

HONDURAS
PUERTO CORTES EXPANSION PROJECT

HO-L1037

ENVIRONMENTAL STRATEGY

A. Project Description

- 1.1 The Empresa Nacional Portuaria (“ENP” or the “Borrower”) has approached the Bank for the financing of the expansion and modernization of Puerto Cortes (the “Port”), which is a multipurpose facility mobilizing almost 90% of the maritime cargo in the country. The Port is also the most important deep-water port in Central America, with 1,000 meters of 11-meter deep docking areas and mobilizing 8 million tons per year. The Port, which has been certified as a “Secure Port”¹ is located on the Caribbean Sea, on the northeastern coast of the country. It is connected to the main cities of Honduras through highway CA-5, which is part of the denominated Atlantic Corridor², intended to constitute an inter-oceanic dry channel (logistic corridor) linking Puerto Cortes and Puerto Cutuco in El Salvador.
- 1.2 At present, there is insufficient berthing available for the ships, as indicated by the high berth occupancies at the Port. The latter results in carriers being forced to wait for a berth or even sent back to anchorage after having commenced unloading due to the greater priority accorded to other vessels (such as containerships, tankers and cruise vessels). In addition, there is no storage available at the Port, which results in the need to have “direct” discharge into trucks (about 400 truckloads have to be moved for each ship). The current Port area is engulfed by the city, which limits Port zoning opportunities and inhibits the development of specialized terminals on existing wharfs. These restrictions limit the Port’s efficiency and hinder its growth potential. In light of its national and regional relevance, and considering its competitive advantages, the Borrower and the Government of Honduras (GoH) are contemplating a Port expansion program of approximately US\$304.0 million (the “Project”).
- 1.3 The Project consists of (i) the construction and equipment of a specialized container terminal (CT), (ii) the construction of an organic bulk terminal (OBT), and (iii) the replacement of old equipment at the existing berths. The general objective of the Project is to improve the capacity and efficiency of the Port operations, while reducing operational costs and delays in cargo handling. The Project will also contribute to improve the logistic operations of the Port and to

¹ Puerto Cortes integrates, since 2005, the “Container Security Initiative” (CSI) through a customs agreement with the US Department of Homeland Security and the Megaports Initiative of the US Energy Department.

² The Atlantic Corridor (1.745 km) is part of the International Network of Mesoamerican Highways under the framework of the Plan Puebla Panama, and links Mexico, Belize, Guatemala, Honduras and El Salvador.

avoid contamination risks caused by a lack of adequate storage and separation of organic and inorganic bulk.

- 1.4 The new container terminal (CT) involves the construction of a linear berth up to 1040 meters long with a draught of 14 meters, and 32 hectares of paved support area (existing area plus additional area to be gained by land reclamation) to be used for logistic activities, for container storage and to improve Port access. The Project includes equipping the CT with a total of four overhead cranes and auxiliary yard equipment. ENP has advanced preliminary designs of the CT as well as preliminary bidding documents for the selection of the construction firm. The CT is to be executed under a “design-build” contract modality. The container terminal will be located to the east of dock No 5 and will allow for docking of third generation post-panamax type ships.
- 1.5 The construction of dock No. 7 includes dock 7A, an organic bulk terminal (OBT) and eventually dock 7B an inorganic bulk terminal (IBT)³. The OBT consists of the construction of a berth, 260 meters long by 30 meters wide, and soil stabilization in land areas, and a reclamation Area of approximately of 7 hectares. Silos for grains and modern high speed dry bulk unloading and handling equipment will be leased to private importers to allow for rapid discharge. The OBT will only handle food grains for human and animal consumption. Detailed design of the OBT is yet to be completed. Construction of the OBT will also be contracted under the “design-build” modality.
- 1.6 ENP finalized a first stage dredging project that includes the access channel to the proposed expansion. 1.36 million m³ were dredged by one of Jan De Nul’s dredges and the dredged material was deposited in a 30 m deep sea gorge. The second stage is expected to require around 2.64 million m³. Out of these, approximately 2.34 million m³. will be used for filling of 35 ha required for the new docks. The rest will be disposed of in a marine area to be determined.

B. Institutional and Regulatory Context

- 1.7 ENP is an autonomous public entity, whose assets are wholly owned by the Government of Honduras and is in charge of operating all of the ports throughout the country. ENP has an Environmental Management Unit in charge of overseeing environmental issues and is staffed by a Unit head and several port inspectors.
- 1.8 The Secretaría de Recursos Naturales y Ambiente (SERNA) is the Government Ministry in charge of providing environmental license for both new and existing

³ The IBT is not part of the project. It is proposed to be built in the future by AGRECASA as a private initiative completely independent from ENP. This terminal would handle aggregates and inorganic products such as coal, sand and gravel, fertilizers, salt, and chemicals

projects. ENP is in the process of obtaining an operational license for its existing facilities⁴ and requesting a license for the expansion project.

- 1.9 Regarding the port expansion project, ENP has already obtained the environmental license for the dredging required by the project and has already dredged the navigation channel that gives access to the port with a draught of 14 m.
- 1.10 ENP hired a consortium of two local consulting firms ASP consultores and Economía, Sociedad, Ambiente Ingeniería to prepare the environmental impact assessment for the port expansion project. The final version of the report is being finalized but the draft report has been made public in Honduras⁵ and has also been published by the Public Information Center of the Bank. It is being subject to public consultation and discussion in order to complete the revision as required by Honduran regulation. Once this stage is complete, the public draft report will be replaced by the final EIA which will also be presented to the Secretaría de Recursos Naturales y Ambiente (SERNA) for final approval. As part of the whole procedure, ENP is preparing a public consultation phase for the final document.
- 1.11 The project triggers several of the Bank's policies including the Environment and Safeguards Compliance Policy, the Disaster Risk Management Policy and the Disclosure of Information Policy. Neither the Resettlement nor the Indigenous Policies are triggered. The following section gives detail on which issues relate to the Policies.

C. Environmental and Social Setting and Context

- 1.12 Puerto Cortés is located within the limits of the town of Puerto Cortés and is intimately connected with the urban area. Since it is an existing port, the city depends on the port for most of its economic activity.
- 1.13 There are no indigenous communities or environmentally sensitive areas within the area of influence of the proposed project and most of the impacts have already occurred since the port has been in operation for over 40 years.
- 1.14 The Laguna de Alvarado is located to the east of the port and of the city and it used to be a mangrove lagoon. It has been impacted both by the city and the port activities in the past and used to receive all of the city's wastewaters
- 1.15 The Bank is undertaking a GEF technical cooperation for pollution control in the Gulf of Honduras⁶. The program is coordinated by the Bank's country office in Honduras.

⁴ ENP and Puerto Cortés were operational before the environmental legislation was enacted.

⁵ The report is available at ENP's website and will be replaced by the final report upon completion.

⁶ ATN/FG-0264-RS – “Programa para la protección ambiental y control de la contaminación originada por el transporte marítimo en el golfo de Honduras.”

D. Environmental, Social and Health and Safety Issues.

- 1.16 The baseline studies for the EIA were delimited within a 5 km radius of the expansion site, which was the area of influence defined by the consultants and it covers the drainage area of the Alvarado lagoon and its interaction with the Puerto Cortés bay and the navigation channel.
- 1.17 Puerto Cortés is the most important deep sea port in the Central American Caribbean coast and therefore its expansion is one of the defining factors for economic growth not only for Honduras but also for El Salvador and in a somewhat smaller degree for Guatemala.
- 1.18 Even though Central America is prone to be impacted by tropical storms and hurricanes, historical data indicate that the Puerto Cortés bay is well guarded against this type of events and wave impact is minimum in this area. Historically earthquakes have impacted the area and this factor will be considered as part of the engineering specifications for the construction of the new facilities and the area to be reclaimed.
- 1.19 The expansion of Cortés will involve the creation of a new area with fill material over the existing bay, inside the port.
- 1.20 There are two different types of issues that have been identified as being relevant: (i) Those relating to the port expansion project to be financed; and (ii) Those related to the existing facilities, including historical issues from past operations that require some type of control measure (liabilities).
- 1.21 Regarding the impacts that have been identified for the new project during the construction phase, these are related to: impacts on water resources and aquatic-marine environments, due to dredging and disposal of dredged material or possible pollution from oil products and other substances used during construction; impacts on the social environment due to migration to the area in search of job opportunities, health and safety risks related to construction activities, increased demand on services; traffic congestion, noise pollution, exposure to toxic or hazardous substances used for construction and impact on the scenic environment. More specifically there will be (i) loss of fish and marine invertebrate population as well as other fauna that exist in the area that will be recovered; (ii) air emissions and noise from construction work, and engine combustion from construction vehicles and trucks, heavy equipment and machinery; (iii) development and operation of raw material borrow pits, quarries, and asphalt and concrete plants; (iv) siting of construction camps, if any; (v) possible impacts or interruption of existing installations such as underwater cables, pipelines, wastewater outfall, etc, (vi) increased traffic and congestion that may affect not only existing port operations but access roads to the city of Puerto Cortés; and (vii) health and safety risk associated to construction work. All of these impacts are well known, localized, will be temporary and can be mitigated readily with an environmental management Plan.

- 1.22 Regarding the impacts during operation, impacts on water resources and aquatic marine environments, due to dredging for maintenance of the access channel and port areas though to a much lesser degree than during construction. Other impacts are related to port operations and include the possibility of water, air and solid waste pollution due to the handling and storage of all sorts of products including some hazardous substances, increased wastewater and solid waste generation with the increase in the number of ships serviced, operation related health and safety risks, and impact upon the town of Puerto Cortés and its surrounding areas due to increased traffic and congestion, which will also contribute to noise and air pollution. These impacts are moderate, continuous and can be mitigated by adopting adequate health, safety and environmental management measures at the port and reviewing issues related to highway access to the port. The operation of the dry bulk terminal (which itself is not part of the project) will generate air pollution but due to the technology to be implemented it is expected to be of a lesser degree than the existing contribution from offloading of bulk solids at present.
- 1.23 Regarding the liabilities related to existing and post operations, After a site visit, several areas require attention: (i) need for an adequate health and safety procedures; (ii) necessary improvement in hazardous waste management, wastewater treatment, and solid waste handling; (iii) insufficient compliance with international treaties Honduras has ratified; and (iv) revision, updating and implementation of an EMS. In addition, it is important to carry out a review to provide recommendations for improving contingency and emergency response procedures; and (v) potential contaminated soils.
- 1.24 Institutional Capacity: Although ENP has an Environmental Management Unit (UGA⁷) in charge of overseeing environmental issues, it has limited capacity to keep track of all the existing HS&E issues and with the proposed expansion it will find its resources, stretched to the maximum. The UGA works with inspectors that oversee day to day operations and have been trained to review and report on environmental and health and safety issues.

E. Environmental and Social Strategy for the Due Diligence.

- 1.25 The Bank, as part of the due diligence process has contracted the services of the Halcrow Group to support the review of the existing environmental studies and the resulting management plan and conduct a due diligence review of ENP and its facilities. Once this is completed, an Environmental and Social Management Report (ESMR) will be prepared for review and approval by the Bank's Environmental and Social Impact Review (ESR).
- 1.26 The environmental and social due diligence is conducted to ensure that all environmental and social aspects of the project and all liabilities have been

⁷ Unidad de Gestión Ambiental

identified in order to comply with best international practices, the Bank's policies and local laws and standards.

- 1.27 The process will include the review of all existing documentation including the Environmental Impact Assessment prepared by ESA Consultores, perform a quick audit review of existing facilities, identify possible collaboration with the GEF project under execution for the gulf of Honduras (§1.15) and provide input to prepare an Environmental and Social Impact Report (ESMR) that will include a summary of the impacts expected, pending issues that must be dealt with and an action plan to address the impacts and liabilities and correct them.
- 1.28 The due diligence effort will analyze existing health, safety, social and environmental risks and develop a specific health, safety, social and environmental action plan to deal with existing facilities and the specifics of an environmental management plan for the new project. The activities include: (i) assess all social and environmental risks associated with the existing facilities as well as the new Project; (ii) assess the adequacy of the proposed environmental management plan for all activities including dredging, filling, construction of new docks and buildings, etc.; (iii) assess the degree of compliance with international conventions signed by the Honduran government including MARPOL, local legislation and international best practices; (iv) identify environmental and social liabilities related to contaminated soils, hazardous waste handling, transportation and storage, health, safety & labor, contingency planning, air pollution from bulk materials handling, transportation safety both on land and in the bay area, signaling, etc.; (v) identify the needs and produce specifications for additional infrastructure to deal with wastewater treatment issues, hazardous waste handling and storage, air pollution abatement and control, noise reduction and any other issues that might arise; (vi) design an action plan for addressing the issues identified with an estimation of costs, training requirements, scheduling and responsibilities for the parties involved; (vii) review the proposed environmental management plan for the new project and complement any issues not properly addressed; and (viii) evaluate existing contingency plans and identify deficiencies that might exist, defining terms of reference for the upgrading of the plans and the institutional framework required for its operability.
- 1.29 As a result of this analysis, the Bank will incorporate into the project design and loan requirements, the necessary actions to ensure the implementation of a comprehensive Environmental and Social Management Plan that will address any issues identified and include financing for its different components. As part of the due diligence, the analysis of the institutional capacity will be undertaken and recommendations will be made for a comprehensive institutional strengthening component that will be included as part of the loan operation, in order to ensure ENP will be able to supervise and implement the ESMP and its programs.