

Classification and Environmental and Social Strategy (ESS) Parcel - Paraguay

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1. Project Scope and Objective and IDB Invest Participation

The proposed transaction consists of a senior secured A Loan to be provided to Parcel S.A. (“Parcel,” the “Company,” or the “Client”). Other international development finance institutions (“DFIs”) are expected to participate under pari-passu Co-Loans (“Co-Loans”). Total Project costs (including mill capex, forestry, and financing costs) are estimated to be US\$3.6 billion and are expected to be financed with a combination of equity and long-term debt.

Parcel is a joint venture established by Copetrol (Paraguay) and Girindus Investments (Sweden), among other investors who have joined the Project afterwards. The Company is developing a greenfield kraft pulp mill and associated eucalyptus plantations (the “Project”) in the Departments of Concepción and Amambay, Paraguay. Parcel expected production is up to 1.8 million metric tons per year of Bleached Eucalyptus Kraft Pulp (“BEKP”). Parcel will be the largest industrial development and the largest private investment in Paraguay’s history, as well as the first large-scale pulp mill. The Project will outsource the development of the required export outbound logistics (river and seaports).

Parcel is expected to generate approximately 220MW of renewable energy of which about 100MW are expected to be sold to the national grid. The mill will be located on a 1,200 hectare (ha) former cattle ranch 13 kilometers (km) due north of and 18 km by existing roads from the city of Concepción, on the left bank of the Paraguay river. The Paraguay river will be the water source for the mill and the receiving water body for treated effluents.

A major Project component is the approximately 190,000 ha of former cattle ranch properties in the Departments of Concepción and Amambay owned and to be partially converted to eucalyptus plantations (the rest to be conserved) by the Company to supply wood to the mill in future years. The mill will consume about six million cubic meters of eucalyptus wood per year once operational¹. The area of influence of the eucalyptus plantation properties includes nine indigenous communities of the Pai Tavyterá and Mbya guaraní ethnic groups of the guarani linguistic family. In addition, the urban area of Concepción has a multi-ethnic indigenous community in the area of influence for both the mill and plantations that is occupied by mostly speakers of the Maskoy language family. The Project will also construct ancillary facilities: i) a new substation at the mill site; and ii) a 25-km transmission line to connect the Project’s substation to the national grid. The Project will also include the following associated facilities: i) six worker lodgings in the city of Concepción, with a total capacity of 8,000 people; ii) a riverine port facility for

¹ Parcel will develop eucalyptus plantations on the former ranch lands in a phased planting program; six years of growth is required to reach suitable size for harvest. Hence, during early operation from 2023 to 2028, Parcel will obtain early wood supply from existing eucalyptus plantations in Brazil, Argentina, and/or Uruguay but also to a lesser extent Paraguay. Parcel is in the process of identifying potential early supplier sources and recognizes that not all candidates for early wood supply will be FSC certified. As a result, Parcel plans to produce pulp under the FSC Mix label in the early years. By 2029, the mill will be supplied with wood primarily from the Project’s own plantations, which will be FSC certified, and several out-growers.

loading pulp onto barges in Paraguay; and iii) an existing coastal shipping export terminal in Uruguay.

The Project is being designed using the best available technology. Its pre-construction phase initiated in January 2021 and construction is expected to last until November 2023, for a total of 28 months. Mill operation is estimated to initiate by the end of 2023.

2. Classification and Environmental and Social Strategy

The Project has been pre-classified as Category A, pursuant to the IDB Invest Environmental and Social Sustainability Policy, because it may cause, among others, the following impacts and risks: i) those typically generated at large scale construction (clearing and preparation of the pulp mill site area, improvements to the access road and construction of internal roads, etc.); ii) loss of vegetation cover and fauna habitats as well as erosion in the already modified mill site habitat; iii) generation of CO₂ and other gases, and particulate matter emissions (e.g. from vehicles, construction equipment); iv) noise generation and increase in local vehicular traffic; v) employment of nearly 8,000 workers, with resulting impacts on public services, security of nearby municipalities, increase of demand for privately traded goods and services, change in local culture, and increase of occupational health and safety risks (e.g., communicable diseases); vi) habitat conversion or loss due to establishment and operation of eucalyptus plantations; vii) use of hazardous chemicals; viii) generation of itinerant labor; and ix) the requirement of large quantities of inputs (i.e., wood, chemicals) with the associated risks of vehicular accidents from log hauling and hazardous materials transportation, as well as generation of noise, atmospheric emissions, greenhouse gases, hazardous materials, and effluents. These impacts are deemed to be of medium-high or high intensity and will be managed through a series of measures to prevent, mitigate, or compensate such impacts.

The Project has triggered the following Performance Standards (“PS”): i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; iv) PS4: Community Health, Safety and Security; v) PS5: Land Acquisition and Involuntary Resettlement; vi) PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources; vii) PS7: Indigenous Peoples; and viii) PS8: Cultural Heritage.

The Project has commissioned an update of the current Environmental and Social Impact Assessment (ESIA), covering the mill site and river port, submitted in May of 2020 to the Ministry of Environment and Sustainable Development (*Ministerio del Ambiente y Desarrollo Sostenible*, or MADES), as part of the Paraguayan licensing process. The Project has also commissioned a comprehensive ESIA for the eucalyptus plantations, as well as a Cumulative Impact Assessment (CIA) covering all project components.

Due to the travel restrictions arising from the COVID-19 pandemic, the Environmental and Social Due Diligence (“ESDD”) process will be held part-virtual and part-presential through locally hired consultants. The ESDD will also include interviews with executives from the Client’s key areas (environmental, social, occupational health and safety); will assess its Environmental and Social Management System, including any related plans and procedures; and will evaluate any baseline information and social and labor aspects related to the Project, among other aspects. As a result of the ESDD, IDB Invest will confirm the Project’s categorization, identify any potential compliance gaps in terms of its Environmental and Social Sustainability Policy, and define an Environmental and Social Action Plan to close such gaps.

Once the ESDD is completed, an Environmental and Social Review Summary will be prepared and published on this website.

3. Additional Information

For questions about the Project please contact Paracel:

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In addition, and as a last resort, affected communities can access IDB Invest's Independent Consultation and Investigation Mechanism (ICIM) as follows:

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