Environmental and Social Strategy
Embraport (BR-L1159)

A. Project Description.

1. The Bank has been mandated by *Empresa Brasileira de Terminais Portuários S.A.* ("Embraport" or the "Company") to evaluate potential IDB financing for the development, construction and operation of a fully-private greenfield container and liquid bulk port terminal located in Santos (the "Project"). The Project would be the largest private port terminal in Brazil.

2. The Project consists of the conception, design, financing, construction, operation and maintenance of a private port terminal that will be capable of handling both containers and liquid bulk (primarily ethanol). The terminal will move third party traffic as well as the sponsor's own cargo. Once fully implemented, the Project will include a 1,100 meter quay cradle, 250 meter mooring pier for liquid bulk cargo, storage site of 600,000 m^2 for the storage of containers, a 100,000 m^3 tanking park, pipeline system, administrative buildings (including customs facilities) and a bonded warehouse. Once complete, the Project would represent the largest private port facility in Brazil with capacity of up to 1.2 million containers and 5.0 cubic meters of liquid bulk handling capacity.

3. The Project is to be developed as part of the Santos Port complex (http://www.portodesantos.com), a mega port with a global area of 7,765,100 m^2, which contains 9,436 meters of public docks, 1,647 meters of private terminals, and over 1,900 meters of leased areas, including warehouses (e.g. sugar, soy, bran, wheat, fertilizers, and salt), fuel and chemical tanks, and specialized port equipment such as electric cranes, portainers, transtainers, ship loaders, sucker pumping, etc.

4. The new terminal will be located in one of the few large waterfront sites left in the left bank of the Port of Santos, a site of approximately 1,000,000 m^2. The site, named Sandí, in on Barnabé Island in the municipality of Santos, between the Sandi and Diana Rivers. The total area to be developed is about 133 ha, including a coastal landfill of about 31 ha.

5. Barnabé Island is not inhabited, however across the Diana River there is a small fishing town in Diana Island (*Ilha Diana*), where an average of 65 families (205 people) live. The project area is vegetated by degraded mangroves, dry marsh shrubs, and low costal cover grasses (*restinga*), in and area generally qualified as *Mata Atlantica*.

6. There is access to the project site both via railroad and two major roads that currently serve Port of Santos.

B. Project Status and Compliance.

7. Embraport's Environmental Impact Assessment ("EIA") was approved by IBAMA on August 4, 2006, and concluded that the Project is "feasible under an environmental viewpoint and will result in social, economical, and environmental benefits for the region." There are no indigenous peoples or lands in the project's direct or indirect area of influence, and there is no need to resettle people as the project areas is free of any inhabitants; therefore neither the Indigenous Peoples Policy or the Policy on Involuntary Resettlement are relevant in this Project.

C. Potential Significant Environmental, Social and Health and Safety Issues.

8. The main potential environmental, social and health and safety impacts and risks associated with the construction of this Project are: (i) deforestation of approximately 46 ha of coastal vegetation (*Mata Atlantica*), including mangrove forest and dry marsh brushes, and the consequent (a) loss of waterfowl and other estuarine fauna habitat, (b) loss of fish and marine invertebrate population foraging and breeding grounds, and (c) potential increase of erosion and run-off, (ii) impacts of the livelihoods of the inhabitants of the Diana Island, (iii) potential environmental liabilities associated re-suspension of contaminants during dredging activities and to the used of potentially contaminated dredged material for the coastal landfill; (iv) air emissions and noise from construction work, and engine combustion from construction vehicles and trucks, heavy equipment and machinery; (v) increased wastewater and solid waste generation, (vi) development and operation of raw material borrow pits, quarries, and asphalt and concrete plants; (vii) sitting of construction camps, if any; (viii) impacts associated to archeological findings or sites, if any, (ix) impacts or interruption of stationary installations such as underwater cables, pipelines, wastewater outfall, etc, if any, and (x) health and safety risk associated to construction work and operation of heavy equipment and machinery.

9. The main potential environmental, social, health and safety and labor impacts and risks associated with the operation of this Project are: (i) additional Project related dredging activities, if any, and associated disposal of dredged materials, (ii) increased noise, (iii) wastewater discharges from the port facilities and ship discharges (e.g. sanitary and process wastewater streams, garbage, maintenance waste, oily ballast, clean up waste between loads, etc), (iv) storage and handling of hazardous substance (e.g. fuel, pesticides), (v) operation of railroad, including wagon clean up activities between loads, (vi) risk of accidents and spills affecting people – specially the nearby Diana Island community -, the harbor, and/or aquatic ecosystem, and (vii) cumulative impacts and risks associated with the Project and the current activities of the Santos Port, including but not limited to, a potential decrease in fish populations and the social impacts to local fishing communities, thereof.

10. To manage the potential impacts mentioned above the Company has developed a total of eight environmental, social and health and safety programs:

- Environmental Quality Program.

- Natural Resources Conservation Programs.
- Construction Pollution Prevention Control.
- Social Communication Program.
- Archeological Rescue Program.
- Risk Management Program.
- Emergency Actions and Response Plan.

11. Furthermore, to compensate for the impacts associated to the loss coastal vegetation cover, mainly mangroves and dry marshes, the Company has developed a Plan to preserve approximately 590 ha (@ 13 times the affected area). This Plan includes rescue and replanting epiphytic plants and valuable species, seeds collection, wildlife and waterfowl population management programs, and restoration of degraded marshes and mangrove forest, among others.

12. Additionally, conscious of the potential negative impact the Project may have on the community of Diana Island, the Company has social outreach strategy that includes, (a) job creation for the local population, (b) education support for the community of Diana Island, and (c) a Fisheries Support Program. The latter includes five sub-programs that include logistics and management training and support, group life insurance, and occupational diversification training (e.g. eco-tourism).

13. Given the impacts can be evaluated and mitigated with readily available practices, the team recommends this Project be classified as a Category B operation as defined in the Bank's Environmental and Safeguard Compliance Policy. The team will work to ensure that all environmental and social risks during construction and operation are mitigated in accordance with Bank guidelines.

D. Environmental and Social Strategy for the Due Diligence.

14. The Bank, as part of the due diligence process, will analyze the following environmental and social aspects of the Project and prepare an Environmental and Social Management Report (ESMR) for review and approval by the Bank's Environmental and Social Impact Review (ESR):

    a. An assessment of project compliance status with the applicable country (national, state, municipal) environmental, social, and, health and safety regulatory requirements (e.g., laws, regulations, standards, permits, authorizations, applicable international treaties/conventions, etc.), Project-specific legal requirements, and any applicable Bank environmental and social policy. Special emphasis will be placed on evaluating the EIA development and approval process, to assure compliance not only with Brazilian Law but also with Bank Policies and other multilateral institution best practices. Additionally, compliance with (i) the London Convention 1972, and the Basel Convention referred to hazardous material trans-boundary transportation, storage and disposal, and (ii) the International

convention for the Prevention and management of Pollutions from Ship 1973 and 1978 (MARPOL 73/78) will be also assed;

b. An evaluation of the proposed Project to confirm that the Project's direct and indirect environmental and social impacts have been properly identified and evaluated. This should include a revision of the completeness, thoroughness, and accuracy of the EIA which should incorporate (i) a clear alternative analysis, including the no-Project scenario, (ii) description of the need (or not) for additional dredging and/or any significant water works, and (iii) a cumulative impact assessment, including a description of the incremental impacts associated with the increased number of trucks, railroad and other supporting infrastructure and ancillary activities;

c. An evaluation to ensure completeness, sufficiency of detail, implementability, cost, definition of responsibility, schedule, and quality control of the environmental, social and health and safety programs including mitigation and control measures and monitoring plans; special emphasis will be placed on the adequacy of the procedures to manage (i) potential ecological impacts associated to mangroves and dry marshes habitat loss, (ii) habitat restoration and compensation, (iii) potential socio-economic impacts to the Diana Island community, (iv) contaminant re-suspension from dredging activities, (v) wastewater discharges from port facilities and ship discharges (e.g. sanitary and process wastewater, garbage maintenance waste, oily ballast clean up waste between load, etc.) and (vi) the appropriate handling and disposal of hazardous substances (e.g. fuel, pesticides, etc);

d. An evaluation to ensure adequate health and safety plans and procedures, including their technical adequacy given the potential Project-specific health and safety risks, adequate level of training to be performed, and sufficient resources to be made available to ensure adequate implementation;

e. An evaluation to confirm adequate contingency plans (i.e., emergency response program and spill plans), including confirmation that all relevant Project-specific environmental risks have been identified, proper procedures have been developed, and sufficient resources will be made available to ensure adequate implementation;

f. An evaluation of Project's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Brazil;

g. An evaluation of Project-related information disclosure and public consultation activities that have been performed, as well as of the proposed future actions to provide adequate ongoing information disclosure and public consultation with the local population. This will include assurance of public consultation and disclosure of the EIA;

h. An evaluation, and further development as necessary, of Project monitoring and supervision procedures to ensure proper implementation of environmental, social, and health and safety actions and requirements;

i. An evaluation of environmental, social and health and safety terms and conditions in relevant Project legal documents (e.g., construction contract, operations and maintenance contract, etc.), in terms of sufficiency, potential risks or liabilities; and

j. An evaluation of potential, existing and future environmental, social, or health and safety financial/credit risks and liabilities associated with the Project, the Project site, and the Borrower. Special emphasis will be placed to any potential environmental risks/liabilities associated with dredging activities.

Figure 1 – Project Location and Influence Area