina have argued over a huge new cellulose mill on the Uruguayan side of the river that divides the two countries since late 2006. Now, an industrial accident—a gaseous explosion in the piping of the polemical Botnia plant in Fray Bento, Uruguay on February 27th—has fuelled the dispute anew.

No victims were reported but the explosion was heard throughout the town and across the river in Argentina, and a foul odour covered the plant's immediate surroundings. Company officials say the accident will have no environmental impact. Yet Argentinian environmentalists who have tried to derail the Finnish investment project for three years will now have new ammunition.

Argentina's President Cristina Fernández de Kirchner has ordered studies of waters near the plant to detect the possible presence of contaminants. However, Uruguay's government is unlikely to take any action to impede pulp production at the US\$1.1bn plant, which is the largest foreign investment ever in the country. The facility is proving to be a successful export-income- and job-creating machine, critical during an electoral year and the current tough economic times.

### **Green concerns**

The explosion occurred on Botnia's transfer line for weak malodorous gases when the mill was started up after a 48-hour maintenance shutdown. The shutdown was aimed at creating efficiencies as the plant was already operating at its maximum capacity of 3,000 tonnes of cellulose paste per day. Directly after the incident, Botnia released a report explaining that the explosion was owed to a build-up of gases in the piping and that their release would have no effect on the environment or human health. Most nearby residents were not convinced, however, and have expressed concern that such an incident has happened so soon—a little over a year after the plant was opened.

Long before the Botnia pulp mill went on line in November 2007, it had created a stir among environmentalists. Militant groups in the Argentinian border town of Gualguaychú took to the streets repeatedly to cut traffic on the San Martín bridge connecting Uruguay and Argentina. They claimed that the industry would pollute the Uruguay River, the natural border between Uruguay and Argentina, and harm the local tourism industry. The construction of the plant was stalled by the protests and has since created a rift between the two governments. Bilateral tension was exacerbated when Argentina's government refused to stop the protesters from blocking the bridge, which Uruguay claims violates the statutes of Mercosur, the southern cone customs union.

The conflict was brought to the International Court of Justice at The Hague, which in July 2006 ruled in favour of the plant's construction, saying that it posed no imminent or irreversible environmental threat to the Uruguay River. A study by the World Bank also found insufficient reason to halt the construction, so it approved a US\$170m loan for Botnia. Despite the rulings in favour of Uruguay, the Argentinian protests and blockades continued. In January 2007, the International Court supported the Argentinian blockades by arguing that they did not create a risk or irreparable damage to the Uruguayan economy. Since the last ruling, Botnia has been operating at maximum capacity and Argentinian environmentalists have continued to take to the streets, though with less support from the increasingly unpopular Fernández administration.

The administration remains concerned about the environmental impact of the plant on the river and Argentinian border towns, but argues publicly that a solution to the problem will best be found through politics rather than protests. Since the recent explosion, there has been no official contact between Uruguay and Argentina. On March 5th, however, Ms Fernández took unilateral action by initiating the inspections of the water surrounding the plant, and ordered her minister of justice and security, Aníbal Fernández, to fly over the scene together with Navy officials in order to ensure the extraction of samples.

Ms Fernández has also ordered satellite photos to be taken to monitor a stain in the river water that appeared a few days after the explosion. If the water is found to be contaminated, the government claims it will take the evidence to The Hague. In the meantime, ten representatives of the Environmental Assembly of Gualaguaychú met with Argentina's environmental minister, Homero Bibiloni, to express concern about the explosion and the water stain.

#### The Botnia effect

At an estimated 11% in 2008, Uruguay's economic growth rate was the highest in Latin America. This extraordinary growth was partly due to strong expansion in agricultural output and partly the result of the opening of the Botnia mill, which has not only directly benefited the economy but indirectly as well by encouraging growth in the related forestry and logistics industries. Manufacturing growth is estimated to have reached 18% year on year last year, and services growth (including logistics sectors such as transport and communications) is estimated to have been 19.1%.

Since it commenced production in November 2007, the plant has produced 1.2m tonnes of cellulose paste, with 34 shipments completed to Europe and 16 to Asia from Uruguay's new US\$23.7m terminal at Palmira Port. At present, the plant directly employs 1,000 and is expected to increase that number to 2,500 as it grows.

Botnia owns and operates five pulp mills, four in Finland and one in Uruguay, its largest. The global pulp industry has been hit hard of late, with international prices down by 40% since the start of the financial crisis. Botnia company executives, however, have publicly reaffirmed their commitment to the Uruguayan facility as it remains profitable despite the drop in prices. Indeed, the Botnia plant is proving to be an exception to the general downturn in manufacturing that Uruguay is facing in light of the international crisis.

According to figures from the Instituto Nacional de Estadística (INE, the National Statistics Institute), manufacturing production fell by 5.8% year on year in November, and grew by just 2.8% in December, down from the double-digit rates recorded in eight of the previous ten months. This was due in large part to the Botnia mill closing operations for two weeks to reduce inventory built up as a result of falling global demand. However, the plant has been operational since.

#### Vote of confidence

As a vote of confidence for its expanding pulp industry, Uruguay's government, led by President Tabaré Vázquez, has announced that it will provide US\$6m to local governments to improve transportation for the logging industry.

Botnia will not be the only beneficiary. A Spanish cellulose pulp manufacturer, ENCE, is holding talks with four companies in an attempt to find a partner to complete construction of its cellulose mill in Conchillas, Colonia. It scaled down construction owing to concerns over global demand, but is keen to restart and finish construction of what would be a similar-sized plant to

Botnia's. A third mega cellulose plant, from a Portuguese firm, Portucel, has permission to start construction, but this is expected to be delayed until 2010 at the earliest, owing to tight international financing conditions and concerns over global demand in 2009-10.

Meanwhile, after the economy's stellar double-digit rate of growth in 2008, the Economist Intelligence Unit forecasts that the rate will plummet this year and be essentially flat (with GDP contracting by a slight 0.2%). A stronger contraction is possible, owing to lower export prices and slumping domestic and international demand. In this context, the government will want to continue to encourage pulp making and exports in order to bring in foreign reserves, strengthen local industry and keep people employed.

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