

Review of dredging activities for entry channel and harbor basin of Promar S.A. shipyard, Suape, Brazil



Destroyed mangroves in front of the Estaleiro Atlântico Sul on the Island of Tatuoca, Suape harbor (Picture Both ENDS)



Access dam to the Estaleiro Atlântico Sul blocking the free flow of water in and out of the Tatuoca estuary, Suape harbor (Picture Both ENDS)

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SUMMARY

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From 12-18 August 2012, Both ENDS visited the Suape sea port, some 40 km south of the city of Recife in northeastern Brazil. This report reviews the potential social and environmental impacts of dredging activities for an entry channel and harbor basin for the construction of the Promar shipyard. This project is implemented by the Dutch dredging company Van Oord with an export credit insurance policy of Atradius Dutch State Business (Atradius DSB). Van Oord has been involved in dredging activities in Suape since 1995. In addition to the dredging project for Promar, early 2012 Van Oord also received an export credit insurance policy on behalf of the Dutch government for the deepening of the outer access channel for Suape port.

The report describes the clearly dramatic impacts of the dredging activities taking place in the Suape area, such as the loss of livelihoods for local fishing communities, the destruction of coral reefs and forests, and forced evictions. These impacts add on to other problems related to the rapid industrialization of the Suape harbor region, such as violence, sexual exploitation and the disruption of the social fabric. The dredging project for the Promar shipyard suffers from a lack of transparency, particularly vis-à-vis the local communities. The limited public information on the project and the testimonies of people living in the Suape area do not suggest fundamental improvements in comparison to earlier dredging activities in the region. Thus an important conclusion of this report is that Atradius DSB did not well consider several social and environmental concerns in its decision making process, despite its obligations to do so under the Corporate Social Responsibility (CSR) policy that the Dutch government formulated for the export credit facility. The findings in this report also suggest that Van Oord may be in non-compliance with various aspects of the OECD Guidelines for multinational enterprises.

The report recommends a full public and participatory review of the project. Atradius DSB and Van Oord should consider setting up a complaint facility that could serve as a starting point for a structural dialogue with local stakeholders to help improve the sustainable development agenda in the Suape region. Much more transparency would be required by Atradius DSB and Van Oord to allow for constructive multi-stakeholder dialogues that may help to solve many of the pressing social and environmental problems emerging in the Suape region. Dutch stakeholders in the Suape harbor should consider promoting the setting up of an independent and permanent social and environmental monitor in the Suape region.

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1. Introduction

1.1. Background

Export credit support is one of the most important financial instruments of governments to support domestic companies doing business abroad. Nearly all industrialized countries have for that purpose a national export credit agency (ECA). The Dutch ECA is Atradius Dutch State Business (Atradius DSB). Atradius DSB supplies export credit insurances and/or guarantees on behalf of the Dutch State. In 2011 it issued insurance policies for 106 transactions and 133 promises and notices of cover. The aggregate nominal risk exposure assumed by Atradius DSB totaled that year an amount of € 8.2 billion¹. As many of the Atradius DSB supported transactions are located in developing countries, Both ENDS is taking an active interest in their impacts in relation to local sustainable development efforts.

Atradius applies a sustainability policy which includes the application of principles of Corporate Social Responsibility (CSR). The support of transactions of companies in the dredging and land reclamation sector is an important part of the portfolio of Atradius DSB. Since dredging activities tend to have substantial environmental and social impacts, Both ENDS decided to review such an Atradius DSB supported project. From the overview of transactions published by Atradius DSB², Both ENDS thus selected a recently supported dredging project along the northeastern coast of Brazil. A review of this project complements ongoing work of Both ENDS and local partner organizations in Brazil, in which we particularly focus on the relations between infrastructure development, trade and sustainable development.

The project is described as “Dredging of entry channel and harbor basin for the construction of a shipyard”. An insurance policy for this project in Brazil has been issued on the 23rd of November 2011 to Van Oord Dredging and Marine Contractors BV for a maximum amount of € 41.525.100. The debtor is the ‘Complexo Industrial Portuário Governador Eraldo Gueiros’, which is the state owned harbor authority of Suape, a sea port located some 40 km south of the city of Recife, in the State of Pernambuco. The Dutch dredging company Van Oord has been actively involved in several expansion and maintenance projects in the Port of Suape since 1995³. The shipyard which currently is to be constructed is the Estaleiro Promar S.A., where vessels for the off-shore oil industry are to be built. Atradius DSB considered the works to have potentially significant adverse environmental and social impacts, possibly extending beyond the location of the project or work.

From 12 – 18 August 2012 Both ENDS paid a visit to the Suape region to explore eventual environmental and social impacts of this project. Meetings were held with various stakeholders in the project, such as affected communities and community leaders, local researchers, and local NGOs. Also meetings were held with the Secretariat of Environment and Sustainability of the State Government of Pernambuco, which is responsible for the issuing of the environmental licenses of all companies operating in the Suape region. Staff of the Suape harbor authority provided a tour of the region and explained some of the social and environmental concerns encountered and the efforts currently ongoing to address these.

¹ 2011 Annual Review, Atradius Dutch State Business,
http://www.atradiusdutchstatebusiness.nl/Images/dsben/DSB_annual_review_%202011%20ENG_tcm1009-152572.pdf

² Overview of transactions 2011, p.6,
http://www.atradiusdutchstatebusiness.nl/Images/EKVpolissen_2011_tcm1008-141084.pdf

³ <http://www.vanoord.com/activities/development-and-maintenance-port-suape>

1.2. Both ENDS' fact finding mission

During the visit it became clear that the social and environmental impacts of the construction of the Estaleiro Promar S.A. cannot be isolated from the impacts of the wider developments in the Suape harbor region. However, the impacts of dredging activities are clearly dramatic. Due to the disappearance of fish-stocks complete fishery communities are losing their livelihoods. People living in the area mentioned several other problems such as the haphazard deposit of dredged materials, the destruction of coral reefs, the loss of mangroves, marine intrusion, flooding or the disruption of water resources. Also there are reports of the lack of respect for the legal rights of the local inhabitants. Forced evictions are taking place and people are complaining about insufficient compensation measures, in particular for the loss of livelihoods. Due to the massive inflow of (construction) workers an urban boom is taking place which results in a shortage of affordable housing. The disruption of the social fabric results in an increase of social problems such as sexual exploitation, violence and the increase of crime rates.

After Both ENDS submitted a draft of this report to Atradius DSB and Van Oord, both companies responded in separate letters. None of the facts raised in this report have been contested. Atradius DSB indicates that it was aware of problems relating to involuntary resettlement and the loss of biodiversity at the time of its review of the application of Van Oord in 2011. Nevertheless it states that it received sufficient information to make a balanced review of the project weighing the positive impacts against the negative impacts of the project. Unfortunately it does not specify how it made this balanced review nor disclose the information it used for its decision making.

Van Oord states that “the responsibility for consultation with local stakeholder is taken up by our client”, which is the Suape harbor authority. It thus acknowledges that the dredging company itself is not engaged in consultations with project affected people. Also Atradius DSB states that the local government and the Suape harbor authority are responsible for public participation and consultation and the offering of a platform for the submission of complaints. While Both ENDS does not contest the responsibility of local authorities and the project owner in this regard, Atradius DSB and Van Oord should consider co-responsibility in this field. The OECD guidelines for Multinational Enterprises, to which both companies subscribe, as well as the IFC Performance Standards which Atradius DSB uses as a benchmark for its social and environmental review of projects encourage them to take part in interactive processes of engagement with (local) stakeholders through, for example, meetings, hearings or consultation proceedings.

Hardly anyone Both ENDS talked to in the region is aware that the Dutch company Van Oord is involved in many of the dredging activities taking place in the area. Similarly the local authorities we spoke to were not aware of the role of Atradius DSB in providing an insurance policy for the dredging works for the Promar shipyard. While Van Oord claims to take part in reforestation activities to compensate for deforestation due to this project, we were not able to obtain any confirmation that such activities were actually carried out⁴.

⁴ In its response – dd. 18 January 2013 – to the draft of the current report Van Oord wrote to Both ENDS: “It is unfortunate that Both ENDS’ representatives have not been able to interview Van Oord’s staff on site. We feel this could have provided Both ENDS with a lot of additional relevant information about what is actually happening on [the] ground like the activities related to reforestation”. However Van Oord does not provide more specific details on its suggested reforestation activities.

In this report we first describe the Promar shipyard project and the wider Suape harbor complex of which it is a part. We then analyze the social and environmental impacts of the dredging project for the Promar shipyard. Here we follow the same methodology used by Atradius DSB and described in its policy document on corporate social responsibility (CSR)⁵. We largely base our analysis on the briefings and documents we received from people in the region. In the final part of this report we draw conclusions and formulate recommendations to address the social and environmental impacts of the current project and to contribute to a more sustainable development of the Suape harbor complex. In the annex we provide an overview of the people and institutions in Brazil that Both ENDS talked to.

⁵ This document is only available in Dutch, cf: http://www.atradiusdutchstatebusiness.nl/Images/Beleidsdocument%202012_tcm1008-133093.pdf. A more general description of this policy can be found in Atradius DSB's brochure on Corporate Social Responsibility (CSR), cf: http://www.atradiusdutchstatebusiness.nl/Images/dsben/MVO%20Broch%20Engels_tcm1009-132870.pdf

2. Estaleiro Promar S.A. and Suape

2.1. Estaleiro Promar S.A.

The Dutch export credit agency Atradius Dutch State Business (Atradius DSB) supports dredging activities for a new shipyard – the Estaleiro Promar S.A. – for the construction of vessels to support the off-shore oil industry in Brazil. The shipyard is to be located inside the Suape harbor complex on the east side of the Tatuoca Island, next to an already existing shipyard Estaleiro Atlântico Sul. The Estaleiro Promar S.A. is a joint venture of STX Norway Offshore AS and PJMR Empreendimentos Ltda. from Brazil. The maritime sector is one of the key industrial sectors in the Suape harbor, where at least four shipyards have been planned.

The project will cover a surface of 97,4 ha, of which 17 ha will be dredged for the construction of the basin of the shipyard. Some 80 ha will be used for the shipyard facilities. This will destroy an area of 45 ha of Restinga forest – a distinct type of coastal tropical and subtropical moist broadleaf forest – and mangrove forests.



Artist impressions of Estaleiro Promar S.A. next to the Estaleiro Atlântico Sul



The Suape harbor authority acts as a landlord harbor in which various companies rent space. The Estaleiro Promar S.A. is one of them. As dredging activities in Suape harbor are part of the infrastructure development the dredging works done by Van Oord are commissioned by the Suape harbor authority. The specific social and environmental impacts of the dredging works for the Estaleiro Promar S.A. need to be understood in the context of the wider impacts of the industrialization process in the Suape complex.

2.2. Suape Harbor Complex

The literal meaning of Suape is “meandering ways” in the Tupi language, the language of the original indigenous communities living along Brazil’s coast. The area – comprising estuaries of the rivers Massangana, Tatuoca, Ipojuca and Merepe enclosed by mangrove forests – already attracted attention in the early colonial times. The plan to develop a harbor in the region was conceived in the period 1973-1975. The development of the harbor and industries in the region accelerated after 1995.



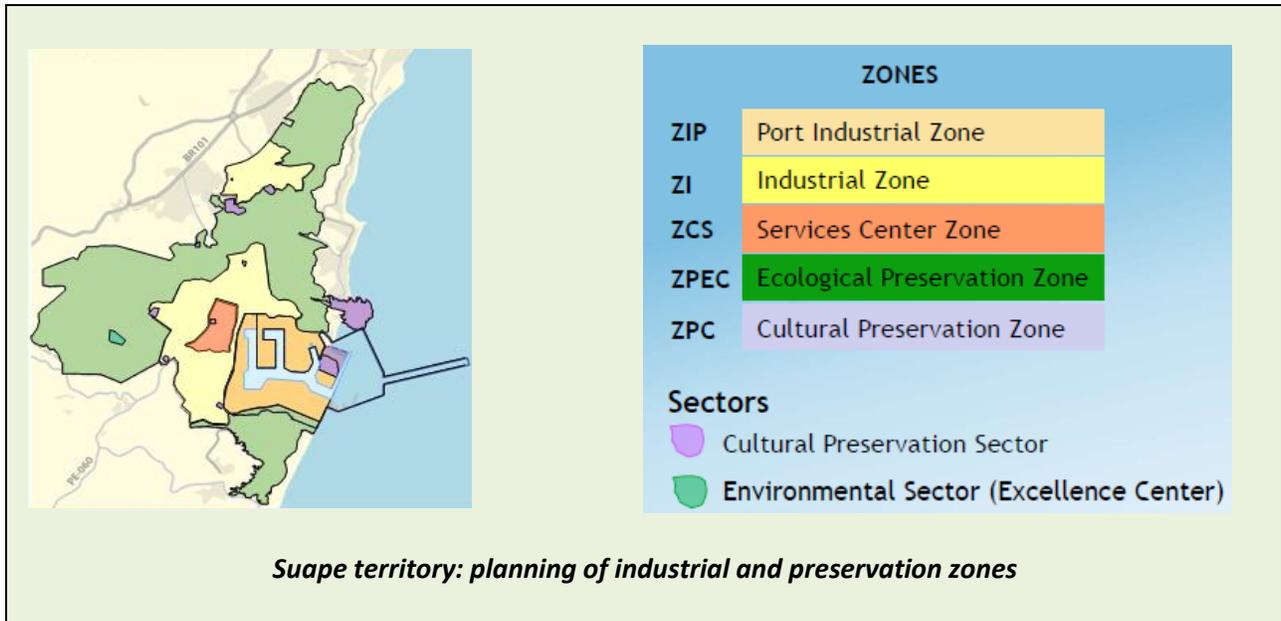
“Afbeelding van de Cabo St. Augustin Met haer fortten”
[St. Augustine, Brazil], I. Commelyn / J. Jansson, Amsterdam / 1656

Currently the Suape harbor area covers a territory of about 13.500 hectares. In this area still some 25.000 residents – about 6.800 households – are living. As the Suape harbor authority considers itself the legal owner of the land, it is planning to resettle all the remaining people living in the area. In order to compensate for the environmental impacts of the industrial developments in the area, Suape harbor has designated 59% of the total area for environmental protection and reforestation activities⁶.

According to information from the Suape harbor authority currently more than 100 companies are operating within the 41% of the Suape territory designated for industrial and port facilities and some 50 extra companies are under construction. In addition to shipyards, Suape is hosting a major oil refinery

⁶ Cf. Folha De S. Paulo, Page B14, 30 September 2012.

(Petrobras), petrochemical plants, a steel plant and food & beverage industries. Private investments in the port are rising to more than US\$ 20 billion, and public investments for infrastructure construction are expected to reach more than US\$ 1.6 billion. Some 35,000 direct jobs are expected to be generated in private sector operations in Suape. Several tens of thousands of construction workers find temporary employment. The harbor is promoted for its location: 7 days from the east coast of the USA and 9 days from Rotterdam. It is set to become the engine for economic growth in Pernambuco and the wider Brazilian northeast. In recent years the growth rate of Pernambuco has been well above that of Brazil as a whole.



The Suape harbor is currently implementing its business plan according to the Master Plan 2030 that was developed in close collaboration with the Port of Rotterdam Authority⁷. The harbor consists of an outer and an inner port. The outer port is mainly used for off-loading liquid bulks and gases, while the inner port is having terminals for containers and general cargo. The shipyards of Suape – including Estaleiro Promar – are also located in the inner port.

Substantial additional dredging is needed to complete the inner port as planned. The dredging works for Promar that are outsourced to Van Oord with an export credit insurance of Atradius DSB are a relatively limited part of this larger project. Approximately 6 million m³ of spoil will be dredged, some of which is to be used to create a new section of the port. In a separate project, Van Oord has also been contracted by the Suape harbor authority to deepen the outer access channel to the port from -15m to -20m. For this project another 5 million m³ of material, of which some 1 million m³ of rock is to be removed. This project also received an export credit insurance policy from Atradius DSB on the 19th of January 2012 for

⁷ In November 2011 Both ENDS published a report on the potential contributions of Dutch sea ports to making international production chains more sustainable, in particular in respect to Dutch imports of raw materials from countries like Brazil. In this report – that also reviews the harbor of Rotterdam – recommendations were formulated to improve the sustainability impacts of the production chains that Dutch sea ports are facilitating. These recommendations might also be taken on board in the bilateral relation between the harbor authorities of Rotterdam and Suape. For the report, see:

http://www.bothends.nl/uploaded_files/document/Nederland_Duurzaam_Distributieland.pdf

a maximum amount of € 68.769.653. Atradius DSB considered this project to have potentially less detrimental environmental and social impacts (Cat B) than the dredging works for the Promar shipyard.

3. Social and environmental assessment of the dredging project for the Promar shipyard

The Dutch government wants to promote Corporate Social Responsibility (CSR) in business. Atradius DSB therefore aims to only cover risks relating to export transactions that are not associated with bribery or the breach of fundamental labor standards and that do not have unacceptable environmental and social impacts. To ensure this all project applications that Atradius DSB receives are subjected to a 'due diligence' process that follows a number of steps⁸:

1. screening
2. project definition
3. classification
4. assessment framework
5. monitoring

In the case of the export credit insurance policy issued to Van Oord the same steps apply.

3.1. Screening

The dredging project of Van Oord for the Promar shipyard has received an export credit insurance for a maximum compensation amount of € 41.525.100. This is well above the standard CSR screening threshold that is set at € 10 million. If the repayment term of the credit provided for the project is more than 2 years, this would trigger the Common Approaches of the OECD to be applicable. Fortunately, in the Netherlands also short term transactions as well as cash transactions – common in the case of dredging activities – are eligible for screening on CSR elements. Transactions involving dredging activities always require a screening of the environmental and social aspects of the project because they are considered to be part of a 'sensitive sector'. In addition it is stated in Atradius DSB's own guidelines that it has to review whether the project will take place in 'sensitive areas', such as:

- Areas with high natural value (such as wetlands)
- Areas with high population pressure (in case of likelihood of land expropriation and resettlement)
- Areas with indigenous communities
- Special historical or archeological areas

All such features of sensitive areas apply in the case of Suape. The harbor is located in a wetlands area, and the site of the Promar shipyard on the island of Tatuoca is still covered with Restinga forest and mangroves. People, who have been living in the area for many generations, will need to be relocated. On the project site itself some 13 properties of fishermen have been identified. A total of 48 families counting 185 individuals are said to be living in the island of Tatuoca, some of whom since more than 70 years⁹. People who have been residents in a certain area for a long time are eligible for special customary rights under Brazilian law. The information materials of the Suape harbor authority also indicate specific cultural zones in the region, including historical sites from colonial days. There are reports of findings of old indigenous pottery and Portuguese tiles.

All things considered, the transaction clearly requires a full screening of the social and environmental aspects in accordance with the CSR policies of Atradius DSB. As Atradius DSB does not disclose the specific grounds for its screening decisions, it is not clear whether all the above elements were considered. However, it did decide to conduct a social and environmental review of the project.

⁸ Cf. http://www.atradiusdutchstatebusiness.nl/Images/Beleidsdocument%202012_tcm1008-133093.pdf

⁹ RIMA Complementar, Avaliação de Impacto Ambiental, Estaleiro Promar S.A. – Suape, p 51.

3.2. Project definition

For the CSR review of an application for an export credit insurance Atradius DSB is making a distinction between three levels of screening:

- the transaction,
- the project, and
- the project surroundings.

The *transaction* consists of the actual supply of the goods/services for which the export credit insurance is requested. The *project* usually refers to the wider initiative of which the transaction is a part. The environmental and social aspects of both the project and the transaction would have to be screened in the context of the CSR policies of Atradius DSB. In addition Atradius DSB would make a so-called marginal assessment of the *project surroundings*. This assessment would focus on a review of the reputation and track record of the project sponsor in the field of social and environmental policies.

In this specific case the dredging activities for an access channel and basin for the Promar shipyard might have been characterized as the transaction. The newly planned Promar shipyard itself could fit Atradius DSB's definition of a project. The project surroundings could be defined by the wider activities of Suape harbor authority, officially known as Suape Complexo Industrial Portuário Governador Eraldo Gueiros. In this case the Suape harbor authority is the 'project sponsor'. Atradius DSB would thus have to review Suape's reputation and track record in the field of social and environmental policies. This means that an assessment would have to be made of the compliance of Suape with local legislation and regulations, of its adherence to relevant international guidelines and or conventions – for example ILO – and eventually of the interaction and dialogue it has with the local civil society and NGO community.

Atradius DSB claims to look into the answers of questions such as: What is the function of the transaction in the wider project, and is this an essential part to enable the functioning of the project? What is the exact site of the dredging activities in relation to the shipyard, and are these activities planned in an environmentally and socially 'sensitive' location. What about the timing of the different parts of the project?

Unfortunately – the lack of transparency is a persistent problem – Atradius DSB does not disclose screening information in relation to the specific applications it publishes. Hence it is not possible to verify whether the suggested project definition actually has been used. However, during the visit to the project area, Both ENDS asked various stakeholders like the Suape harbor authority, the Secretariat of Environment and Sustainability of the State Government of Pernambuco, local NGO representatives and local community leaders whether they had been consulted for a social and environmental review by Atradius DSB. None of these stakeholders had ever heard of Atradius DSB and nobody was aware of its role in relation to the dredging project for the Promar shipyard¹⁰.

¹⁰ In a letter - responding to the draft of this report - Atradius DSB wrote to Both ENDS on 10 January 2013 that it used information of Van Oord, Promar, local authorities, the Netherlands Embassy in Brazil, and local public sources for its review of this export credit insurance application. It remains unclear why all the local stakeholders and authorities that we talked to were not aware of Atradius DSB's role in the project.

3.3. Classification

Subsequent to the *project definition* Atradius DSB classifies projects according to the size of their potential environmental and social impacts. According to its own CSR policy, an effort needs to be done to quantify the scale of the transaction and the project of which it is part to establish the relations between the project and its environment.

Project classification categories	
Category A	Potentially large detrimental environmental and social impacts, that may be irreversible and difficult to mitigate or compensate, and that may occur beyond the location of the project
Category B	Potentially substantial detrimental environmental and social impacts, with less serious consequences than in the case of Category A projects, within the limits of the project area
Category C	Potentially few or no detrimental environmental and social impacts
Category M	Requiring a marginal assessment in irregular situations, such as: <ul style="list-style-type: none">• Existing operation that does not significantly change in output or function• Applications for refinancing or a letter of credit• Project without a clear location (movable assets)

Atradius DSB decided to classify this particular project as a Category-A project. Its social and environmental impacts may be diverse, irreversible and unprecedented. Projects in sensitive areas and sectors – which is the case with this project – usually obtain a Category-A classification¹¹.

As a consequence of this classification, the applicant – i.e. Van Oord Dredging and Marine Contractors BV – has been required to submit an Environmental and Social Impact Assessment (ESIA) report. This report was publicly available for a period of 30 days prior to the issuance of the insurance policy. In this period Both ENDS requested and obtained a copy of this report: the RIMA Complementar, Avaliação de Impacto Ambiental, Estaleiro Promar S.A. – Suape¹². This report has been commissioned by the beneficiary of the project – Promar SA – and is produced by a local consultancy company¹³. In comparison to the concerns raised by local communities, this study does leave the impression that many potential social and environmental impacts of the project have been underrated. Importantly Atradius DSB did not disclose any independent review of the contents of the RIMA Complementar. It also did not disclose other information concerning eventual cumulative environmental and social impacts in the context of the further industrialization processes taking place in the Suape harbor complex.

¹¹ The other ongoing dredging project of Van Oord to deepen the outer access channel to the Suape port was classified as a Category B project, despite such dredging activities being referred to in the CSR policy of Atradius DSB as activities in a sensitive sector. Following this classification Atradius DSB did not disclose any social and/or environmental information on this additional dredging project of Van Oord in Suape.

¹² This study is publicly available on the internet via the following link: <http://www.slideshare.net/vfalcao/rima-promar-211110>

¹³ Moraes & Albuquerque Advogados e Consultores, Recife, Pernambuco.

3.4. Assessment framework

To approve the application, Atradius DSB concluded that the environmental and social impacts of the project were acceptable. To reach that conclusion, Atradius' CSR policy prescribes to weigh positive, neutral and negative impacts on the basis of the sector, the location and the technology applied. According to its CSR policy, Atradius DSB should have reviewed various aspects before coming to a conclusion. It is not clear how this was done, because no information is available about it. Atradius DSB should first of all have assessed the management practices of Van Oord according to the accepted standards in the dredging sector. It also should have reviewed the impacts of the project in the sensitive area where the project site is located. And thirdly it should have looked at the technology applied in the project to see if it meets the regular standards. Since Atradius DSB approved the project, it may be assumed that the management practice of Van Oord, as well as the technology that it will apply in the project has been considered to meet the required standards. Because of the lack of public information however we – again – cannot be sure.

3.4.1. Both ENDS' findings

During the visit of Both ENDS to Suape several concerns were noted in this respect:

- Local communities of fishermen have been very severely affected by the dredging activities that have been undertaken in and around Suape harbor. This was confirmed by the Suape harbor authority, the Secretariat of Environment and Sustainability of the Pernambuco government as well as local researchers and several representatives of local NGOs. Local fishermen have submitted official complaints on the consequences of dredging activities in the area to the UN Human Rights Council. They also requested compensation from the environment committee of the legislative assembly of the state of Pernambuco for the environmental damages and loss of fisheries due to the dredging¹⁴. As Van Oord has been engaged in many dredging activities in the region since 1995, this **company seems to be co- responsible for the loss of the livelihoods of many fishermen** in the area.
- Substantial amounts of **dredged materials have been deposited in a haphazard way** in various spots along the coast, including in areas very close to the coastline. Reef systems as well as breeding grounds for fish have been severely damaged. No clean-up or restoration activities are taking place, though the Suape harbor authority seems to consider new requirements following the serious problems that emerged.
- While Van Oord has been working for a long time in the region, nobody in the area seems to be aware of its presence. Local people assume that the dredging activities are undertaken by the Suape harbor authority itself. They do not know that these activities have been outsourced to other (foreign) parties. This suggests that **Van Oord has never been engaging in local stakeholder consultations**, despite the encouragement of the OECD Guidelines for Multinational Enterprises¹⁵ to do so. In order to qualify for export credit insurance from Atradius DSB, Van Oord must have subscribed to these guidelines¹⁶. As part of the dredging activities in the inner port of Suape, some rivers and streams have been dammed without allowing for sufficient alternative discharges. This has

¹⁴ Copies of these documents have been provided to Both ENDS.

¹⁵ See: <http://www.oecd.org/dataoecd/43/29/48004323.pdf>

¹⁶ Companies applying for export credit support from Atradius DSB are required to subscribe to the OECD Guidelines for MNEs. This is part of all application forms that Atradius DSB uses, cf.: <http://www.atradiusdutchstatebusiness.nl/dsben/forms/aanvraag/>

Quite contrary to the OECD Guidelines it claims to promote Atradius DSB defers in its reaction to the draft of this report the responsibility for public participation and consultation to the local authorities and the Suape harbor authority in Brazil. Similarly Van Oord states in its response to Both ENDS that “the responsibility for consultation with local stakeholders is taken up by our client”, which is the Suape harbor authority.

created severe **disruption to the water management** in the region, and has caused regular flooding, especially during rainfall.

- There is **marine intrusion** in the Suape estuaries, as a consequence of the dredging activities to facilitate inland access for ships. This results in the contamination of ground water resources. It is unlikely that Van Oord would not be familiar with such impacts of dredging operations in Suape.
- The company claims to be involved in a reforestation program to compensate for the damage done to nature¹⁷. However, representatives of the Suape harbor authority, as well as the Secretariat of Environment and Sustainability of the Pernambuco government could provide **no confirmation of any such compensation activity** taking place.

In reviewing the environmental and social impacts of the project, Atradius DSB will have analyzed the Environmental and Social Impact Assessment (ESIA). In addition it claims to have used other information from Van Oord, from the Suape harbor authority, from local authorities, from local public sources, and from the Dutch embassy in Brazil. It did not receive any public reactions to the ex-ante publication of the ESIA¹⁸, or any questions on the process and contents of its review of the project. As no local stakeholders in the project area that Both ENDS spoke to were aware of Atradius DSB's existence or role in the project this is hardly surprising. Following its current CSR policies, Atradius DSB appears to have very little outreach to local stakeholders of the projects for which it considers to provide cover.

Atradius DSB also uses a set of specific questions for applicants from the dredging sector to efficiently obtain appropriate information. Unfortunately this set of questions is not publicly disclosed, nor is it confirmed whether such a list has been used in the screening of the Suape project. As the Suape harbor authority and the Secretariat of Environment and Sustainability of the Pernambuco government were not aware of the role of Atradius DSB in relation to the project, it looks like the Dutch ECA may have limited itself to reviewing the information provided via Van Oord, eventually supplemented with information from other public sources. The assessment of Atradius DSB is likely to have lacked input from very relevant local stakeholders.

3.4.2. Local law and regulations

The OECD Common Approaches and the CSR policy of Atradius DSB require that the available information is benchmarked against relevant local legislation and regulations, as well as against international standards such as the Performance Standards of the IFC, the private sector arm of the World Bank Group. Regarding local law and regulations it is to be noted that the territory of Suape harbor is covered by two municipalities: Cabo de Santo Agostinho, and Ipojuca. However it is the Suape harbor authority which has to approve a dredging plan. The two municipalities are only entitled to confirm that they have been informed by Suape of such plans, they cannot challenge them. The state agency for environment – CPRH, part of the Secretariat of Environment and Sustainability of the Pernambuco government – is in charge of issuing environmental licenses for all development activities in the region, including the dredging activities. However, the Suape harbor authority is part of the same state government as the CPRH, and the Suape port is considered of vital importance for the economic development of the state of Pernambuco. In this situation the CPRH has to deal with a conflict of interest,

¹⁷ Quote from the company website: "To limit the damage done to nature as much as possible, we've taken part in a reforestation plan. The area that is being deforested to create the Promar shipyard has been replanted 32 km from Suape. Ultimately, the top layer of the deforested area will give rise to 40 ha of new forest." See: <http://www.vanoord.com/activities/development-and-maintenance-port-suape>

¹⁸ In its letter in reaction to the draft of this report Atradius DSB stated that they did not receive any reactions before or after the issuance of the insurance policy.

which endangers its autonomy in processing applications for environmental licenses. It is unclear whether Atradius DSB has been taking this situation into account in reviewing the compliance of the project with local laws and regulations.

3.4.3. International law and regulations

In benchmarking the project against international standards such as the Performance Standards of the IFC, Atradius DSB reviewed the project on the following aspects:

1. Assessment and management of environmental and social risks and impacts

This standard requires an effective assessment and management of the environmental and social risks and impacts of the project throughout all its stages, including an adequate engagement with local communities and affected people. As people testified to Both ENDS that dredging activities in Suape happen without any prior warning or announcement, this standard does not seem to be met. Nor are affected people informed about options to share any grievances they may have or to file any complaints.

2. Labor conditions

This standard states that protection of the fundamental rights of workers needs to be part of the pursuit of economic growth through creating employment and generating income. There is no information available about whether this standard was incorporated in the transaction or the project. However in the project surroundings sound worker-management relations do not seem to be guaranteed very well. Suape has been the scene of several strikes. There have been violent protests of workers and the atmosphere was described by some newspapers as a 'climate of war'¹⁹.

3. Efficient use of resources and prevention of pollution

This standard aims to avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution. Reports of the haphazard disposal of dredged materials, pollution problems, as well as the disruption of the water management in the area suggest that this standard is not very well adhered to in the project surroundings.

4. Public health and safety

Due to the industrialization and the inflow of large numbers of (temporary) migrant workers in the area people complain about the loss of traditional, local values, and talk about a disruption of the social fabric. In the context of an urban boom, the rates of violence, crime and sexual exploitation are going up, and the sense of public safety is decreasing. These trends are opposite to the intention of this standard to anticipate and avoid adverse impacts on the health and safety of the affected community.

5. Land acquisition and involuntary resettlement

This standard aims to avoid or minimize displacement and to avoid forced eviction. According to the president of the Suape harbor authority, all 6,800 households – at least 25,000 people – living in the harbor territory will be resettled in the coming years. Their existence supposedly is a threat to areas designated as ecological preservation areas²⁰. Both ENDS took note of the detrimental social and

¹⁹ See for example: <http://jornalsportnews.blogspot.nl/2012/08/a-guerra-em-suape.html>, and <http://www.youtube.com/watch?v=glkoiM5apjw>

²⁰ Interview in Folha de Sao Paulo, 30 September 2012, p. B-14

environmental impacts of the harbor developments on the livelihoods of local people. Usually people refuse to leave as no sufficient compensation is offered to allow affected people to start a new sustainable living somewhere else. Ultimately people are confronted with forced evictions taking place under the supervision of security forces.



*Luis Abilio da Silva (82) and his wife, Maria Luiza, on the land in Suape from where they were forcefully evicted.
(Picture: Folha de Sao Paulo)*

While forced evictions should be avoided under the IFC performance standard 5, the land title of Suape harbor authority also is legally contested. It is questionable whether the Suape harbor authority legally owns the land that it has claimed for decades. Some 40 years ago the land in the Suape region was under the management of the predecessor of INCRA (Instituto de Colonização e Reforma Agrária), the national agency responsible for spatial planning and agricultural reform. The task of INCRA was to deliver land titles for the people that settled in the region. Until 1979 INCRA facilitated the establishment of the Cooperative Tiriri that was supposed to hand over the land in plots of 10 ha to the local people. If the cooperative would fail in this task it would have to return the land to INCRA. Instead of providing the land to the local people, it sold the land to the Suape harbor authority. As the Cooperative Tiriri did not have the right to sell the land to the Suape harbor authority, the legality of its ownership of the region is still challenged²¹. In that case the Suape harbor authority does not have any legal grounds to claim the land and to evict its inhabitants.

6. Preservation of biodiversity and sustainable management of living natural resources

Both ENDS has collected testimonies about mangrove forests being destroyed, about the hazardous deposit of dredged materials, about the destruction of coral reefs and the depletion of fish stocks.

²¹ Both ENDS had access to a legal review and assessment documenting irregularities around the acquisition of land in the Suape region. Also an interview with Prof. Heitor Scalabrini Costa of the UFPE in Recife explains the backgrounds to these concerns: <http://www.abong.org.br/noticias.php?id=5551>

These testimonies indicate that this standard is not being followed, that biodiversity is not being preserved and that living natural resources are not managed in a sustainable manner. It is relevant to point out that the coral reefs that are being affected by the dredging belong to the second largest reef barrier in the world, just after the Great Barrier Reef of Australia. On October 23, 1997 a federal decree was issued to declare a large part of this reef system a protected area under Brazilian law²².

7. Indigenous peoples

This standard requires respect and preservation of the culture, knowledge and practices of indigenous peoples in the area. While the affected people in Suape may not strictly qualify as indigenous peoples, nevertheless the current practice of taking away the main traditional sources of livelihood of the people in the region indicates little respect for the local communities.

8. Cultural heritage

The Suape area has some cultural heritage elements that require preservation and protection from adverse impacts of project activities. Both ENDS has not been able to establish to what extent this standard is complied with.

In the context of the assessment framework of its CSR policy, Atradius DSB should have reviewed the management practices and technologies used by Van Oord. Given the many complaints on the dredging impacts, as well as the lack of local awareness about Van Oord's role one may very much question whether the company meets the accepted standards of the dredging sector, or the OECD Guidelines for Multinational Enterprises²³. Similarly one may question the adverse impacts of the project following a comparison with the requirements of the IFC Performance Standards. The conditions on the ground and the visible evidence of the impacts of this project appear to be quite unacceptable under the CSR policies of the Dutch ECA. In this situation therefore proper due diligence should not have resulted in a straightforward approval of the application of Van Oord.

3.5. Monitoring

The CSR policy of Atradius DSB indicates that an application for export credit support will only be approved in case of **sufficient guarantees that the project does not have prohibitive detrimental environmental and social impacts**. As Atradius DSB approved the application of Van Oord for the dredging project for the Promar shipyard, we assume it collected and received inadequate information which led to such a positive decision.

Based on the information collected and shared in this report, we have serious doubts about the grounds for this decision. We would call on Atradius DSB to verify how the information in this report compares with the information used for its decision making process. If there is evidence that the information provided was not correct or not complete, Atradius DSB might – in line with procedures indicated in its own CSR policy document – want to reconsider its approval of this dredging project²⁴.

²² See: http://www.planalto.gov.br/ccivil_03/DNN/Anterior%20a%202000/1997/Dnn5976.htm

²³ For example Article A14 of the OECD Guidelines recommends enterprises to: “Engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact local communities”.

²⁴ In a letter to Both ENDS Atradius DSB nevertheless claims not to have any obligation to monitor transactions like those approved for Van Oord.

4. Conclusion & Recommendations

Atradius DSB judged that the dredging project of Van Oord for the Promar shipyard in Suape has acceptable environmental and social impacts. The only publicly available information on which Atradius DSB bases its judgment is contained in the environmental impact study that has been commissioned by Estaleiro Promar S.A., the beneficiary of the project. Our report makes clear that there are several social and environmental concerns that apparently have not been well considered in the decision making process of Atradius DSB.

There is much evidence – locally visible, and to be heard in many testimonies of local people – of various detrimental environmental and social impacts of dredging activities in and around the Suape harbor. These dredging activities contributed to substantial destruction and pollution of sea life, the loss of livelihoods of people and the disruption of the social fabric in the project area. Additional problems associated with land acquisition and forced evictions of local people call for a full review of the approval of the export credit insurance policy issued for this project. Contrary to what is required in the CSR policy of Atradius DSB, the project seems to fail in meeting most of the performance standards developed by the IFC. Van Oord also may be in non-compliance with various aspects of the OECD Guidelines for multinational enterprises.

A clear and overarching problem that emerges is the lack of transparency regarding the true nature of the project and the due diligence that has been applied. Much more transparency would be required to clarify the grounds that led Atradius DSB to the approval of the export credit insurance policy for this project. Much more transparency would also be required of Van Oord and Atradius DSB to allow for well-informed and constructive multi-stakeholder dialogues that may help to solve many of the pressing social and environmental problems emerging in the Suape region.

A full review of the project should be conducted in a public and participatory manner, allowing all (local) stakeholders to take part in the process. Currently some efforts are underway to establish round-table platforms for multi-stakeholder dialogues, involving such groups as local researchers and academics, community leaders, relevant state government departments, the Suape harbor authority and local NGOs. It needs to be explored how such platforms in Suape can play a role in reviewing the dredging project for the Promar shipyard. It is high time for the Netherlands actors working in the region to become more responsive to community concerns and demands. To show their goodwill in this regard, Atradius DSB and Van Oord should consider establishing a specific facility where people affected by dredging activities may file their concerns and complaints.

Together with Dutch NGOs the different actors from the Netherlands that play a role in Suape – possibly also the Port of Rotterdam Authority – should explore options to engage in international cooperation efforts that support and strengthen the sustainable development agenda in Suape harbor. Activities such as capacity building workshops, skill-share meetings, and exchange visits seem to be missing in the Netherlands-Brazil cooperation activities so far taking place in and around the Suape harbor. There is a clear interest in the Suape harbor region to learn from sustainability experiences abroad, especially from the Netherlands. A first step that Dutch stakeholders might consider to promote would be the setting up of an independent and permanent social and environmental monitor in the Suape region.

ANNEX: Overview of people interviewed and institutions visited.

1. CPRH, Agência Estadual de Meio Ambiente, State Government of Pernambuco, Recife
date: 15 August 2012

2. Secretariat of Agriculture and Agrarian Reform, State Government of Pernambuco, Recife
date: 15 August 2012

3. - Mr. Hélio Polito Lopes Filho, Executive Secretary
- Mr. Walter Blossey, Chief of Cabinet
- Mr. Carlos Cavalcanti, Technical Manager
SEMAS, Secretaria de Meio Ambiente e Sustentabilidade do Estado, State Government of Pernambuco, Recife
date: 16 August 2012

4. - Mr. Tullio Ponzi Netto, Strategic Management Coordinator
- Mr. Sérgio Loyo, Executive coordinator of the Suape Global Project
Complexo Industrial Portuário Governador Eraldo Gueiros, Suape
date: 17 August 2012

5. - Prof. Clóvis Cavalcanti,
Fundação Joaquim Nabuco, Recife
date: 14 August 2012

6. - Prof. Heitor Scalabrini Costa,
Universidade Federal de Pernambuco, Recife
date: 14 August 2012

7. - Ms. Denise Castro & Ms. Maíra Batista Braga,
Fundação Mamíferos Aquáticos, Recife
date: 16 August 2012

8. - Mr. André Paulo de Barros
- Ms. Tatiana Santana de Souza
- Ms. Maria Jose Pereira
- Ms. Carla Silveira
Rede de Defesa Ambiental / Souza Barros, Consultoria em Sustentabilidade, Cabo de Santo Agostinho
date : 18 August 2012

9. - Mr. Jaime Amori, regional coordinator
Movimento dos Trabalhadores Rurais Sem Terra (MST)
date: 15 August 2012

10. - Ms. Conceição Lacerda,
Centro de Mulheres do Cabo, Cabo de Santo Agostinho
date: 15 August 2012

11. Various community leaders living inside the Suape harbor complex
date: 13 August 2012, 17 August 2012