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MATO GROSSO DO SUL STATE BECOMES A GLOBAL PULP POLE AND ATTRACTS NEW INVESTORS

Over the last years, Mato Grosso do Sul (MS) state has been in the spotlight worldwide for the significant increase in bleached eucalyptus kraft pulp (BEKP) production. The 357,000 km² state, with 79 municipalities and a little over 2.5 million inhabitants draws attention of the paper industry for being home to two of the largest single line mills in the world: Fibria and Eldorado Brasil, with a combined annual production capacity of 2.8 million tons of pulp.

Installed in the city of Três Lagoas, both companies have already announced their interest in doubling their respective production capacities, kicking off the beginning of construction plans that will lead to their second production mills.

But the region's potential is not limited to only attracting large Brazilian players. In an interview to *O Papel* magazine during ABTCP 2013, state governor André Puccinelli announced that Chilean Arauco is only awaiting a final positioning by the Attorney General's Office (AGU), which limited the purchase of land on the part of foreigners, to kick off a project in Mato Grosso do Sul (MS) state. Puccinelli also said that another foreign group is very interested in the state's attributes. Provided below, we present all the merits and advancements that are making the state become known as Pulp Valley.

O Papel – In the last years, Três Lagoas became the country's main pulp and paper region. How did the sector's history in this region start out?

André Puccinelli – This region of the state, which includes the municipalities of Três Lagoas, Brasilândia, Selvíria, Santa Rita do Pardo, Água Clara and Ribas do Rio Pardo was exclusively oriented towards cattle raising, with soil exhaustion. The sugar-energy sector was not present due to the fact that the land was not apt for this type of production, much less food agriculture, for which soil requirements are even greater. We saw that we had a large area of land, equivalent to 100 thousand hectares, which at the time of the military government had been coined a massive forest area. There already existed a vision that the land was apt for pine and eucalyptus planting, given the sum of favorable aspects such as rainfall and sunlight ideal for quick growth. However, there was no know-how and technologies available at the time, and the ants practically decimated this entire forest area. Only two or three Brazilian companies in the tree-growing business remained in the region. One was Ramires Reflorestamentos, which began to perfect its forestry know-how together with Embrapa. Over these 40+ years, the company produced a wide variety of seedlings resistant to the climate, leading to an increase in forest area. Then, at the end of my term as mayor of Campo Grande, state capital, Senator Ramez Tebet insisted to bring former President Lula to visit our state and we were finally able to combine tax incentives with the positive particularities of our land. Hence began the construction of the first pulp mill in the region, Votorantim Celulose e Papel (VCP). After the merger between VCP

and Aracruz, which led to the creation of Fibria, in the beginning of 2010, and the presence of International Paper next-door, the region's potential for developing the pulp and paper industry began to strengthen.

O Papel – Did tax incentives play a major role in attracting players? Are these incentives the same practiced nowadays?

Puccinelli – Yes, I believe that these incentives acted as key factors for attraction. So much so that, to this day, we offer a tax credit that amounts to 90% of total ICMS tax (Tax on the Circulation of Goods and Rendering of Interstate and Intermunicipal Transportation and Communication Services) that would have to be paid. Additionally, it is important to point out that, in order to minimize bureaucracy, the government of Mato Grosso do Sul also waived environmental licensing for planting forests with native or exotic species, which aim to produce different products, as long as alternating soil use with cattle raising activity or in underutilized or degraded areas, which are not situated in the Pantanal region and areas of permanent preservation (APPs). In summary, with the conditions we offer, the soil, land availability, rainfall and the strategic location we have, there is not a state that's more competitive than Mato Grosso do Sul for the forest based industry.

O Papel – What progress did the development of this industry bring not only to the city of Três Lagoas, but also to the state as a whole?

Puccinelli – As of the installation of the former VCP mill onwards, I can say that the increase was massive. The company brought growth benefits since the time it was building the mill, when roughly 8 thousand direct employees worked in the region. The professional qualification of this large contingency of workers also resulted in higher income than the average observed in other existing functions in the region. And with the diversification of the matrix, properties also increased in value, registering a higher yield per hectare in relation to extensive cattle raising yield. Recently, Eldorado Brasil also inaugurated its production line in Três Lagoas, bringing another series of progress to the development of citizens from Três Lagoas and Selvíria. Upon selling a property, for example, the ITR (Rural Land Tax) goes to the municipality. In other words, there is this entire circulation a wealth occurring, employing a large number of people, increasing the population's average salary. In summary, the pulp and paper industry's evolution certainly brought about significant development for the region, through capillarization of the economy of these municipalities and the huge influx of people.

O Papel – The pulp and paper industry utilizes different modes for moving its production. What has been done logistics-wise these last few years by the government?

Puccinelli – When the Eldorado Brasil project was 50% concluded, the Federal Government committed to build extensions to complete the remaining 250 km of the already existing railway network in the region. Those who are optimistic believe that in three years this railway network will be ready, while I believe it will take five years and those who are pessimistic, eight years to be ready. The truth is that government bureaucracy causes things to take longer. To us, the state government, we were only delegated a small part of the execution, which was concluded 22 months ago. Now, it is up to the National Department of Transport Infrastructure (DNIT) to install the tracks and sleepers that have been there for over a month. It is a lengthy process, however, the intention is that, in the future, we can join the waterway, railway and highway transport modes. When I became state governor, one of the first measures taken was to map the state and identify the best ways to increase our competitiveness. We focused on discovering what is Mato Grosso do Sul's true vocation. We then conducted the Environmental-Economic Zoning (ZEE) to confirm what were our true aptitudes and avoid errors later on. Only after this identification could we go after the resources necessary to allow for the state's logistics infrastructure and sustainable development. Everything that was proposed will be concluded before the end of my second term in December 2014.

O Papel – Has the combination of government incentives, strategic location and infrastructure development attracted more investors? Is there space to receive new players?

Puccinelli – Parodying the United States, which has its Silicon Valley, in Mato Grosso do Sul state we have our Pulp Valley. We are already awaiting Fibria's duplication and, recently, Eldorado manifested its intention of doubling its production line. I can say that, in addition to these Brazilian players, there are foreign companies demonstrating interest of coming to Mato Grosso do Sul state too. One example is Arauco, from Chile, which is awaiting approval for a foreign company to purchase land in order to consolidate its plans of building a pulp mill in the state. Another foreign company interested in building a plant here in the state demands confidentiality due to stock exchange matters, but I can say that it refers to a partnership between a Chinese and Brazilian player, which aims to install a mill with a production capacity of up to 2 million tons/year in the city of Ribas do Rio Pardo. ■

“It is a lengthy process, but the intention is that, in the future, we can join the waterway, railway and highway transport modes,” says Puccinelli about projected logistics improvements