

# UPM in Uruguay

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## UPM IN URUGUAY

### Introduction

Located in the southern half of South America, Uruguay is a sparsely populated democratic republic that is defined by its rolling plains, mild climate and strong institutions that have made it one of the most stable countries in the region.

Uruguay is consistently ranked at the top of Latin America in terms of the strength of its democracy, the size of its middle class, its comparatively low levels of government corruption and for its high quality of life. The country's economy has traditionally been export-oriented with products such as beef, milk, soy, rice and combed wool forming the main exports. In 2018 pulp reached the same level of beef as the main export product.

Uruguay started to promote forest plantations in the late 1980s with the aim to develop a new industrial sector in the country. The 1987 Forestry Act was supported by the whole political spectrum and had a dual purpose: to promote forest plantations and protect natural forests. Ever since, Uruguay has successfully made progress in consolidating the forestry sector, which has had a positive impact on the country's production chain, creating over 25,000 jobs. UPM – through its forestry and wood sourcing company UPM Forestal Oriental – has been part of this effort since its inception, working day-to-day with various forestry chain stakeholders in Uruguay with a view to ensuring the sector's sustainable development. Plantations have widespread socioeconomic impacts through around 235 contractor companies and more than 580 suppliers in rural areas.

Today UPM's operations in Uruguay include the Fray Bentos pulp mill, the forestry and wood sourcing company UPM Forestal Oriental and the UPM Foundation. These operations generate around 7,000 direct or indirect jobs in the entire production chain covering nurseries, forestry operations, logistics and pulp production. The contribution of these operations to Uruguay's GDP is estimated to be 1.4% according to independent sources.

In July 2019 UPM announced its decision to build a new pulp mill near Paso de los Toros in central Uruguay. In addition to the mill, the project also includes investments in a new pulp terminal in the port of Montevideo and local facilities – investments of altogether over USD 3 billion. The construction work is ongoing in the port and at the mill site as well as in the housing areas for construction workers in nearby communities. The mill is scheduled to start up in the second half of 2022.

During the peak of construction there will be over 6,000 people working on the site. When operational, the mill is estimated to create 10,000 permanent jobs including 4,000 directly employed by UPM and its subcontractors. About 600 companies are estimated to be working in the value chain. The new mill's estimated contribution to Uruguay's GDP is 2%.

## SUSTAINABLE FOREST PLANTATIONS

Tree plantations, also called forest plantations, are a growing forest resource considered to be a solution for global challenges like climate change, scarcity of natural resources and the increasing need for forest-based raw material to supply the world's growing and ageing population.

The share of wood from forest plantations in relation to total industrial wood globally has grown rapidly. According to WWF's Living Forest Report (2012) forest plantations represent around 7% of global forest cover but they provide around two thirds of the global industrial wood production for several industries.

The original purpose of industrial plantations has been to produce wood fibres but at the same time this land-use change can create benefits for the environment and people. Well-managed plantations can be a sustainable solution from environmental and social points of view to human needs – by generating social wealth and providing wood products and fibres on less land than when sourced from natural forests.

Based on the FAO's latest Forest Resource Assessment – FAO is the Food and Agriculture Organization of the United Nations – there were some 260 million hectares of forest plantations worldwide by the year 2000. Expansion of these plantations is necessary to meet the needs of increasing global demand. According to WWF's Living Forest Report (2012) more than 500 million hectares of plantations would be needed by 2050 globally.

### UPM's plantations are based on the principles of sustainable forest management

In Uruguay, tree plantations represent less than 6% of the national territory of the country.

UPM started to establish eucalyptus plantations in Uruguay on old grazing land in 1990. Today, UPM manages about 430,000 hectares including its own and leased land mainly in the west and north east of Uruguay.

On UPM's land only 60% of the area is planted with eucalyptus with the rest mainly maintained with natural vegetation, while a minor proportion goes for infrastructure. These unplanted areas are mostly kept under the traditional land use – cattle grazing – but also acting as corridors for native fauna.

All UPM plantations are certified according to the FSC® and PEFC™ forest management schemes which constitutes proof of well-managed, sustainable plantations. The concept of sustainable forest management, which is the basis for the certification schemes, covers economic, social and environmental sustainability.

These established international certification schemes include fulfilment of a set of criteria – stakeholder consultation and the implementation of stringent environmental, social and ethical standards – and third-party auditing.

UPM has integrated these criteria as part of its management system with other standards such as quality, environmental management, occupational health and safety, and chain of custody.

In Uruguay, native forests cover about 5% of the country's total land area and they are protected. Uruguay's vegetation type is pampa (grassy plains) and there are no rainforests. Valuable habitats – wetlands, grasslands and other valuable sites – around plantation stands are protected.

Eucalyptus plantations require relatively low amounts of nutrients to grow and are very efficient in using the available nutrients, especially when compared to agricultural crops. This is supported by the harvesting method where leaves, branches and bark are left on the site to decompose and recycle nutrients back to the soil.

Soil monitoring indicates if fertilizers should be used and that plantations have not been impacting productivity of the soil during the initial three or four rotations. The rotation of a UPM eucalyptus plantation is between 10-12 years.

### Minimal use of fertilizers and agrochemicals

UPM uses agrochemicals and fertilizers only during the first year of plantations and only those approved by the forest certification schemes. The frequency and intensity of the use of agrochemicals and fertilizers in forest plantations is much lower than for example in agriculture. For instance, only slow release fertilizers are applied at low dosages at the time of planting which minimises any risk of nutrients reaching water courses.

The presence of buffer areas around the plantations including riparian areas (i.e. areas next to water streams) provide additional assurance that agrochemicals do not reach water courses. All environmental aspects related to use of agrochemicals are assessed annually in external audits as part of the certification process.

### Water consumption of eucalyptus plantations

UPM's plantations in Uruguay are located within the temperate zone with a humid subtropical climate. The annual rainfall is 1,200 to 1,500 mm and it is well distributed during the year without a regular dry season.

Water usage of eucalyptus plantations has been studied and monitored for decades. In comparison to most tree species, eucalyptus uses less water. Planted eucalyptus species are very efficient in terms of biomass production per water unit usage. Eucalyptus does not use groundwater or reduce groundwater recharge. Tree plantations reduce the rapid run-off through the soil surface thus minimising erosion.

During its almost 30-year experience on eucalyptus plantations in Uruguay, UPM has not faced any water related problems.

Changes in precipitation and water availability have always been one of the key considerations in planning of any industrial operations including plantations by UPM.

In 2019 UPM engaged with the Finnish Meteorological Institute to further study the physical impacts of climate change, taking into account aspects such as water availability and weather extremes. The study is available at <https://helda.helsinki.fi/handle/10138/305992>

### Plantations are part of UPM's biodiversity programme

Biological surveys have been conducted in UPM's plantations since the early 1990s in order to identify and classify species and ecosystems to be protected. Today these include native forests, wetlands, continental dunes, unique areas for protecting specific birds or other animals, and grasslands.

More than 35% of UPM's gross farm areas maintain the existing vegetation, most of which are grasslands, creating an extremely valuable opportunity for conserving this important ecosystem and its rich biodiversity. In addition, the company maintains in Uruguay over 20 specific conservation areas which are managed under tailormade management plans designed to protect their unique ecosystems or species.

UPM safeguards biodiversity globally in its own forests and plantations through the implementation of its biodiversity programme. This was established in 1998 with environmental guidelines concerning operational activities, forest conservation and collaboration projects with stakeholders. More about the programme at <https://www.upm.com/responsibility/forests/biodiversity/>

The biodiversity programme is also implemented in UPM's plantation operations in Uruguay, where valuable habitats around plantation stands are protected, and other unplanted areas are maintained under the traditional land use, cattle grazing, and at the same time also acting as corridors for native fauna.

### Forestry integrated into other agricultural production

UPM's Fomento Programme for rural producers was started in 2006. It offers farmers an alternative for diversifying their business to forestry by establishing plantations in some areas of their farms thus creating more value and diversified income. The programme includes alternative commercial options depending each farmer's situation. UPM provides tree seedlings, technical advice and assurance of a secure market.

The Fomento Programme, which currently has more than 700 Uruguayan partners, has been the main vehicle to expand the plantations base required to sustain the wood sourcing for two UPM pulp mills in Uruguay.

### UPM promotes diverse use of plantations

Rural producers and people from the communities next to UPM's plantations can benefit from additional forestry related activities including:

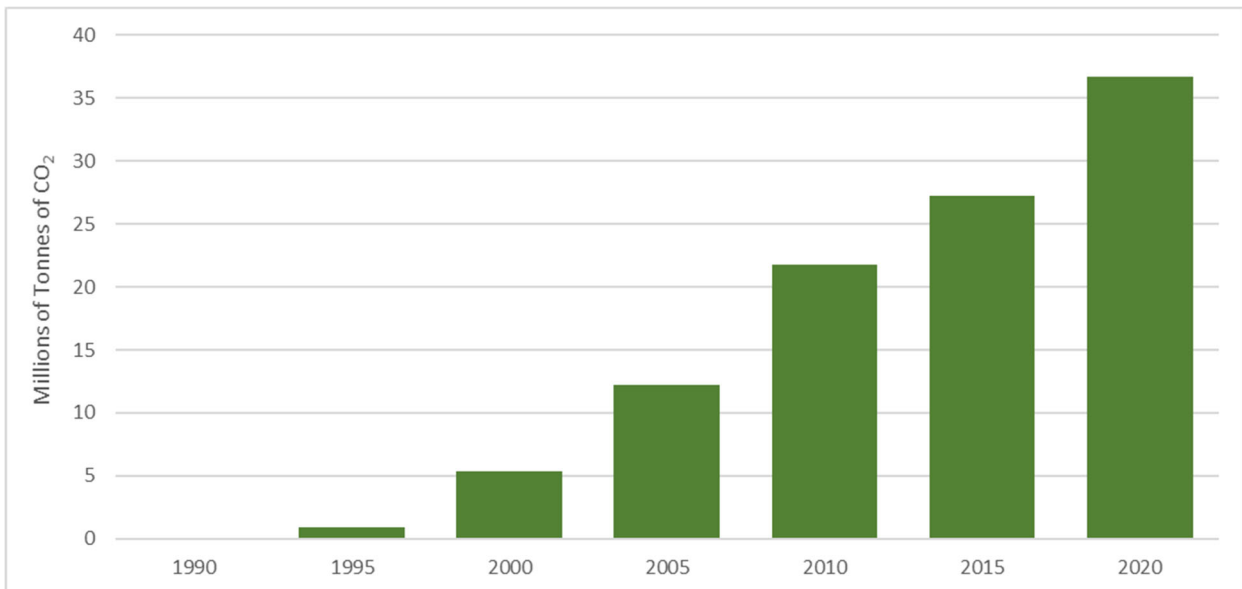
- Grazing: The unplanted areas are used by neighbours or other producers for cattle grazing under appropriate grazing contracts.
- Beekeeping: Beekeepers can manage beehives in and around the plantations. All honey producers on UPM land follow the same protocols and are committed to implementing the manual of "good beekeeping practices" developed by the state. Every year UPM puts out a national call for local producers to use eucalyptus plantations for their honey production as a complementary product to sustainable forestry. The number currently stands at 220 beekeepers across Uruguay.
- Mushroom gathering: Residents of nearby communities gather mushrooms in UPM's plantations during autumn and spring through a system which ensures that this activity is done in a safe and orderly manner.

### Plantations as carbon sinks and storage

Carbon stocks of a forest plantation are much higher than in old grazing land given that the above and below ground biomass of the former is much higher than in the latter.

From the start of UPM Forestal Oriental operations in 1990 to date there has been a continuous increment of this plantation base and the annual extractions have been way below the annual growth

during the expansion phase. This can be easily verified by estimating the carbon stocks in the plantations that were standing at the end of each year. Therefore, UPM plantations have been continuously sequestering carbon over the last three decades.



Indicative carbon sequestration of plantations established on land owned by UPM in Uruguay. Estimates are based on the carbon stocks in standing plantations at the end of each year.

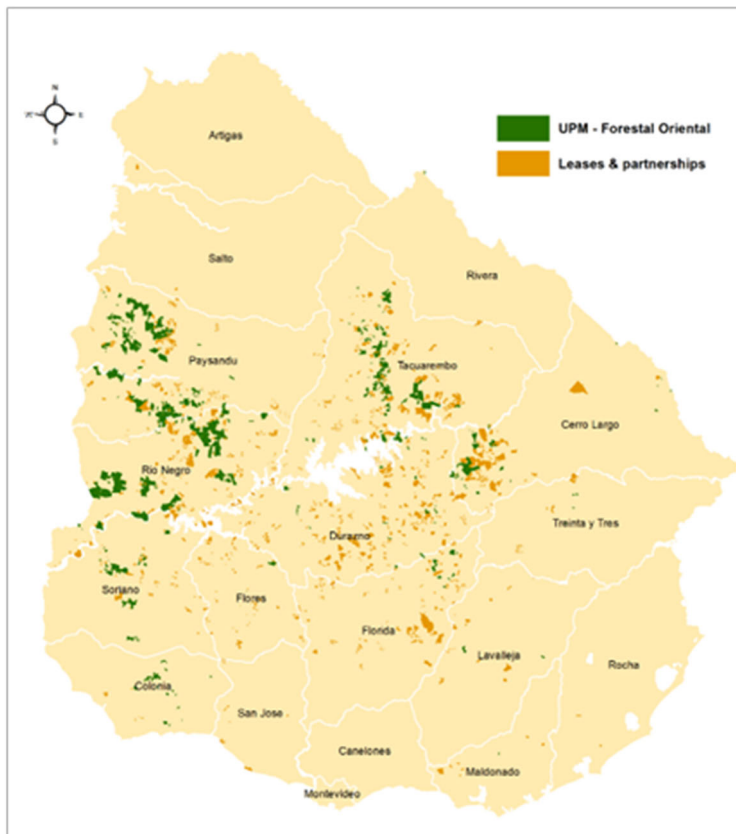
### International rules for carbon accounting

There are internationally accepted rules for carbon accounting, e.g. those of The Intergovernmental Panel on Climate Change (IPCC). The IPCC Special Report on Climate Change and Land use (2019) supports with very high confidence that afforestation/reforestation results in capturing more atmospheric CO<sub>2</sub>.

### Grassland and soil carbon

Uruguay reports its national greenhouse gases using the IPCC methodology which acknowledges that forest plantations have much higher carbon stocks than the previous land use, i.e. mainly cattle grazing on grasslands.

There are some studies suggesting that soil carbon in plantations would be lower than in grasslands. Based on UPM's soil monitoring results there is a trend indicating that the soil's organic carbon has increased in the plantations. However, differences in soil carbon do not change the overall higher carbon stock of forested areas. Soil carbon calculation between old grazing lands and plantations is an under-investigated field and therefore UPM is currently studying the soil and wood stand carbon storages and sinks with research institutes.



Location of UPM managed plantations in Uruguay as of December 2019.

## UPM FRAY BENTOS PULP MILL

The UPM Fray Bentos mill started operations in 2007. Located on the banks of the River Uruguay, the mill produces annually 1.3 million tonnes of bleached eucalyptus pulp. The pulp is transported to the deep sea port of Nueva Palmira by river barge to be loaded onto transatlantic vessels bound for Europe and Asia. Eucalyptus pulp is used in versatile everyday products such as tissue papers, printing and writing papers.

UPM's pulp production is based on the use of the best available techniques (BAT) to ensure efficient, reliable and sustainable operations in all our mills globally. In line with UPM's responsibility policy the same rules and standards are followed in the company worldwide. The UPM Fray Bentos pulp mill's safety and environmental performance as well as productivity have been at an excellent level from the start.

Every day around 800 people enter the UPM Fray Bentos mill gate. Besides around 200 pulp makers on UPM's payroll, the mill site also accommodates our supplier's chemical plants which supply chemicals for the pulp mill as well as the company in charge of maintenance of the pulp mill, and several other service providers.



## Responsible use of water

The Fray Bentos pulp mill takes water from the Uruguay River. This water usage does not have an impact on the river due to the minimal amount used (below 0.01% of the river flow) and as most of the water is returned to the river. The estimated impact of the nutrients in the discharge water is low. At a few metres from the discharge, effluent concentration is already below 1% measured during low flow rate periods.

The mill has not caused any change in the water quality of the river as the mill uses effluent treatment processes consisting of mechanical, chemical and biological water treatment. The technology used is an application of the European Union's Best Available Techniques (BAT) and in compliance with the national legal framework. The mill's water usage is efficient with suitable recycling techniques. The Fray Bentos mill is one of the plants that uses the least water per tonne produced in the pulp industry globally.

## Monitoring by local, national and international authorities with solid results

After 14 years of systematic monitoring by different expert parties it has been demonstrated that the water quality and the Uruguay River biology, e.g. fish monitoring, have not shown any negative effects from the operation of the mill. Water quality in the city of Fray Bentos, 5 km downstream from the mill, is not affected by the mill operations.

The Uruguay River is managed jointly by Argentina and Uruguay through the Uruguay River Executive Commission (CARU). Since 2010, after an agreement between both countries, CARU has increased monitoring across the whole binational section of the river and established a Scientific Committee (SciCom) that monitors the water quality and some of the discharges into the river, such as the effluents from the Fray Bentos pulp mill. The results are published in both countries and show good performance. In 2019 the monthly inspections by CARU's SciCom, together with Uruguay's environmental authorities, amounted to more than 100.

Results of the mill's environmental monitoring are available on the website:

<https://www.upm.uy/planta/medioambiente/monitoreo-ambiental/>

In 2012 the UPM Fray Bentos pulp mill was the first non-European mill to be certified according to the EU Eco-Management and Audit Scheme (EMAS) – a voluntary environmental management system for companies to improve, evaluate and report on their environmental performance on an annual basis.

## Pulp production generates significant amounts of renewable energy

The UPM Fray Bentos pulp mill is self-sufficient in electrical consumption through the clean, wood-based energy generated by its own industrial process. The excess energy is sold to the national grid. The Fray Bentos pulp mill accounts for 8% of the total energy generation in Uruguay. Electricity generation in pulp mills does not cause fossil CO<sup>2</sup>.

Uruguayan demand for energy grows 3% annually and the country has decided to grow in renewable energy. The increase in renewable and predictable energy supply will help the country's growth plan. More about the UPM Fray Bentos pulp mill at <https://www.upmpulp.com/about-upm-pulp/pulp-mills/fray-bentos/>

## UPM PASO DE LOS TOROS PULP MILL

In July 2019 UPM announced its decision to invest in a world class pulp mill in central Uruguay. The investment decision includes a USD 2.7 billion investment in the pulp mill, USD 280 million in a deep sea port terminal in Montevideo and also USD 70 million in the local community in Paso de los Toros. These investments of altogether more than 3 billion US dollars form the biggest investment ever in the history of UPM or Uruguay.

Statutory public consultation processes have been in place to inform stakeholders about the plans and progress of the new mill and related infrastructure projects. UPM has arranged over 20 voluntary public information events for media and local community members on a regular basis since the growth project planning was announced in 2016.

The state-of-the-art pulp mill will be constructed based on the best available technology (BAT) and will employ a modern and environmentally sound elementary chlorine free (ECF) bleaching method. In fact a totally chlorine free (TCF) bleaching method does not present environmental benefits in comparison to ECF bleaching in modern mills where effluent treatment consists of mechanical, chemical and biological processes – as in all of UPM’s pulp mills in Uruguay and Finland. The environmental performance of the UPM Paso de los Toros mill will be continuously monitored and UPM will publish monitoring reports on the website as it has for the Fray Bentos mill.

### Agreements with the Government of Uruguay

In November 2017 UPM and the Government of Uruguay signed an investment agreement that outlined the local prerequisites and infrastructure development for the investments for both parties. This agreement has been publicly available both as a summary and in its entirety. Complementary items such as the labor protocol have also been published.

In May 2020 UPM and the new Government of Uruguay signed a memorandum of understanding related to regional road infrastructure development and electricity network. The related investment made by UPM will further strengthen the implementation of UPM's growth project and existing operations in Uruguay as well as the local economy.

- Summary of the Investment Agreement available at [https://www.upm.uy/en/SysSiteAssets/documents/growth/investment-agreement-in-short.pdf?\\_ga=2.158867834.1982387313.1590481478-268598465.1579600213](https://www.upm.uy/en/SysSiteAssets/documents/growth/investment-agreement-in-short.pdf?_ga=2.158867834.1982387313.1590481478-268598465.1579600213)
- Investment Agreement available at [https://www.upm.uy/en/SysSiteAssets/documents/growth/investment-agreement.pdf?\\_ga=2.212715988.1982387313.1590481478-268598465.1579600213](https://www.upm.uy/en/SysSiteAssets/documents/growth/investment-agreement.pdf?_ga=2.212715988.1982387313.1590481478-268598465.1579600213)
- Labor Protocol available at <https://presidencia.gub.uy/comunicacion/comunicacionnoticias/protocolos-laborales-upm-comunicado-ministerio-trabajo-seguridad-social>
- More information on the memorandum of understanding signed in May 2020 available at <https://www.upmpasodelosoros.com/news/2020/05/upm-finalizes-pending-items-with-the-new-government-of-uruguay-upms-growth-project-proceeds-according-to-plan/>
- The memorandum of understanding documents available at (in Spanish) <https://www.presidencia.gub.uy/comunicacion/comunicacionnoticias/memorando-entendimiento-upm-gobierno>

## Stable and positive public opinion on the project

Since the planning of the new pulp mill project started in 2016, we have held regular information events and over 100 discussions with local stakeholders and communities.

Public opinion towards the mill project in Uruguay has been closely followed since 2016. Around 70% of Uruguayans have a positive or neutral attitude towards the plant. The closer to the mill region you go, the more positive the opinions are.

We have also polled people about their views regarding the UPM Fray Bentos mill. The clear majority, around 80% of the population, sees that the installation of the Fray Bentos mill has been positive or neutral to the country.

## Responsible use of water

The UPM Paso de los Toros pulp mill will take water from the Río Negro River. The long term average annual use of water is less than 1% of the river's average flow rate in Paso de los Toros. The operations require about 1.5 cubic metres of water per second. Around 80% of the water goes back to the river while the rest is evaporated. The operation of the plant will cause no change in the water quality of the Río Negro River.

Groundwater is not used in the pulp production processes of the mill. The use of groundwater is mainly restricted to the construction phase when it is used to supply the workers' needs.

The estimated impact of the nutrients in the discharge water is low. The estimated phosphorus load will be about 2-3% of the current load of the river. The remaining 97-98% comes to the river already, before the mill exists, from other sources. The estimated level of the nitrogen load is about 1-2% of the current load of the river.

The operation of the pulp mill will not cause any change in the river water quality, as the mill uses mechanical, chemical and biological effluent treatment processes. The technology used is an application based on the European Union Best Available Techniques (BAT), which complies with Uruguay's national legal framework. The water usage is efficient, with appropriate recycling techniques.

## The Río Negro Initiative

The main river in the interior of Uruguay, the Río Negro, originates in the southern highlands of Brazil and flows west across the entire width of the country. Available data from local environmental studies indicate that nutrient load has grown rapidly, and the water quality is getting worse.

The current state of the river requires initiative and action from all stakeholders and industries along the river. UPM has committed to participating in the Río Negro Initiative, for which a plan was announced by the state of Uruguay in March 2019.

The government will implement this wide stakeholder initiative to improve the water quality. The target is to prevent, control, stop and reverse the decline in water quality levels in the river. UPM will actively participate in the initiative and provide financial support – funding the improvement of the municipal wastewater treatment plant and restoration of the municipal landfill in Paso de los Toros as part of community investments worth USD 70 million.

The Río Negro Initiative has been designed on a five-prong approach: improving knowledge about the dynamics of the river system, improving drinking water and sanitation conditions, sustainably managing production around the river, strengthening local capacities for the development of the plan, and territorial management along with the protection of biodiversity.

## UPM as a relevant taxpayer in Uruguay

Uruguay is promoting domestic and international investments through tax exemptions. In Uruguay there are 11 Free Trade Zone areas which create over 16,000 jobs for Uruguayan and international companies. Another example of the state's measures to attract investments is the investment law, based on which about 5,800 projects have been exempted from taxes in previous years, most of these being projects by local companies.

UPM always adheres to local tax legislation and regulation wherever it operates, and this is also the case in Uruguay. UPM's value chain currently generates taxes of at least USD 90 million. This figure includes the taxes generated throughout the value chain including direct and indirect taxes.

The value chain of the UPM Paso de los Toros mill is expected to contribute USD 170 million in annual taxes and social security payments and contribute annually USD 200 million in wages and salaries. The new mill's estimated contribution to Uruguay's GDP is 2%.

The UPM Paso de los Toros mill will be located in one of Uruguay's many free trade zones and for that UPM will pay a fixed annual tax of USD 7 million. In addition, UPM will pay a concession fee and a port use fee estimated to be around USD 7 million per annum.

All UPM's operations outside the mill site – from nurseries and plantations to logistics and transportation – continue to be subject to local taxes in Uruguay. That's why UPM is the biggest taxpayer among all Uruguayan landowners.

## Commitment to ILO Fundamental Rights at Work and to promote decent work

UPM is fully committed to freedom of association and the right to collective bargaining. The company conducts both formal and informal consultations with unions and actively promotes employee participation and consultation, organized in accordance with international and national rules and regulations. This dialogue enables not only workers and UPM to understand each other's problems better, but also to find ways to resolve them. This has been the target of the tripartite agreement where UPM and the Uruguayan trade unions, chambers and the Government jointly agreed on procedures and standards for the growth project.

The location, scale and characteristics of the new pulp mill project in central Uruguay reinforce the need for a professional plan based on local and international experiences developed under a fluent dialogue with all parties involved. Working groups for services, training and safety procedures have been started in Uruguay.

The UPM Paso de los Toros mill will be constructed mainly by a Uruguayan workforce. Contractors are an integral part of UPM's operations in Uruguay and they are covered by the company's contractor assurance system to ensure compliance with UPM standards and Uruguayan laws for controlling both employees and contractors.

## Main impacts of the new pulp mill

As part of the permit process for a new pulp mill, UPM has submitted an environmental and social impact (EslA) study that is required by the Uruguayan authorities as a prerequisite for a construction permit.

UPM's first pulp mill in Uruguay started operations in Fray Bentos in 2007. When assessing the impacts of the new pulp mill, UPM and external experts have used the extensive data [on the environmental performance](#) as well as the socioeconomic impacts of the UPM Fray Bentos pulp mill systematically gathered for over 12 years. Part of the monitoring began in Fray Bentos before the start of that mill's operations. [Socioeconomic impact reports are available at the bottom of this web page \(Spanish\).](#)

The impact study for the new pulp mill, prepared by the consulting companies EIA-Estudio Ingeniería Ambiental (Uruguay) and Ecometrix (Canada), consists of a description of the planned pulp mill, identification and assessment of any potential environmental and social impacts as well as mitigation measures and conclusions.

In the most intensive construction phase, there will be more than 6,000 people working on the site. When completed, approximately 10,000 permanent jobs are estimated to be created in the Uruguayan economy including 4,000 directly employed by UPM and its subcontractors. About 600 companies are estimated to be working in the value chain. These estimates are based on independent studies done by Deloitte and CPA Ferrere.

There is a mitigation plan prepared relating to temporary housing, services and security based on the environmental and social impact study, run partly by local authorities, local citizens and the company. Social monitoring studies will be conducted by a third party on a regular basis, as in Fray Bentos.

More about the UPM Paso de los Toros project at <https://www.upmpasodelostoros.com/>

## Contribution to development of central and north eastern regions

The central and north eastern regions of Uruguay are the relatively less developed regions in the country considering the amount of households below the poverty line, regional competitiveness, social and financial measurements as well as road network and infrastructure.

Previous experience shows major rural development due to new economic activity, e.g. the region around Fray Bentos pulp mill has developed in 10 years from position 13 to position 3 in Uruguay's regional development (Departmental Development Indicator 2007-2015 by CINVE).

Positive regional development will improve wellbeing in central Uruguay through increased opportunities for education, employment and health care services.

## OPEN DIALOGUE WITH LOCAL COMMUNITIES

UPM is a global company that aims to ensure that our partners, suppliers and the communities around us benefit from our actions and presence.

Our goal is to be a trusted partner wherever we operate and seek to understand stakeholder-specific expectations and engage in dialogue to discuss our targets, operating principles and challenges we face. We respect the right to different opinions, as we want to foster dialogue with our stakeholders and society.

In Uruguay UPM has introduced a systematic way to interact with every local community near its plantations. Since 2016, when UPM started discussions on the investment possibilities for a new pulp mill with the government of Uruguay, we have held over 150 face to face meetings with different stakeholders in Uruguay.

The public events in which UPM has shared information of the plans, different phases and impacts of the project, have also been attended by people with critical views and their questions and concerns have been addressed. UPM has also had individual meetings with people and organizations who have a critical view of the project.

In addition to internal impact assessments, there have been several assessments conducted by external experts. UPM believes in a high level of transparency and strives to bring all relevant studies into the public domain.

As part of the permit process for the new Paso de los Toros pulp mill, UPM has submitted an environmental and social impact (EsIA) study that is required by the Uruguayan authorities as a prerequisite for a construction permit. The study is available at <https://www.dinama.gub.uy/oan/proyectos/planta-de-celulosa/>

Social monitoring surveys are conducted by an independent third party who interviews community members and contractor employees. The survey is conducted in forestry operations bi-annually and in surrounding communities of UPM's mill operations every six months. The results are public and available at <https://www.upm.uy/planta/medioambiente/monitoreo-ambiental/> (Scroll to the bottom of the web page - social monitoring results are below the environmental monitoring results)

### Stakeholder engagement and dialogue

UPM is committed to stakeholder engagement and considers dialogue with different stakeholders crucial. NGOs are an important stakeholder group for UPM and we value joint dialogue with them both at local and international levels.

UPM Uruguay has a community relations team whose main task is to engage with communities near UPM's forestry and mill operations. Assessment covers UPM's processes like silviculture, harvesting, road preparation and transportation, and safety of people, quality of environment, changes in the landscape, and workers.

Road safety has been set as a high priority topic in the local engagement work. Based on the results of the impact assessment, the UPM team visits communities impacted the most and engages with community leaders and local residents. After initiating this relationship there can be community days, visits to the mill and plantations or even working groups involving local producers.

In 2019 a total of 430 community engagement actions were taken in 60 communities in Uruguay. These actions include meetings and information events in these communities, visits to UPM operations as well as different working group meetings with community representatives.

## UPM Foundation supports long term development in the inland of Uruguay

Founded in 2006, the UPM Foundation works in coordination with local stakeholders to promote the development of rural communities through projects related to education, training and entrepreneurship as well as fostering a culture of safety and healthy living.

It has been working with more than 150 rural communities throughout the country. Special focus is paid to communities smaller than 5,000 inhabitants. The aim of the Foundation is to promote the genuine development of these communities in the long term, by aligning projects with social organizations with the aid of community leaders.

The focus of these projects is to improve access to education, to boost entrepreneurial spirit and to strengthen the business network. The work is carried out in collaboration with social organizations, public institutions, regional and national authorities and other local decision makers. All UPM Foundation projects follow the local legal framework and are based on projects arising from community demands.

There are about 20 partners, all social non-governmental organizations, which have applied for projects and have been chosen by community leaders. These organisations include Bio Uruguay, América Solidaria, Reaching U, Desem Junior Achievement, Sophia Foundation, Cardijn Program, UY robot and Orientado Orientales, among others.

The UPM Foundation projects are realised in cooperation with several Uruguayan NGOs – 14 in 2019. Some examples of these projects:

América Solidaria <https://youtu.be/C0wxBYsaj1E>

Ceprodih <https://www.upm.uy/prensa/todas-las-noticias/2019/12/a-traves-del-proyecto-oportunidad-impulsado-por-fundacion-upm-y-la-intendencia-de-durazno-upm-expande-proyecto-social-para-35-costureras-en-durazno/>

<https://www.upm.uy/prensa/todas-las-noticias/2019/09/mas-de-20-costureras-rurales-de-durazno-salen-al-mercado/>

<https://www.upmpulp.com/sustainable-pulp/sustainability/people/>

Desem <https://www.upm.uy/fundacion/proyectos/proyectos-fundacion/haciendo-camino/>  
<https://www.upm.uy/fundacion/proyectos/proyectos-fundacion/sembrando-mi-futuro/>

Jovenes Fuertes <https://www.upm.uy/prensa/todas-las-noticias/2019/02/fundacion-upm-abre-convocatoria-para-capacitacion-en-psicologia-positiva-dirigida-a-educadores-de-tacuarembó/>

<https://www.upm.uy/fundacion/proyectos/proyectos-fundacion/psicologia-positiva/>

Cooperation with BioUruguay has continued for years and their project “Rural leaders in action” is among the projects implemented this year <https://www.upm.uy/prensa/todas-las-noticias/2019/09/fundacion-upm-selecciono-los-proyectos-ganadores-de-su-convocatoria-anual-2019/>

More about UPM Foundation projects (in Spanish) at <https://www.upm.uy/fundacion/>

In December 2019 UPM opened an office in Paso de los Toros. The office is open during weekdays and UPM's personnel is there for local residents to answer their questions and share information on progress of the mill construction and related topics.

### **UPM Paso de los Toros**

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In March 2020 UPM started to organise regular mill excursions for the residents of Paso de los Toros and the nearby communities. Local people from central Uruguay have the opportunity to visit the UPM Fray Bentos mill, learn what a pulp mill is like and how it operates. Buses for these tours leave from UPM's Paso de los Toros office twice a month.

## Human rights as part of UPM's social responsibility agenda

### **Policy level commitment**

Respecting and protecting human rights across UPM's businesses and value chain is an integral part of the company's social responsibility agenda. UPM acknowledges that addressing human rights is its responsibility but also a topic that requires collaborative and continuous actions and dialogue with its stakeholders.

UPM respects international agreements such as the UN Universal Declaration of Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, and OECD Guidelines for Multinational Enterprises. Our human rights work is based on the UN Guiding Principles of Human Rights and Business and is guided by our Code of Conduct and its associated policies, rules and guidelines. The company expects a similar commitment from its suppliers and third parties, as defined in the UPM Supplier and Third-Party Code.

### **Human Rights Due Diligence**

UPM's human rights due diligence (HRDD) defines an ongoing process to assess the company's impacts on people and the potential risks in its own operations and supply chain. It aims to ensure that UPM mitigates human rights related risks, track the effectiveness of its actions, and communicate its efforts internally and externally. The process also comprises the UPM supply chains corporate risk assessment process and UPM's compliance system.

As part of UPM's on-going human rights due diligence the company has identified groups of people that are at a higher risk of experiencing potential adverse human rights impacts. Based on UPM's assessments and dialogue with various stakeholders UPM has defined migrant workers, women, and temporary and contractor workers of groups with a higher risk of potentially experiencing adverse human rights impacts in Uruguay.

In 2020, UPM introduced a salient human rights issue assessment practice on a business area level, which complements the company's existing human rights due diligence. This practice includes training and capacity building for UPM businesses, selection of annual human rights related focus areas on a business area level and integration to local management systems as a continuous practice of human rights risk assessment.



## **Salient human rights issues**

In 2018 a local human rights due diligence assessment was conducted in UPM's Uruguay operations together with Shift, a leading centre of expertise in business and human rights. The assessment conducted based on stakeholder engagement with UPM managers and other stakeholders such as employees, contractors and community representatives and it contributed to the existing risk management and due diligence efforts in Uruguay.

UPM has identified the most serious human rights risks which its operations or business relations could lead to in Uruguay, and these are called the most salient human rights issues. Both the severity and likelihood of any potential violations and their impacts have been evaluated. Social monitoring surveys are conducted regularly to understand stakeholder concerns and to contribute to UPM's assessment of salient human rights issues.

## **Grievance channels and remedy**

UPM's engagement with communities is founded on close co-operation. Local stakeholder can raise their concerns directly to dedicated UPM representative and via locally provided channels such as email, phone, and WhatsApp. UPM responds to and documents all stakeholder concerns, and their resolution is continuously monitored.

The UPM Report Misconduct channel is available on the corporate website for all stakeholders and on the UPM intranet for our employees. The channel is operated in a system called SpeakUp by an independent external service provider People Intouch. The service is available in multiple languages and it can be accessed 24 hours a day, 7 days a week. Submitting a report is fully confidential and you can remain anonymous if you wish. UPM does not tolerate retaliation against any person who, in good faith, reports suspected misconduct or participates in an investigation to resolve suspected misconduct.

UPM is committed to remediate adverse impacts to human rights and environment caused or contributed by the company's activities. Remediation is specified case-by-case based on verified impacts.

## **Contractor framework and management**

Contractors are an integral part of UPM operations in Uruguay and covered by UPM's contractor assurance system to ensure compliance with UPM standards and Uruguayan laws for controlling both employees and contractors. A three-phase system helps to oversee the work conditions of our contractors and their employees:

- Contractors and their employees submit their data to a digital tool, including personal information like age and state of health, as well as work permits and salaries.
- Third party company conducts labour compliance by conducting cross-examination of all data in the tool, including payroll.
- UPM contractor assurance team conducts field audits and interviews contractor employees about on-site security, safety and working standards and crosschecks findings with pre-existing data.

## **CENTRAL RAILWAY IN URUGUAY**

Uruguay has 150 years' history with railways and the current rail delineation is predominantly following the existing line. Today rail is globally considered the safest and most environmentally

friendly means of transportation for long-distance heavy logistics and passengers especially in heavily populated areas. Public polls show strong support for rail development in Uruguay. High safety standards and intended improvements in the railway's safety culture are important and necessary elements of the railway project.

In the Investment Agreement on the prerequisites of the new pulp mill signed in 2017 between the Government of Uruguay and UPM, both parties recognize the fundamental need for upgrading the railway system in the country to promote the installation of the mill in central Uruguay. They also agree that the railway project must be organized and executed in a systematic and well-planned manner. In our view this also includes information sharing with local stakeholders.

UPM will be one of the main users of the railroad – it is expected to make up half of the freight transported via the railway. The maximum amount of traffic for UPM operations is seven trains loaded with pulp per day from the mill to the port and back, altogether 14 trains. The railway is modern, efficient and based on European standards and best practices.

In terms of safety and environment, level crossings are made safe by technical improvements, replacing them with a bridge solution or by closing and rearranging easy access across the railway. Waiting time at level crossings is also optimized with modern safety and signaling systems. The estimated maximum waiting time is 1 minute 30 seconds per train at each intersection while visibility of the railway is improved.

The government of Uruguay has published step by step the different stages of the project and created a website where interested parties can access the process as indicated by the National Directorate of Environment (MVOTMA). Public information is available at DINAMA's website: <https://www.dinama.gub.uy/oan/proyectos/proyecto-ferroviario-montevideo-paso-de-los-toros/>.

In addition, the government held two official public hearings and local dialogues with citizens living near the railway.

The Ministry for Transportation (MTO) has created an additional project-specific website, known as the "Central Railway" both in Spanish and English languages in order to guarantee access to information through a transparent process.

Building the Central Uruguayan railway brings new business opportunities also to other industries in central Uruguay such as grain, wooden products and containers as well as the possibility to develop passenger traffic.

### UPM requires high safety and environmental standards from all its suppliers

UPM's main cargo on the Central Railway will be pulp but also raw material, such as widely used conventional pulp making chemicals that will be transported by rail to the mill. Today these raw materials are transported by road.

UPM requires high safety and environmental standards from all its suppliers including chemicals and chemical transportation. These standards have ensured a strong track record in safe handling and transportation of chemicals by suppliers on its production sites around the world, and we monitor them continuously – as well as in the UPM Paso de los Toros pulp mill. The new railway will also bring an upgrade to the safety of chemical transportation in Uruguay.