

## Environmental and Labor Issues

This is a category III project according to the IIC's environmental and labor review procedure because it could produce certain effects that may be avoided or mitigated by following generally recognized performance standards, guidelines, or design criteria. The main environmental and labor considerations related to the project are: assessment and management of environmental and social risks and impacts; efficient resource management and pollution prevention; and workplace and labor conditions.

**Assessment and Management of Environmental and Social Risks and Impacts:** The project—which consists of installing a boiler, a turbine generator, and auxiliary systems for generating electric energy (20 MW) from biomass grown on plantations of king grass and Bio-G—will be located in CK's industrial park in the municipality of Potrerillos. It is anticipated that CK will use approximately 15 MW of the energy generated by the project for its own textile operations. The project will enable CK to continue reducing its use of bunker fuel and thereby help curb its fossil-fuel-related emissions of greenhouse gases.

In January 2013, CK prepared the qualitative environmental assessment (Diagnóstico Ambiental Cualitativo) for the project, presented it to the Honduran Secretariat of the Environment and Natural Resources (SERNA), and requested an extension of its current license (renewed in 2012) to operate its facilities (textile plant and thermoelectric plant). SERNA oversees the company's compliance with environmental and occupational health and safety regulations by means of a compliance report CK prepares and submits to it periodically. The most recent such report was submitted to the environmental authority in late January 2013.

The environmental impacts of the project over and above those associated with CK's existing operations are expected to be relatively minor; primarily because the company's current energy generation-related emissions are from fossil fuels, whereas the new project will generate cleaner energy from agricultural biomass, thus enabling the company to cut back on its greenhouse gas emissions. The boiler and auxiliary equipment will be installed at the company's current facilities. The land used for biomass crop plantations is leased from the pertinent landowners. Consequently, the project will not involve acquiring land or impact natural or protected areas. CK has ISO 14001 certification for environmental management that is valid until 2016, having obtained the pertinent re-certification in 2012.

**Efficient Resource Management and Pollution Prevention:** The combustion of biomass in the new boiler will generate air emissions consisting primarily of particulate matter (ash) and combustion gases. The project will employ equipment, such as cyclones and electrostatic precipitators, to control emissions of ash and combustion gases. At present, CK periodically monitors all its air emissions from fixed sources. The most recent monitoring tests were conducted in 2012 and confirm that the company's emissions are in compliance with the applicable Honduran environmental regulations (regulations governing the control of emissions generated from fixed sources). Said regulations require companies to comply with air pollutant limits that become progressively stricter over time until, after a period of five years, companies achieve full compliance with the limits established under World Bank guidelines. During the project with the IIC, CK will continue its monitoring program to ensure that air emissions from the new biomass-fueled power generation facility and other fixed sources comply with Honduran environmental regulations and the emission limits for particulate matter, nitrogen oxides (NOx), and sulfur dioxide (SO<sub>2</sub>) set forth in World Bank/International Finance Company guidelines during the period established by the Honduran regulations governing the control of emissions generated from fixed sources.

Wastewater generated from project operations will be channeled to an existing sewage drainage

system and routed to CK's wastewater treatment plant. Rainwater runoff will be channeled through an existing storm drain that likewise collects rainwater from the industrial park and discharges it into the Blanco River, in compliance with applicable environmental regulations. The ash resulting from biomass combustion will be used as a fertilizer in the biomass plantations. CK personnel will be in charge of handling the ash and only agrochemicals that comply with Honduran regulations and the pertinent international agreements will be used. Any surplus ash produced will be disposed of at a municipal landfill facility. In 2012, the municipality of Potrerillos opened a sanitary landfill facility equipped with a geomembrane lining system to prevent leachate infiltration of the subsoil. This sanitary landfill, the construction of which was managed by the municipality and funded with international cooperation and a contribution from CK, is expected to help improve municipal solid waste management by replacing open-air dumps.

**Workplace and Labor Conditions:** The company complies with Honduran labor law and core labor standards for workers' rights, the prohibition of forced labor, and a child labor code that protects children and sets a minimum working age (18 years). The company's workplace regulations have been approved by the Ministry of Labor. There is currently no union presence at the company, but workers are free to join a union if they so choose. An employee association has been established that has a credit and savings cooperative for providing financial assistance to employees, including housing projects.

The management of occupational health and safety aspects at CK facilities is in line with OHSAS 18001 guidelines. The company's facilities are equipped with fire detection systems, alarms, and fire suppression equipment. In September 2012, the fire department carried out an inspection of the company's facilities. The company provides its employees with personal protective equipment as well as occupational health and safety training. The company has programs in place for the orientation of new employees, emergency brigades, facilities and equipment maintenance, training, and others.

**Monitoring and Reporting:** CK will continue to carry out the measures spelled out in the environmental and occupational health and safety management plans and programs that it has been implementing and are mentioned herein. These measures will ensure compliance with domestic regulations and IIC environmental requirements. In addition, CK will continue to submit annual environmental and social monitoring reports to the IIC.