

# ENVIRONMENTAL AND SOCIAL REVIEW SUMMARY

**Disclaimer**

This Environmental and Social Review Summary is prepared and distributed in advance of the IFC Board of Directors' consideration of the proposed transaction. Its purpose is to enhance the transparency of IFC's activities, and this document should not be construed as presuming the outcome of the Board of Director's decision. Board dates are estimates only. Any documentation which is attached to this Environmental and Social Review Summary has been prepared by the project sponsor and authorization has been given for public release. IFC has reviewed this documentation and considers that it is of adequate quality to be released to the public but does not endorse the content.

**Project Identification:**

<i>Country:</i> Mexico	<i>Project Name:</i> PCD	<i>Project No.:</i> 26415
<i>Region:</i> LAC		<i>Environment Category:</i> B - Limited
<i>Dept./Div.:</i> CGMS4 - Global Manufacturing & Services/Sector Group IV	<i>Company Name:</i> Papel Carton y Derivados S.A. de C.V.	
<i>Project Business Sector:</i> J-AG - Paper Packaging Products (Including Boxes, Cartons, etc.)		<i>Project Status:</i> Active

**Parent Project Identification:**

<i>Parent ID:</i>	
<i>Parent Short Name:</i>	
<i>Parent Relationship:</i>	No Relationship

**IFC's Disclosure Requirements:**

Date ESRS sent to InfoShop & posted on IFC Web site:	
Date of revision (if appropriate):	
Date of clearance by client for factual accuracy	
Local Disclosure Date	
Local Disclosure Date of revised ESRS	
<b><u>Overview of IFC's scope of review:</u></b>	

This is a Category B project, according to IFC's procedure for environmental and social review of projects. The review of this project consisted of appraising environmental and social information submitted by the project sponsor and assessing the company's operations through visits conducted by the project team to the PCD plant in Celaya, Gto.

### **Project Description:**

Papel Carton y Derivados S.A. de C.V. ("PCD" or the "Company") is a family-owned Mexican company based in Celaya in the central state of Guanajuato, Mexico. The Company manufactures corrugated boxes and folding cardboard packaging with annual sales of US\$91 million in 2006. PCD's business model is focused on (i) consumer oriented packaging where product quality and design capability are important and (ii) offering complete value-added packaging solutions to top-tier clients. PCD's strategy is supported by its strategic location in proximity to major industrial clusters and continuous investment in technology.

PCD has requested IFC's financial assistance to support its US\$ 51.4 million investment program from 2008 through 2010 aimed at expanding and modernizing its production facilities and strengthening its balance sheet (the "Project"). The Project will allow the Company to undertake critical investments to support growth and improve production efficiency and to strengthen its financial structure by retailoring its debt profile and increasing its equity base. Investments will be applied to two new pre-printers, a printer and expansion of the folding plant, plus modernization and maintenance of existing equipment. PCD is also considering a new recycled paper plant, which is not subject of this investment. Should this plant be developed further analysis and review would be necessary before proceeding.

### **Identified Applicable Performance Standards:**

IFC's environmental and social due diligence indicates that the investment will have impacts that must be managed in a manner consistent with the following Performance Standards:

- PS1: Social and Environmental Assessment and Management Systems
- PS2: Labor and Working Conditions
- PS3: Pollution Prevention and Abatement
- PS4: Community Health, Safety and Security

PS5: Land Acquisition and Resettlement does not apply as the Company has no intention in acquiring any more land.

PS6: Biodiversity Conservation and Sustainable Natural Resource Management does not apply as the company has no issues associated with natural habitats.

PS7 Indigenous People is not applicable because PCD currently has no negative impacts lands or resources of Indigenous People affecting their traditional livelihoods.

PS8: Cultural Heritage is not applicable because PCD is not currently utilizing intangible cultural property belonging to communities embodying traditional lifestyles, nor does the project impact irreplaceable cultural heritage.

### **E & S Categorization Rationale:**

The key potential environmental, health and safety, and social issues were analyzed:

- existence and operation of integrated environmental, social, and health and safety management systems;
- air, water and solid waste emissions from processing facilities;
- labor, occupational health and safety issues for the workforce;
- social programs, including training, capacity building, and community engagement; and
- hazardous materials management

This is a Category B project, according to IFC's Environmental and Social Review Procedure, because impacts identified are manageable using readily available technologies.

### **Description of key Environmental and Social Issues and Mitigation:**

The sponsor has presented plans to ensure compliance of PCD's projects with applicable host country laws and regulations and IFC requirements as presented in the paragraphs below.

#### **PS1: Social and Environmental Assessment and Management Systems**

The company has a good capacity to deal with its environmental, occupational health and safety, and social responsibility. The PCD Celaya facility has a small environmental footprint and limited occupational health and safety risks.

Consistent with PS1 requirements, PCD implements a series of actions at corporate level and in its Celaya plant, and has, or is in the process of obtaining, the following certifications:

- Empresa Segura – certification by the state of Guanajuato that confirms conformance with the corresponding occupational health and safety standards. Currently certified.
- Empresa Limpia – certification by the state of Guanajuato that confirms conformance with the corresponding environmental standards. Currently in process.
- Industria Limpia – certification by the Federal government (Ministry of the Environment) that confirms conformance with the corresponding environmental standards. Currently in process.
- ISO 9001-2000 – quality certification by the International Standards Organization. Currently in process.

PCD has a health and safety management system which includes organization capacity, training, monitoring and reporting, but the system is not consistent with IFC requirements or sufficiently effective to address the company's EHS concerns. In order to fully comply with PS1, the Company has agreed to develop a formal social and environmental management system (ESMS) including the following elements as described in PS1: (i) Social and environmental assessment; (ii) management program ; (iii) organizational capacity; (iv) training; (v) community engagement; (vi) monitoring; and (vii) reporting.

The company is planning a future recycled paper mill in the property of the plant. Should the paper mill project be implemented, an EISA – Environmental and Social Impact Assessment – will be required. Mitigation and compensatory measures will be drawn to deal with possible related impacts in order to comply with national regulations and IFC standards.

#### **PS2: Labor and Working Conditions:**

Labor and working conditions are an important consideration for PCD. The company has a human resource policy and employment relations that comply with Mexican government legislation. PCD is in compliance with IFC's Performance Standard 2, and its human resources policy includes provisions covering prohibition of sexual harassment and child labor, and includes support of non-discrimination, freedom of association, fair salaries, local hiring, an employee grievance procedure, recruitment transparency, and health and safety.

In order to reduce occupational health and safety risks at the PCD plant, the Company has agreed to repair and improve the storage of hazardous materials including soda, flammable liquids and fuel oil tanks.

PCDs grievance mechanism currently consists of a "suggestion box" but the Company is currently improving the system by introducing an anonymous telephone messaging system, whose contents the company commits to record and respond.

### **PS3: Pollution Prevention and Abatement:**

Air emissions – The main sources are two fuel oil steam boilers. Boilers are in compliance with air emission standards except for SO<sub>2</sub> emissions because of the high sulfur content of the fuel provided by PEMEX, the state oil company. To reduce SO<sub>2</sub> emissions PCD is considering joining other industries in the area to access gas from a neighboring duct. The company estimates that they will be using gas within the next two years.

Wastewater – the Company has a wastewater treatment plant for starch, spent ink and domestic wastewater. The characteristics of the treated effluent vary, but while they are generally compliant with Mexican regulations, they are above the limits of IFC guidelines. The company is working on improvements in its wastewater treatment to render the effluents compliant with IFC requirements, and has agreed to meet IFC effluent guidelines within [12 months].

Solid waste – solid waste consists of cardboard trimmings, dust from filters and sludge from the wastewater treatment plant, which are either recycled or disposed of in a municipal landfill. The company also produces hazardous waste such as oily rags, and other contaminated materials, which are disposed of according to government regulations.

PCD has the necessary environmental licenses according Mexican law. To improve on the licensing conditions, the Company is planning a conversion of their boilers fuel from fuel oil to natural gas, as soon as it becomes available, in order to render its SO<sub>2</sub> emissions consistent with regulatory and IFC requirements.

IFC will require an independent audit to evaluate the Company's energy / water efficiency and recommend actions to optimize resource utilization and reduce costs.

**PS4: Community Health, Safety and Security:** Given the small footprint of the plant, its location in a predominantly industrial area and its adequate management of waste, PS4 is not applicable to the PCD's facility. However, there is a community at one of the sides of the property, by a currently vacant lot where the company intends to construct a recycled paper mill, which will increase the current footprint of the plant. Should the paper mill project be implemented the company will be required to assess the impacts on the community and adequately mitigate them.

Security personnel are part of the company staff - they receive induction appropriate to their line of work and regular training as appropriate. Security personnel do not carry fire arms.

### **Client's Community Engagement:**

PCD has regular communication with the community neighboring its plant and with the companies that comprise the industrial corridor of eastern Celaya. It is with this industries that PCD is working to negotiate a connection with the PEMEX pipeline in order to supply the area with natural gas, thereby reducing the industries' air emissions.

### **Local access of project documentation**

Documentation will be available at PCD's plant in Celaya, Gto., México

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**Approval Status:**