

PRIVATIZATION OF FOUR INTERNATIONAL AIRPORTS ENVIRONMENTAL AND SOCIAL STRATEGY

Project Status and Compliance

The Project has been the subject of several environmental studies: (i) Environmental Baseline Studies for each airport as part of the privatization process (July 2002); (ii) An Environmental Impact Assessment (EIA) for the runway extension at Toncontin International Airport in Tegucigalpa (1999); and (iii) A “focused” EIA evaluating the potential environmental impacts and liabilities associated specifically with the airport investment program (2001). These studies are described below.

The Concession Contract requires the completion of Environmental Baseline Studies (essentially environmental audits) at each of the four airports to establish a baseline for any pre-privatization environmental liabilities, and in particular the level of existing (at the time of privatization) soil and groundwater contamination, to determine corrective actions, and to make general recommendations regarding current operations. The studies, which were finalized in July 2002, included soil and groundwater characterization assessments to identify previously existing contamination and the assessment of existing impacts such as noise, inadequate management of waste and lack of waste water treatment.

The Environmental Baseline Studies concluded that while the airports vary significantly in their level of operations and associated infrastructure, there are common existing environmental impacts and liabilities in all four airports. The principal environmental liabilities at that time were associated with soil and groundwater contamination from leaks in pipeline and storage areas near fuel storage and distribution facilities operated by third parties and in areas where routine fire-fighting practices using fuel are conducted. In addition, all airports carry out inadequate treatment of wastewater and disposal of waste. Reportedly, the Tegucigalpa Airport has a high risk of bird collisions due to the location of the municipal landfill near the airport grounds. Residential areas adjacent to both the Tegucigalpa Airport and the Ramón Villeda Morales International Airport in San Pedro Sula generate levels of noise exceeding the Day/Night Average Sound Level industry practice recommended threshold of 65 dBA for noise aircraft impacts. Residents neighboring the Golosón International Airport in La Ceiba have occasional noise related complaints from the operation of the F-5 airplanes from the Honduran Air Force. The Juan Manuel Gálvez International Airport in the island of Roatán discharges untreated sewage and runoff water to the sea, where coral reefs are in risk of being impacted by the airport’s effluent discharge. A corrective action plan to address the existing environmental impacts was recommended as is currently being defined by InterAirports. Under the Concession Contract the government is responsible for the remediation of environmental liabilities that occurred prior to privatization.

Most of the work comprising the investment plan will be expansions and upgrades of facilities within the existing four airports with no significant alteration of operations in relation to environmental and social issues, and as such is not subject to the EIA process in Honduras. However, the expansion of the short runway (1,862 m) at the Tegucigalpa Airport will involve major construction work outside of the existing airport parameters and will require the relocation of approximately 50 families. For these works an EIA is required under Honduran law. The EIA was completed in 1999, and generally concluded that the majority of the negative impacts would occur during the construction phase and could be mitigated. Land loss and resettlement would be permanent impacts that would require mitigation and/or compensation. The EIA did not evaluate past or existing environmental liabilities such as contamination. Given that the final decision to expand the runway has not been made yet (see below) and some alternatives are being discussed with the government to avoid the potential impacts of the relocation, the EIA has not been submitted to the Ministry of the Environment in Honduras.

Two other studies were completed in 2001 on behalf of an international financial institute that was considering financing the project at that time. The studies were a “focused EIA” and technical review, both looking specifically at the issues associated with the investment program (including the expansion of the runway). The findings of this EIA were that there would be both beneficial impacts (improvement in airport safety from the upgrades and installation of new equipment, improvement of airport services, reduction in congestion, and reduction in contamination from inadequate sewage treatment) and negative impacts (resettlement, change in land use, noise, reduction in air quality and traffic congestion). The EIA also concluded that the negative impacts that were identified could be mitigated or compensated for in the context of a recommended action plan. During the EIA process in June 2001 four public meetings were held, one for each airport.

In addition to the common issues shared with the other three airports, the airport in Tegucigalpa suffers from a number of technical constraints that affect its operations. The key issue is the short length of the runway (1,862 m) for the size of planes that use the airport (the largest is a B757). This issue is exacerbated by the surrounding natural terrain of hills and cliffs, a densely populated residential area and highways and roads. The terrain acts as an obstacle on approach that, due to the fact that the planes must approach around them rather than straight on, reduces the effective length of the runway even further. On takeoffs the short runway and the surrounding terrain make it difficult for planes to abort takeoff in an emergency and in fact in 1989 there was an accident when a plane trying to return to the airport in windy and wet conditions, fell short of the runway and crashed. These conditions combine to make a situation where weight restrictions are imposed on the planes (on its cargo, fuel and passengers, which in turn affects operations. In addition, safety and navigational equipment is insufficient.

The Civil Aviation Authority of Honduras has been classified as a Category 2 by the U.S. Federal Aviation Administration (FAA), which means that it does not comply with the requirements of the International Civil Aviation Authority (ICAO) in that it does not

provide safety oversight of its air carrier operators in accordance with the minimum safety oversight standards established by ICAO (see Annex I for details).

The Government of Honduras is aware of the need to improve operations at all its airports and has prepared a Master Plan for the airports. Improvements and new equipment are included in this plan, as is the requirement for a 300 m extension to the runway at Tegucigalpa. These requirements are, in turn, included in the Concession Contract with InterAirports and are included in the Investment Program. The runway extension would require the acquisition of land outside the current airport holdings, significant earthworks to lower some of the hills in the expansion area, relocation of a recently constructed highway (ring-road), and the relocation of approximately 50 families. As discussed above, an EIA was prepared to evaluate the environmental and social impacts of the proposed expansion. Due to the amount of work that would be required to complete the runway extension, and the associated cost¹, InterAirports is currently discussing alternatives to the expansion with the government. As a result the EIA has not yet been submitted to the environmental agency and no information disclosure or consultation activities have been conducted (other than the general meetings held in June 2001 as part of the “focused EIA”).

Impacts and Control Measures

One of the principal environmental and social impacts from the proposed Investment Program is associated with the expansion of the runway at Tegucigalpa (as discussed above), which would require the relocation of approximately 50 families. In addition, there will be changes in land use and the encroachment of the airport into already densely populated areas (with the associated issues of noise, air emissions and traffic congestion). The runway extension will also result in temporary construction related impacts such as dust, noise, and traffic, etc. With the exception of the expansion of the runway at the airport in Tegucigalpa, the implementation of the Investment Program will not involve major works, but instead will consist of rehabilitation activities (e.g. construction of new buildings, repair of runways and aprons, expansion of parking lots and the upgrade of utilities, equipment and service related infrastructure). Due to the limited construction activities, construction impacts will be minimal and basically will consist of noise, generation of dust, waste and nuisances to airport users and workers. Health and safety impacts and risks are those associated with medium-scale construction works such as falls, accidents with machinery and tools, risk of electrocutions, etc.

Once the works have been completed, the environmental and social impacts from the Investment Program will be related to the levels of operations at each airport. The principal impacts associated with the operation of the Project airports and the increase in

¹Under the Concession Contract the government would be responsible for the majority of the costs related to the relocation of families and all of the responsibility to clear the land for the runway extension. If the government is unable to meet their obligations then the condition for the runway expansion becomes null and void.

passenger traffic will result in increased noise levels from aircraft takeoffs and landings, which in the case of the airport in Tegucigalpa could result in 1 non-compliance with industry best practices due to the encroachment of the airport. Other impacts include the potential contamination of water resources from aircraft fueling, maintenance and runoffs, airplanes emissions to the atmosphere and an increase in the risk of aircraft-bird collisions. In addition, additional aircraft operations will increase traffic on area roads and highways and the demand for some services (e.g. potable water, waste management, etc). Of the four airports, the Jaun Manuel Galvez is the most sensitive to waste water impacts as it is located on the island of Roatán, close to coral reefs that are already stressed as a result of damage from recent hurricane Mitch.

Potential impacts exist for continued soil and groundwater contamination from inadequate infrastructure (fuel piping, septic systems) and bad practices that have carried over from the pre-privatization operations of the airports. As plans are in progress to remedy these issues, the magnitude of the impacts will depend on the adequacy of the implementation of corrective actions, but these impacts appear to be localized, and manageable if the suggested actions are implemented.

Strategy for Environmental and Social Due Diligence (ESDD)

The Principal ESDD aspects to be addressed by the Bank with the assistance of an independent environmental and social consulting firm include the following:

- As assessment of Project compliance status with national, provincial, municipal and local environmental, social, and health and safety regulatory requirements in Honduras such as laws, regulations, standards, permits, or authorizations); applicable international treaties and conventions, the requirements of international aviation organizations such as the International Civil Aviation Organization (including Annex 16 of the Convention on Civil Aviation) and the environmental requirements of the International; Air Transportation Association; Project Specific legal requirements (e.g. the Concession Contract), and applicable Bank environmental and social guidelines.
- An evaluation of the proposed Project to confirm that the Project's direct, indirect and cumulative environmental and social impacts at each of the four airports have been properly identified and evaluated, with specific reference to: (i) existing and expected noise impacts, including a detailed review of the noise and meteorological baseline information, expected air traffic, type and number of aircraft, and the adequacy of the model and the results including noise contours; (iii) construction and operations impacts at each of the four airports; (iv) impacts on the marine environment near Roatán and (V) cumulative and indirect impacts on surrounding communities from increased utilization of the airports.
- An evaluation of the EIA prepared for the expansion of the runway at Tegucigalpa to: (i) ensure that the EIA was prepared in accordance with the IDB Environmental Impact Assessment Guidelines; (ii) the adequacy of environmental and social mitigation measures and monitoring, in terms of their completeness, sufficiency of detail, feasibility of implementation, cost, definition of responsibility, schedule, and

quality control have been defined; (iii) that all direct impacts have been identified and assessed; (iv) that indirect impacts and cumulative effects including air quality, increased pressure in urban development, traffic, the demand of services as potable water, sewerage, electricity and disposal of waste have been adequately identified for both the construction and operational phase of the Project; (v) the completeness and adequacy of the existing and expected noise and air emissions impacts, including a detailed review of the models, meteorological baseline information, expected air traffic, type and number of aircrafts and the adequacy of the model; (vi) an evaluation of the proposed relocation and compensation of people affected by the runway expansion or any other Project related initiative verify its compliance with Bank's Operation Policy OP-710 in Involuntary Resettlement; (vii) potential induced changes in land use; and (viii) to ensure that the final version of the EIA will be made available to the public prior to the commencing of the works.

- An evaluation of the proposed Project to confirm that the Project's direct and indirect environmental and social liabilities at each of the four airports have been properly identified and evaluated, with specific reference to: (i) known environmental liabilities (i.e. soil and groundwater contamination) including confirming that the investigations have identified the extent of the contamination, that a complete characterization will be conducted as part of a future Phase II investigation, that the quantified information (i.e. level and extent of soil and groundwater contamination) is reliable and adequate, the proposed mitigation and/or remediation will be adequate and feasible, that the responsibilities and commitment for the cleanup will be clearly defined among the different project stakeholders and that the responsible party will have the capability to execute the necessary tasks in an agreed timetable; (ii) other environmental and health and safety liabilities such as use of electric equipment with polychlorinated biphenyl (PCBs), hazardous building materials as asbestos, abandoned underground storage tanks, inadequate practices of international waste (open burn, incinerate, etc), improper storage of chemicals including pesticides, inadequate current surface water and wastewater management practices, existing levels of noise, and inadequate operational practices that pose hazards to the airport's employees, external workers and the public have been correctly identified in a Health and Safety Audit and that control and mitigation feasible measures are defined; and (iii) an evaluation of aviation safety issues in order to identify areas of safety risk and ensure that all four airports operate within international aviation safety standards, and to propose necessary mitigation measures and their associated costs. (iv) establishment of indicators that will be used to monitor performance during the life of the project.
- An evaluation of the adequacy of Project environmental operational plans (Environmental and Social Management Plan, Health and Safety Plan, Contingency Plan and Spill Prevention and Counter Control Plan and Emergency Response Plan) required for the operation of the airports. In particular, confirm the completeness of the Emergency Response Plan in terms the procedures to deal with accidents, fires, natural hazards, explosions and terrorism threats and that adequate resources, such as fire suppression systems (extinguishers, fire fighting trucks, etc), trained personnel and coordination with agencies and organizations are sufficient and are in place.

- An evaluation of potential existing (soil and groundwater contamination, claims, closure and decommissioning of the airport) and future environmental, social, or health and safety financial/credit risks and liabilities such as new spills, accidents, etc. associated with the Project, the Project sites, and the Project Company, in particular confirm that the responsibilities, obligations, mechanisms and a timeframe to correct, mitigate and/or remediate both operational non-compliance issues and environmental and social liabilities prior to the concession are in place and that specific agreements have been confirmed between the InterAirports and the government of Honduras.
- An evaluation of Project-related information disclosure and public consultation activities that have been performed, considering the socio-political context of the Project through a stakeholder analysis to identify potential claims or the likelihood of future claims against the Project and the proposed future actions to provide adequate ongoing information disclosure and public consultation with the local population.
- An evaluation of the current and potential future annual emissions of greenhouse gases from the Project based on Integrated Pollution Prevention and Control (IPCC) methodologies and the United Nations Framework Convention on Climate Change (UNFCCC).

ANNEX I

FAA RATING SYSTEM

Rating of countries as a "Category 1" and "Category 2" refers to a particular country's compliance with the safety standards articulated by International Civil Aviation Organization (ICAO), the United Nations' technical agency for aviation that establishes international standards and recommended practices for aircraft operations and maintenance.

Typically, ICAO will perform a Universal Oversight Audit and the Federal Aviation Administration (FAA) of the US will perform an assessment, with the cooperation of the host civil aviation authority, under their International Aviation Safety Assessment (IASA) program, which assesses the civil aviation authorities of all countries with air carriers that operate to the United States and makes that information available to the public. The assessments are not an indication of whether individual foreign carriers are safe or unsafe. Rather, they determine whether or not foreign civil aviation authorities (CAA) are meeting ICAO safety standards, not FAA regulations. Countries with air carriers that fly to the United States must adhere to the safety standards of ICAO.

Specifically, the FAA determines whether a foreign civil aviation authority has an adequate infrastructure for international aviation safety oversight as defined by ICAO Standards, including: 1) laws enabling the appropriate government office to adopt regulations necessary to meet the minimum requirements of ICAO; 2) current regulations that meet those requirements; 3) procedures to carry out the regulatory requirements; 4) air carrier certification, routine inspection, and surveillance programs; and 5) organizational and personnel resources to implement and enforce the above.

The FAA has established two ratings for the status of these civil aviation authorities at the time of the assessment: (1) does comply with ICAO standards, (2) does not comply with ICAO standards.

Category 1. Does Comply with ICAO Standards: A civil aviation authority has been assessed by the FAA and has been found to license and oversee air carriers in accordance with ICAO aviation safety standards.

Category 2. Does Not Comply with ICAO Standards: The FAA assessed this country's CAA and determined that it does not provide safety oversight of its air carrier operators in accordance with the minimum safety oversight standards established by ICAO. This rating is applied if one or more of the following deficiencies are identified: (1) the country lacks laws or regulations necessary to support the certification and oversight of air carriers in accordance with minimum international standards; (2) the CAA lacks the technical expertise, resources, and organization to license or oversee air carrier operations; (3) the CAA does not have adequately trained and qualified technical personnel; (4) the CAA does not provide adequate inspector guidance to ensure enforcement of, and compliance with, minimum international standards; and (5) the CAA has insufficient documentation and records of certification and inadequate continuing

oversight and surveillance of air carrier operations. This category consists of two groups of countries.

One group is countries that have air carriers with existing operations to the US at the time of the assessment. While in Category 2 status, carriers from these countries will be permitted to continue operations at current levels under heightened FAA surveillance. Expansion or changes in services to the US by such carriers are not permitted while in Category 2, although new services will be permitted if operated using aircraft wet-leased from a duly authorized and properly supervised US carrier or a foreign air carrier from a Category 1 country that is authorized to serve the US using its own aircraft.

The second group is countries that do not have air carriers with existing operations to the US at the time of the assessment. Carriers from these countries will not be permitted to commence service to the US while in Category 2 status, although they may conduct services if operated using aircraft wet-leased from a duly authorized and properly supervised US carrier or a foreign air carrier from a Category 1 country that is authorized to serve the US with its own aircraft. No other difference is made between these two groups of countries while in Category 2.

The FAA has assisted civil aviation authorities with less than acceptable ratings by providing technical expertise, assistance with inspections, and training courses. The FAA hopes to work with other countries through ICAO to address non-compliance with international aviation safety oversight standards.