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For Mr. Taylor
2/1/06
O-S-19-10-FOU
O-T-19-10-0251
January 23, 2006

Ms. Meg Taylor
Compliance Advisor/Ombudsman
2121 Pennsylvania Avenue, N.W.
Washington, DC 20433

Meg
Dear Ms. Taylor:

Re: IFC Response to CAO's "Preliminary Assessment of the Complaint on the Celulosas de M'Bopicua and Orion Projects in Uruguay"

Please find attached our response to the CAO's "Preliminary Assessment of the Complaint on the Celulosas de M'Bopicua and Orion Projects in Uruguay." We share the spirit in which the findings and recommendations are offered and recognize that an inclusive stakeholder engagement process is critical to ensuring that IFC makes a well-informed decision on the prospective financing of the two projects. As with most situations involving dispute or challenge, effective solutions and compromise will best be achieved in a climate of trust. IFC and the project companies are committed to making all reasonable efforts to build this trust. We believe that the CAO's recommendations are largely consistent with IFC's current actions and approach as we continue with our processing of these investments. In particular, we hope that the Cumulative Impact Study that we released on December 19, 2005 and the associated consultation process will be responsive to the concerns and questions of stakeholders on both sides of the Rio Uruguay.

In general, our view of the Preliminary Assessment Report is that it accurately captures Argentine perceptions and those of the CAO complainant. It is less balanced in assessing the substantial consultation that took place in Uruguay (beyond inclusion of an annex of meetings held) as well as the generally more favorable Uruguayan perspective, particularly in terms of identifying the potential development benefits in an area of significant unemployment and underemployment where few alternate options for improving livelihoods are obvious.

CAO's recommendations highlight the importance of the CIS and the consultation process. The CIS had been scoped and contracted (July) by the time the complaint had been received (September) and yet some of the recommendations of the CAO (November) read as if the CIS was still to be designed. We have tried to ensure that the fundamental concerns expressed by CAO have been taken into account notwithstanding the fact that the preparation of the CIS was still occurring while the CAO investigation was being made.

We appreciate the constructive discussions that we have had with CAO staff in relation to community concerns about these proposed investments and are confident that the CIS and consultation process will be helpful to the many stakeholders involved.

Sincerely,



Rachel Kyte
Director

Environment & Social Development



Dimitris Tsitsiragos
Director

Global Manufacturing & Services

Comments on Section 3 – CAO Findings

Para 3.1: Adequacy of the EIA in Identifying People Potentially Affected

It is clear that, particularly on the Argentine side of the Rio Uruguay, there is concern about the potential impacts of the projects on the environment in general and tourism in particular. It is regrettable that the outreach efforts made by Botnia as part of its own cumulative impact assessment were ineffective. Although IFC staff considered the disclosed EIAs to be satisfactory in terms of the individual plant assessments, IFC did decide that cumulative impacts needed more thorough review. IFC's decision to require a comprehensive CIS was made before the letter of complaint was received but public concerns about the construction of the two plants were also taken into consideration. IFC contracted the Consensus Building Institute (CBI) to confirm and further detail these public concerns and CBI's report is included in the draft CIS that has been released. Once again it is unfortunate that some of the more passionate Argentine opponents were unwilling to participate in this process in which we sought feedback from all stakeholders regarding the nature of their concerns and to gather suggestions for consultation on the findings of the CIS. The viewpoints gathered by CBI on the Uruguayan side are clearly more mixed. However, the consultation process for the draft CIS will include all those potentially affected including those in Argentina.

We also look to the draft CIS, and the engagement process to follow, to more clearly define actual impacts and the zone of influence of the plants. We think this is essential to improving public understanding of the real rather than perceived implications of the operation the mills on the day to day lives of stakeholders as well as the likely effect on the local economic pursuits. We believe that the concerns expressed by local residents about the potential negative impacts of the mills, particularly in Argentina, are genuinely held. However, we also believe that there is a need for clearly substantiating whether these fears are well-founded (in whole or part) or can be alleviated when credibly derived information directly addressing these concerns becomes available. We have communicated to stakeholders that we are fully open to receiving any new and equally substantiated information which may dispute findings within the CIS and that we are prepared to fairly consider and discuss any differences that may be identified. The CIS and associated process seeks to meet this need.

Para 3.2: Adequacy of IFC's Due Diligence and Appraisal Process

IFC's due diligence process is now the subject of a CAO audit and staff is cooperating with the office of CAO.

Para 3.3: Permitting Procedures

We note your comment regarding the perception of the complainants regarding on-going construction work by one of the project sponsors.

Comments on Section 4 – Recommendations

Para 4.1.1: We endorse your call for further engagement on both sides of the river. IFC has outlined a 'terms of engagement' for future consultation and will ensure that the requirements of its policies and procedures are met.

We fully recognize that interested parties need a reasonable amount of time to review the draft CIS once it is publicly released. We anticipate this disclosure/consultation period to last at least 60 days with the focus for consideration being those issues which your report identifies as being of greatest concern (impacts on air, water, agriculture, tourism, traffic, etc.). Other areas of focus such as credible monitoring regimes and community development initiatives could then be deliberated on with stakeholders subsequently. Stakeholders will have approximately one month (mid-December to mid-January) to review the draft and formulate opinions, questions and prospective input. The remainder of January and into February would be the likely timeframe for engagement on the issues of greatest concern mentioned above. We would then expect to be in a position to make a decision on whether to proceed to Board, giving full consideration in our decision-making to the results of this engagement process.

At any time during this period (as has been the case up to now), IFC is fully open to receiving additional information stakeholders may wish to submit pertaining to the prospective impacts of the mills. Any additional information received where appropriate and consistent with the agreed methodology and rules of the engagement process will result in revisions to the draft CIS. We believe a process along the lines presented above will provide ample opportunity for alternate views to be heard and subsequently made known to IFC management as well as its Board prior to any financing decision being taken.

Para 4.1.2: As indicated, we agree with the need to follow a process going forward that will help restore trust among stakeholders. In this regard, we have the following comments to the sub-points that you raise:

- a. The TOR for the CIS is included in an Annex to the draft. The CIS was scoped to ensure that all cumulative impacts were identified and analyzed and to respond to concerns that had been raised following the consultation process undertaken by the respective companies. We consider that the disclosure of and consultation on the draft CIS to be a continuation of the consultation process and not the beginning of it. There is no requirement in our policy or procedure (or practice) for consulting on the TOR itself.
- b. We agree that qualified, high caliber external expertise is a key to CIS credibility and accurate analysis. IFC has actively managed the preparation of this report and the work of the principal consultants (selected as a result of a competitive bidding process) has been supplemented by additional local and international expertise as necessary. We believe that the best way to achieve local community confidence in this study is to be open to third party advisors in the review process and we have included this as part of our planning.
- c. We agree with the need to explore joint problem-solving approaches and see this as an area of significant upside possibilities with respect to the additional stakeholder engagement that will

take place in connection with the CIS. Two particular areas for further exploration and collaborative design are monitoring regimes which are publicly credible and possible community development undertakings which can bring greater economic and social benefits to the region.

Additional information regarding the issues of particular concern to stakeholders can be found in the draft CIS that has been copied to your office.

Para 4.1.3: IFC's review has recognized that the proposed projects are the end result of a longstanding economic development plan by the Government of Uruguay that has refocused agricultural strategy on forestry products. This plan has had, and continues to have, strong support from a range of multi-lateral and bi-lateral agencies including the IBRD. *We recognize* that the Governments of Argentina and Uruguay have established mechanisms that are relevant to the current dispute. IFC will provide copies of the CIS to the Bi-national Commission established in 2005 to analyze the impact of the pulp mills. Should IFC decide to recommend investing in the projects, staff would need to include in the board report, a specific update of the status of any discussions or negotiations taking place between or on behalf of the respective governments.

Para 4.1.4: IFC will fully cooperate with the recommended CAO audit of its social and environment procedures.