

Classification and Environmental and Social Strategy (ESS) Arauco Sucuriú – Brazil

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1. Project scope and goal and IDB Invest participation:

The proposed transaction consists of a loan to be provided to Celulosa Arauco y Constitucion (“Arauco”, the “Company” or the “Client”) to implement the Sucuriú Project (the “Project”), which marks the arrival of Arauco’s paper pulp division in Brazil and involves building an industrial plant with an annual production capacity for 3.5 million tons of short-fiber paper pulp with the support of 400,000 hectares of eucalyptus plantations.

Arauco is a global company with a presence in five continents. It has plants in Brazil, Chile, Argentina, Uruguay, Mexico, United States, Canada, Germany, Spain, Portugal, and South Africa.

The Project will include high-efficiency processing units with a recovery boiler, two lye kilns, an evaporation plant, and a crystallization plant. It is estimated that the gasification system will have two 92MW units, while the biomass boiler will have a 200-t/h capacity. In addition, the operation is expected to be energy self-sufficient, possibly generating 400MW of clean energy, including a 220MW surplus that may be sold through the National Interconnected System (“SIN”). The Project will also include the corresponding strategic infrastructure, such as a 91-km transmission line connecting the industrial plant to the Ilha Solteira substation, as well as a 47-km rail branch connecting the Project to Rumo Logística’s rail network.

The industrial plant will be built 50 km from the urban center of the city of Inocência, State of Mato Grosso do Sul, Brazil, on the left bank of the Sucuriú River, which gives the Project its name. The location is 100km from the Paraná River and may be accessed through State Road MS 377. The proximity to road and rail transportation modes will allow the paper pulp to be outflowed for sale in both internal and external markets.

Construction on the industrial plant is planned to begin in the second half of 2025, with operations starting at the end of 2027. The Project is estimated to create 14,000 jobs during the construction phase, and 6,000 permanent jobs involving the forestry, industrial, and logistics sectors.

2. Classification and Environmental and Social Strategy

This operation was classified as Category A according to IDB Invest’s Environmental and Social Sustainability Policy. The primary environmental and social (“E&S”) risks and impacts associated with the Project’s construction phase are related to, among other factors: (i) influx of temporary workers;

(ii) increased traffic in local roads due to circulation of vehicles; (iii) atmospheric and dust emissions; (iv) noise generation; (v) effluent and solid-waste generation; (vi) hazardous waste generation or handling; and (vii) local municipalities' potential lack of capacity to absorb and manage the additional pressure on social and physical infrastructure.

During the operational phase, the primary risks and negative impacts are related to, among other factors: (i) potential impacts on modified or natural habitats to plant forests; (ii) generation of atmospheric emissions, effluents, and solid waste; (iii) increased traffic in local roads due to transportation of timber and materials; and (iv) potential need to improve urban planning to guide urban expansion spurred by the new plant, as well as the municipal capacity to manage a rapidly changing social and economic environment.

The Environmental and Social Due Diligence ("ESDD") process will include visits to the Project's location, as well as meetings and interviews with stakeholders, and will review the following topics, among others: (i) the Project's E&S management system; (ii) E&S policies, plans, and procedures, including occupational health and safety ("OHS") aspects; (iii) environmental and social impact assessments ("EIA"); (iv) emergency and contingency plans; (v) contractor management policies and procedures; (vi) human resources policies and procedures; and (vii) planning and execution of stakeholder engagement processes, including complaint mechanisms and social investment activities conducted by the Project.

Based on information received and reviewed so far, the Performance Standards ("PSs") that will likely be triggered by the Project are: (i) PS1: Environmental and Social Risk and Impact Assessment and Management; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; and iv) PS4: Community Health, Safety, and Security; (v) PS5: Acquisition of Land and Involuntary Resettlement; and (vi) PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

The Project, with the support of expert external consultants, has prepared an EIA, which was completed in the second half of 2023 and submitted to the Mato Grosso do Sul Environmental Institute ("*IMASUL*", *Instituto de Meio Ambiente do Mato Grosso do Sul*) for approval. A Preliminary License ("PL") attesting to the Project's environmental feasibility was issued in February 2024 after public hearings held in the city of Inocência, State of Mato Grosso do Sul, Brazil. The Project's Installation License ("IL") was issued in May 2024.

As a result of the ESDD process, IDB Invest will confirm the Project's category, identify any compliance gaps with respect to its Environmental and Social Sustainability Policy, and establish an Environmental and Social Plan of Action to address these gaps. After the completion of the ESDD process, an Environmental and Social Review Summary ("ESRS") will be prepared and published on this site.

3. Additional Information

For questions regarding the Project, contact Arauco:

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In addition, affected communities may access IDB Invest's Independent Consultation and Investigation Mechanism (MICI) as follows:

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