



**Eesti Vabariigi Majandusministeerium**  
**Ministry of Economic Affairs of the Republic of Estonia**

**Subj: Invitation to Establish a Modern Pulp Production in Estonia**

Dear Pulp Producer,

The Estonian Government has for many years been working on creating favourable conditions to add value to Estonian pulpwood resources in the country. The areas of possible support to encourage establishment of a modern large-scale pulp mill into Estonia were publicly announced in the 1998. With its newest decisions in January 2000, the Estonian Government has declared its full commitment to offer favourable conditions for valuing pulpwood in the country and gave me, the Minister of Economic Affairs of Estonia the full responsibility and authority to represent the Government in this process.

Estonia is widely recognised as a country with stable and liberal economic policy, simple taxation system and moderate taxes. Based on these factors and the fact that Estonia has also favourable level of production costs (including wood resources, energy and labour cost), many international companies have established its manufacturing facilities in Estonia. This has made Estonia one of the best performing economies in Central and Eastern Europe, which also gave Estonia possibility to be the first candidate country to European Union in 1997.

The wood processing industry is one of the cornerstones of Estonia's fast economic growth. However, the vast majority of the pulpwood is currently exported unprocessed. A further processing of pulpwood in Estonia is a long-term goal of the national industrial policy and the Estonian Government is determined to encourage the establishment of a modern pulp production facility in the country.

The main topics of Government's support for establishing a new large-scale pulp mill Estonia are as follows:

- **Guaranteed wood supply**

The backbone of the State's commitment to the pulp project is the guaranteed wood supply contract. The State is the major forest owner in Estonia. The wood sold from State owned forest reserves will be sufficient to cover crucial part of the necessary supply for the new pulp mill.

As the total annually allowable cut of pulpwood in Estonia is approximately 3.1 mln m<sup>3</sup>, the State is willing to supply up to 40 % of new pulp mill requirement or up to 1.1 mln m<sup>3</sup> pulpwood annually.

The pulpwood from State owned forest could be sold in the form of a long-term contract (10-20 years), with a transparent price determination mechanism.

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- **Overall support**

In addition to the wood supply, favourable VAT treatment on imported equipment, land for the mill site, support for required infrastructure investments and training have been of Government's concerns.

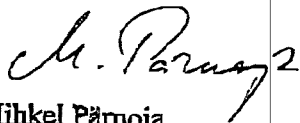
The Estonian Government will support the potential investor in negotiations to secure financing from international sources and will treat the project as a special case, to guarantee that all necessary pre-investment stages can be streamlined.

As the Minister of Economic Affairs I will be glad to host you in Estonia, to have more detailed discussion about pulp production possibilities in Estonia.

Meanwhile, the Estonian Investment Agency will contact you and answer your first additional questions.

Welcome to Estonia!

On behalf of Estonian Government



Mihkel Pärnoja  
Minister

Enclosed: Information Memorandum "Pulp Mill Project in Estonia"