

Paracel pulp mill in Paraguay: A risky project

This briefing was prepared by Environmental Paper Network, Instituto Maira, Bank Information Center (BIC), AXIAL Naturaleza y Cultura, International Accountability Project (IAP), and Grupo SUNU de Acción Intercultural

Please note: This is a living document, we are currently doing field work and more research to understand the (lack of) stakeholder engagement and information disclosure, and the environmental and social risks and impacts of the project. The information about FPIC should be complemented with the findings provided in the document “**Main Findings: FPIC consultation process, Paracel, Paraguay**”

Introduction

This In October 2020, Paracel SA announced its intention to build this new pulp mill and its Forestry Component. The mill is expected to be operational in 2023.¹

Total project costs (including mill capex, forestry, and financing costs) are estimated to be US\$ 3.6 billion² and are expected to be financed with a combination of equity and long-term debt. In order to complete the project, Paracel SA requested funding for a [US\\$ 200 million loan from IDB Invest](#), the private sector lending arm of the Inter-American Development Bank Group (IDB Group) with an additional US\$ 200 million in co-financing expected from the [US Development Finance Corporation \(DFC\)](#).³ The IDB Invest’s expected Board date is September 30, 2022. [Goldman Sachs](#) and the [Japanese Development Bank](#) may be involved in financing the remaining US\$ 3 billion project cost, but as nothing has been publicly

disclosed, we can not verify this information at this time.

Paracel SA is a joint venture company composed of Girindus Investments (a group of companies based in Sweden) and the Zapag Group (a Paraguayan local corporation), as well as other Paraguayan companies and family investors. Paracel intends to develop and operate a project with both an Industrial Component and a Forestry Component.

According to the [Environmental and Social Review Summary \(ESRS\)](#), the Industrial Component involves the construction and operation of an elementary chlorine free Bleached Eucalyptus Kraft Pulp mill with a capacity of 1,500,000 metric tons per annum. In the future, this mill will be capable of producing up to 1,800,000 t/year of pulp. The mill will be built on the Zapatero Cue property, in the department of Concepción, Paraguay, approximately 20 kilometers north of the city of Concepción. The site is part of a 1,200-hectare former cattle ranch that extends from the left bank of the Paraguay River, 3 km inland. The mill will occupy approximately 300 ha of the site. This component also includes:

1 RISI, Paracel moves on with preparation steps for new BEK mill in Paraguay, October 2020, <https://www.risiinfo.com/industry-news/paracel-moves-on-with-preparation-steps-for-new-bek-mill-in-paraguay/>

2 Early Warning System, <https://ewsdata.rightsindevelopment.org/projects/13258-01-paracel/>

3 See DFC’s [Initial Project Summary, Environmental and Social Impact Assessment Executive Summary](#) (Poyry Tecnologia Ltda., 30 May 2021), and [links to additional project documents](#).



Paracel eucalyptus plantation. In the background, is the remaining natural forest. Source: Paracel Celulosa

1. Pulp production (wood preparation, fiber processing, drying, and baling);
2. Chemical recovery (evaporation, recovery boiler, causticizing, and lime kiln);
3. Utilities (biomass boiler, water treatment plant, boiler feed water treatment plant, and effluent treatment plant);
4. Cogeneration unit with a nominal capacity of 260 megawatts;
5. Area for unloading, handling, and storage of sodium hydroxide, hydrogen peroxide, sulfuric acid, sodium bisulfite, sodium chlorate, magnesium sulfate, aluminum sulfate, and methanol;
6. Dedicated plants for the production of oxygen and chlorine dioxide;
7. Fuel oil storage tanks for boilers startup;
8. Diesel storage tanks for fire pumps and chip loaders; and
9. Area for industrial solid waste treatment and disposal systems.

The Forestry Component involves the planting and harvesting of eucalyptus trees on 19 former agricultural and cattle ranching properties (or “estancias”) acquired by Paracel for the Project. The estancias total approximately 188,000 ha and are

distributed across the departments of Concepción and Amambay, ranging between 40 and 130 km from the mill site.

The project has been classified as a Category A project because it may cause significant adverse environmental and social risks and impacts.

Environmental Concerns

- **The Long-term environmental costs associated with the efficiency of the mill:** The company already controls about 190,000 ha of pulpwood plantations⁴ in the districts of Concepción and Amambay, but if the new mill is completed, these plantations may not be enough to supply the planned pulping capacity of 1,500,000 t/year: at least an additional 22,000 ha of plantations would be necessary in case of high efficiency, or 35,000 in case of low efficiency. This means that in order to operate the mill, Paracel may require even more eucalyptus plantations, whether or not under its direct control. The IDB Invest’s ESRS and the ESAP are not considering these issues as key problems to be addressed. Paracel claims that the plantations they have are enough to guarantee the efficiency of the mill, once the trees reach maturity. Additionally, if the mill production capacity will be expanded to 1,800,000 t/year of pulp, as mentioned in the

4 Pöry, Environmental and Social Impact Assessment (ESIA), Paracel, Volume III Impact Identification and analysis, Paraguay, July 2020, https://www3.dfc.gov/environment/eia/parcel/Plantation/Volume_III_Impact_Identification.pdf

ESIA⁵, even much more land will be required to feed the mill.

- **Deforestation risks:** The mill is planned in Paraguay, in the department of Concepción, at the border of the “deforestation front”, an area mapped by WWF as at risk of deforestation⁶, and possibly impacting Intact Forest Landscapes.⁷ According to the data reported by Global Forest Watch, based on satellite image analysis by the University of Maryland, between 2002 and 2020, Paraguay lost 6.2 million ha of forest cover, including 1.06 million ha of humid primary forest. The total area of humid primary forest in Paraguay decreased by 31% in the same period. Deforestation caused 1.51Gt of CO₂⁸ emissions. In the area of the project, from 2002 to 2020, Concepción⁹ and Amambay¹⁰ lost respectively 84,000 and 86,900 ha of humid primary forest. The total area of humid primary forest in Concepción decreased by 21% and in Amambay decreased by 37% in this time period. Meanwhile, Parcel’s Plantation Development Plan (ESRS 4.6.d) will rely on “unassisted natural regeneration” to “restore areas of forest habitats...on its acquired properties, and, if needed, will launch a reforestation program with native species,” yet it is hard to see how this will succeed when it is planting an “aggressive invader” elsewhere (see below).

- **Eucalyptus, Biodiversity, and Ecosystem Risk:** This project poses a risk not only for climate change, but also for biodiversity, since the plantations will be adjacent to two Important Bird Areas (IBAs), internationally recognized as Key Biodiversity Areas (KBAs) for avian conservation, and overlap with the buffer zone for the Cerrado del Rio Apa Biosphere Reserve and the Paso Bravo National Park. The ESRS admits (4.6.b.iii) that a full Critical Habitat Assessment (CHA) has yet to be done on the species flagged (fn. 67) as potential CH triggers (three endangered bird species, an endangered

snake species, and an endemic toad). The CHA is needed for a Biodiversity Action Plan. The ESRS further states (4.6.b.iv) that “50% of the areas that overlap with the biosphere’s boundaries will be left in a natural condition” but this implies that 50% will be planted with eucalyptus, an aggressive invader. The ESRS acknowledges (fn. 71) that the “Lead Tree is a fast-growing, nitrogen-fixing tree shrub weed [that] has become an aggressive invader in many tropical and sub-tropical locations, and is listed as one of the ‘100 of the World’s Worst Invasive Alien Species’.” Accordingly, there is a strong risk that the eucalyptus could spread into, and come to dominate, existing natural forests and thereby harm both biodiversity and ecosystem function. The ESRS states (4.6.b.v) “The Company will therefore develop a comprehensive Invasive



In green, are the Intact Forest Landscapes, and in yellow are the Deforestation Fronts. EPN

Alien Species Management Plan to cover all Project components,” but offers no further details.

- **Carbon storage and emissions:** Forests store carbon, but when they are cut and processed for pulp, much of this carbon is released into the atmosphere because paper is mostly a short-lived product that in many cases ends up in landfills or incinerators a few hours after its first use. Planting eucalyptus will not replace the original forests and their carbon storage. During the last 20 years in Paraguay, deforestation alone caused 1.51 Gigatonnes of CO₂¹¹ emissions, of which, 63.6 million tonnes of CO₂e in Concepción

5 Pöry, Environmental and Social Impact Assessment (ESIA), Parcel, Pulp Mill, River Port, Transmission Line and Electrical Substation in Concepción – Volume 1 - Project Characterization, Paraguay, July 2020, page 7 https://www3.dfc.gov/environment/eia/parcel/Mill/Volume_1_Project%20Characterization.pdf

6 WWF, Saving Forests at Risk, 2015, https://files.worldwildlife.org/wwfmsprod/files/Publication/file/5k667rhjnw_Report.pdf/

7 Intact Forest Landscapes, <https://intactforests.org>

8 Global Forest Watch, Paraguay, <https://www.globalforestwatch.org/dashboards/country/PRY/>

9 Global Forest Watch, Paraguay, <https://www.globalforestwatch.org/dashboards/country/PRY/>

10 Global Forest Watch, Paraguay, <https://www.globalforestwatch.org/dashboards/country/PRY/>

11 Global Forest Watch, Paraguay, see note 5

and 64.7 in Amambay. This is an issue that would be better addressed in the ESIA and in the ESAP.

- **Eucalyptus plantations and impacts on water sources:** Eucalyptus plantations have a severe impact on water resources. In order to grow rapidly and feed the paper industry's needs, every single tree of eucalyptus needs up to 30 litres of water a day¹² and as a result, areas intensively planted with eucalyptus become dry and fire-prone. Several scientific studies around the world (from Brazil¹³ to Chile^{14,15}, Uruguay¹⁶, Argentina¹⁷, India¹⁸, and South Africa^{19,20,21}), point to the impacts eucalyptus plantations have on the water table and on the water cycle in general. The region is already suffering hydric stress: precipitation has become scarcer in the last decade, and temperatures higher,

12 Janine M. Albaugh, Peter J. Dye, 2 and John S. King, Eucalyptus and Water Use in South Africa, February 2013, <http://www.hindawi.com/journals/ijfr/2013/852540/>

13 Brito, Isabel Cristina Barbosa. Comunidade, território e complexo florestal industrial: o caso de Vereda Funda, norte de Minas Gerais. Dissertação de Mestrado, UNIMONTES, 2006.

14 "We estimate a decrease in runoff from 13.1 to 7.5 mm/summer for PPN and from 7.3 to 5 mm/summer for CQA, referring to the period 1991–2000 compared to 1981–1990. (...) This study clearly shows the important effect that land-use change can have on water yield and to our knowledge this is the first study documenting the decrease in summer runoff in a landscape where native forest cover has dramatically declined and forest exotic plantations have expanded." Christian Little, Revealing the impact of forest exotic plantations on water yield in large scale watershed in South-Central Chile, June 2009, <http://citeserx.ist.psu.edu/viewdoc/download?doi=10.1.1.619.648&rep=rep1&type=pdf>

15 Antonio Huber et Al., Eucalyptus globulus sobre el recurso agua en la Cordillera de la Costa de la región del Biobío, Chile, 2010, https://scielo.conicyt.cl/scielo.php?pid=S0717-92002010000300006&script=sci_arttext

16 Céspedes-Payret, C., Piñeiro, G., Achkar, M., Gutiérrez, O., & Panario, D. The irruption of new agro-industrial technologies in Uruguay and their environmental impacts on soil, water supply and biodiversity: a review. 2009, International Journal of Environment and Health, 3(2), 175-197. <https://doi.org/10.1504/IJENVH.2009.024877>

17 Engel, V., Jobbágy, E. G., Stieglitz, M., Williams, M., & Jackson, R. B. Hydrological consequences of Eucalyptus afforestation in the Argentine Pampas, Water Resources Research, 41(10) 2005, W10409. <https://doi.org/10.1029/2004WR003761>

18 JOSHI, Mukund; Palanisami, K. Impact of eucalyptus plantations on ground water availability in south Karnataka. ICID 21st International Congress on Irrigation and Drainage, 15-23 October 2011, Tehran, Iran. P. 255-262. Available at: https://www.researchgate.net/profile/Arvind_Singh56/post/Eucalyptus_plantations-how_good_or_bad/attachment/5b0ceb42b53d2f63c3ceb5a/AS%3A392086940602380%401470492219932/download/1.pdf

19 Karumbidza, John Blessing. A Study of the Social and Economic Impacts of Industrial Tree Plantations in the KwaZulu-Natal Province of South Africa. 2005. Available at: <https://wrm.org.uy/wp-content/uploads/2013/02/book.pdf>

20 Chapman, R.A. 2008. Long-term hydrological monitoring at Jonkershoek aids climate change studies. CSIR <http://www.saeon.ac.za/enews-letter/archives/2008/september-2008/long-term-hydrological-monitoring-at-jonkershoek-aids-climate-change-studies/>

21 Janine M. Albaugh, Peter J. Dye, 2 and John S. King, Eucalyptus and Water Use in South Africa, February 2013, <http://www.hindawi.com/journals/ijfr/2013/852540/>

due to climate change.²² Concepción is one of the five departments most affected and has been identified as highly vulnerable to climate disasters.²³ This is an area where the entire rural population receives water for both drinking and irrigation from local wells that are either self-owned or community-managed. Local communities are deeply concerned by the risk of the water table further deteriorating²⁴, with many already reporting severe hydric stress or having completely lost all access to safe water sources.

- **Eucalyptus plantations and impacts on wildfires:** Eucalyptus plantations not only increase fire occurrence by draining the soil, but the manner in which they are planted also fuels forest fires because these large homogenous blocks are densely planted with young trees and have dry undergrowth. On top of that, the bark of the eucalyptus has particular morphological characteristics (very flammable and aerodynamic) which allow, in the presence of strong wind, to send burning embers over great distances, up to three kilometres, well beyond any fire-break trench.²⁵
- **Climate change and biomass:** A further climate concern arises from the use of biomass to fuel the power plant. The ESRS acknowledges that the plant will produce 214,286 tCO₂eq/yr., equivalent to 237 million pounds of coal burned/yr.²⁶, but defends this by saying it would represent 36,640 tons of CO₂ avoided emissions per annum compared to the average Paraguayan grid emissions (0.043 kg CO₂/kWh). Otherwise stated, this offers an efficiency gain of 17% compared to Paraguay's current business as usual electricity generation emissions, but it does not solve the emissions themselves. While this is "renewable" in the sense that trees can be re-grown, it is not green in terms of carbon emissions and impacts

22 The World Bank, Climate Risk Country Profile - Paraguay. 2021, https://climateknowledgeportal.worldbank.org/sites/default/files/2021-04/15726-WB_Paraguay%20Country%20Profile-WEB-2.pdf

23 SEN-PY. Política Nacional de Gestión y Reducción de Riesgos de Desastres, 2018. https://www.sen.gov.py/application/files/8015/9188/4586/Politica_Nacional_de_Gestion_y_Reducion_de_Riesgos_2018.pdf

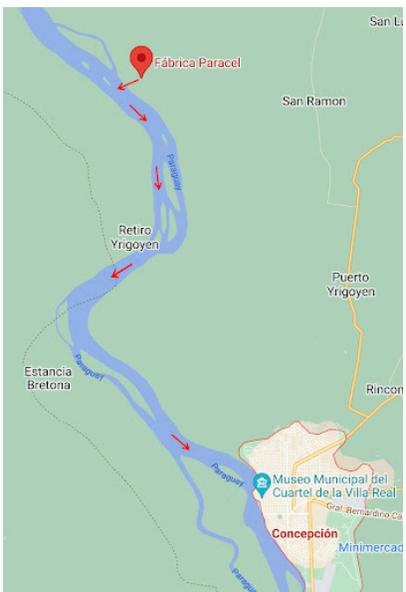
24 Farmers in Concepción are severely affected by drought, September 2021, <https://www.lanacion.com.py/negocios/2021/09/30/agricultores-de-concepcion-se-ven-seriamente-afectados-por-la-sequia/>

25 Paulo M. Fernandes et Al, Fuels and fire hazard in blue gum (Eucalyptus globulus) stands in Portugal, January 2011, https://www.researchgate.net/publication/235876682_Fuels_and_fire_hazard_in_blue_gum_Eucalyptus_globulus_stands_in_Portugal

26 Or 118,000 tons. US EPA Greenhouse Gas Equivalencies Calculator, updated March 2022: <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator#results>.

on land and forests. Energy from woody biomass is increasingly recognized as a high-carbon source of energy, linked to forest and biodiversity destruction and threats to public health. In February 2021, [an open letter by 500+ scientists](#) was sent to world leaders urging them to stop presenting the burning of biomass as carbon neutral. This so-called carbon neutrality depends on planting trees that will add to future long-term carbon storage, which cannot be claimed for trees that are planted only to be processed for pulp.²⁷ In the middle of a global climate crisis, it would be counterintuitive to support a project that, among other impacts, will reduce climate change resilience and is likely to exacerbate the problem.

- **Drinking water:** The mill will be based on Elemental Chlorine Free bleaching (ECF), a bleaching system very common in papermaking. Despite not discharging elementary chlorine,



ECF still discharges chlorine dioxide with a 2 - 25 % chlorine gas content, and produces a rest solution containing sulphuric acid contaminated with chlorine and sometimes chlorinated organic compounds. Chlorinated compounds, organochlorine discharges (such as dioxins and furans, which are persistent organic pollutants, or POPs) and chlorine dioxide pose a great hazard to the environment and human health. What is worrying is that the Paracel mill will discharge its effluents via pipeline into the Paraguay river around 20 kilometres upstream from the city of Concepción and from the drinking water

catchment location. The effluents will undergo a biological treatment system and a further treatment aimed to minimise phosphorus and colour. The ESIA claims a mathematical modelling for a self-depuration process along the Paraguay River between Concepción and Assunción - but not between the mill and Concepción. There is also a significant risk posed by accidents, like when untreated effluents may be released into the river that provides drinking water to the population of Concepción.

Social Concerns

- **Access to project benefits, jobs in the paper industry vs promotion of smallholder subsistence agriculture:** Paracel claims that it will create 4,000 new direct jobs (and 40,000 indirect jobs) in the region²⁸, between the pulp mill, forestry, and logistics. In 4.2.a.iii on Workers' Organizations, the ESRS states that "Paracel has not yet established collective bargaining agreements with the local labor unions for construction or operations," nor is any deadline indicated for this to be done. Meanwhile, no more than 50 people have been involved in the land clearing works so far.²⁹ More importantly, the numbers provided by the company are not realistic, as eucalyptus plantations have very low labor-intensity. The harvest requires a low number of workers equipped with heavy machinery, while for the rest of the time the major activity is the aerial application of pesticides, which is harmful to the environment and the surrounding communities, but doesn't involve much labor. In comparison with the jobs of subsistence agriculture that may have been lost with the conversion, the balance is negative: While eucalyptus plantation work generates 1 to 2.7 jobs per 100 ha³⁰, the same surface in Paraguay feeds 20 families living on subsistence agriculture (more than 40% of the parcels in the country are smaller than 5 ha).³¹

28 Región Norte Grande, NEA: Futura fábrica de celulosa paraguaya compraría todo el raleo de bosques de Misiones y Corrientes, November 2021, <https://regionnortegrande.com.ar/?noticia=45289>

29 MarketData, Paracel: Avanza construcción de planta de celulosa en Concepción y convocan a formación de operarios, <https://marketdata.com.py/noticias/nacionales/paracel-avanza-construccion-de-planta-de-celulosa-en-concepcion-y-convocan-a-formacion-de-operarios-54929/>

30 Christian Cossalter and Charlie Pye-Smith, Fast-Wood Forestry, CIFOR 2003, <https://pdfs.semanticscholar.org/5bbf/8224126985ba5a9a977750d1ca5f3ee7677.pdf?ga=2.51199593.1710506926.1642588782-541200515.1642588782>

31 Republica del Paraguay, Censo Agropecuario Nacional 2008, <http://www.arp.org.py/images/files/CENSO%20AGROPECUARIO%202008.pdf>

27 For more on issues with biomass, see Biomass Power: Environmental Benefit or Numbers Game? (Power magazine, 1 Feb. 2022).

- **The eucalyptus plantation may put at risk the livelihoods of smallholder subsistence agriculture in the area:** It is important to mention that Concepción is one of the departments in Paraguay where the smallholder subsistence agriculture is most developed. When talking with peasants organizations and Guaraní Indigenous Groups in Concepción, they underscored the importance of the role that peasants and Indigenous Peoples organizations play in preventing the further advance of monoculture cropping. They also mentioned that any big business and project in Concepción should protect, respect, and promote a development model that benefits and does not undermine the smallholder subsistence agriculture that they have been developing for centuries in the region. Local communities and peasants organisations in Concepción stressed they don't want to see expansion of industrial eucalyptus plantations in their areas because there is no direct benefit for them. They would rather use the land and the subsidies in a project aimed to promote reforestation (natural forest based on local species) managed as an agroforestry project based on traditional knowledge, in conjunction with agroecology methodologies aimed to recover ancestral plants and techniques aimed to assure local food autonomy. Also, there is information that the Paracel project shares borders with "estancias" or ranches that will be either bought by the company or that the owners will plan eucalyptus to supply the demand of the pulp mill. These "estancias" are very close to the indigenous territories. The social and environmental impact assessments of these "third party plantations" are not being properly assessed in the documents produced by Paracel.
- **Local communities lack information about project benefits:** The IDB's Invest Environmental and Social Review Summary (ESRS) mentions that local communities have a good relationship and communication with the company, and that they have positive expectations about the project (especially related to employment generation and potential Paracel investments in social projects).³² There is no evidence and clarity of how they reach such conclusions because considering the interviews we have conducted in

the field, peasants organisations from La Orqueta and Guaraní Indigenous representatives have made clear they have not been fully informed about the project and its potential benefits. Besides, the ESRS does not mention how and/or when the communities were contacted and when these consultation meetings took place. To support these findings, Grupo SUNU de Acción Intercultural, interviewed communities consulted by Fundación Natan (see attached report of main findings FPIC process) to corroborate their perspective regarding the consultation processes to obtain FPIC. In relation to project benefits, the communities that accepted to be part of the consultations with Paracel informed SUNU that the meetings were very imprecise and that they don't have sufficient information about the project, or the benefits that they will have access to. Additionally, they have informed that while at first, the project seemed very interesting to them -particularly due to the promises of jobs and social projects for their communities- they state that they haven't given their consent for the construction of the plant (see more information about this last issue below).

- **Impacts on Indigenous Peoples:** It is particularly concerning that the impact of the timber plantations on local communities and Indigenous Peoples has not yet been accurately assessed in the Environmental and Social Impact Assessment (ESIA) study of the project.³³ In a country such as Paraguay, marked by long-standing conflicts over Indigenous traditional lands³⁴, this is extremely problematic and ignores local contextual risks that are highly relevant to factor into the environmental and social assessment. In recent years, especially during the COVID-19 pandemic, the lack of access to basic rights in Indigenous communities has been exacerbated³⁵, as well as evictions from traditional lands³⁶, despite the constitutional mandate to respect their rights.³⁷ In the region

33 Pöry, Environmental and Social Impact Assessment (ESIA), Paracel, Pulp Mill, River Port, Transmission Line and Electrical Substation in Concepción – Paraguay, July 2020, https://www3.dfc.gov/environment/eia/parcel/Mill/Volume_I_Project%20Characterization.pdf

34 Amnesty International, Paraguay, <https://www.amnesty.org/en/search/paraguay%20indigenos/>

35 Alicia Amarilla, in Civicus, January 2022, <https://www.civicus.org/index.php/media-resources/news/interviews/5537-paraguay-as-long-as-land-remains-in-private-hands-conflict-will-continue-at-the-local-level>

36 Presentes, December 2021, En 2021 se aceleró el despojo de tierras a comunidades indígenas y campesinas de Paraguay, <https://agenciapre-sentes.org/2021/12/11/en-2021-se-acelero-el-despojo-de-tierras-a-comunidades-indigenas-y-campesinas-de-paraguay/>

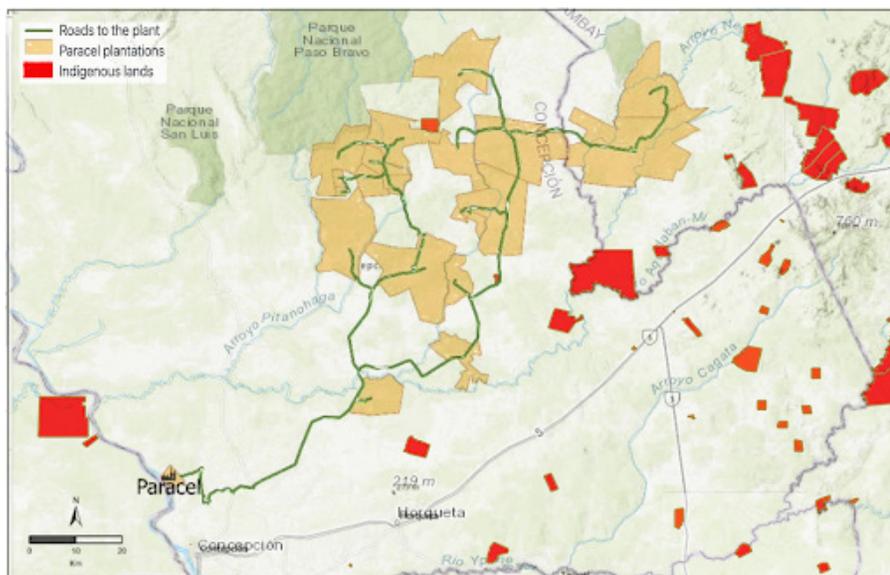
37 Republica del Paraguay, Constitución Nacional, Art. 62-67, <http://digesto.senado.gov.py/archivos/file/Constituci>

32 IDB Invest, Environmental and Social Review Summary (ESRS) Paracel Cellulose Project – Paraguay, January 2022, 4.1.h [https://sapfnidbinvestrm.blob.core.windows.net/atidocs/English/EZSHARE-285029639-61/Paracel%20-%20Environmental%20and%20Social%20Review%20Summary%20\(ESRS\).pdf](https://sapfnidbinvestrm.blob.core.windows.net/atidocs/English/EZSHARE-285029639-61/Paracel%20-%20Environmental%20and%20Social%20Review%20Summary%20(ESRS).pdf)

of Parcel's operation, there are at least nine Indigenous communities of the Pai Tavytera and Mbya guarani ethnic groups. Communities interviewed by Grupo SUNU (particularly those that rejected participating in the consultation process, Cerro Akangue and Ita Jeguaka) have also expressed their concerns regarding potential negative environmental and social impacts on their communities and territories (see the attached report "Main Findings: FPIC consultation process, Parcel, Paraguay."). During the consultations, communities did not remember getting an explanation or information about potential negative impacts. Communities' concerns have their foundations in the poor consultation processes carried out by the company and the lack of information these communities have about the project components. Based on their experiences with previous projects and current socio-environmental conflicts, these communities need more information about Parcel's investment (see the attached report "Main Findings: FPIC consultation process, Parcel, Paraguay"). Furthermore, the existing eucalyptus plantations have been developed on former cattle ranch properties previously established on indigenous land. According to the Accountability Framework Initiative, "companies purchasing or acquiring interests in commodity-producing properties assume responsibility to remediate past harms, unless this responsibility is explicitly and legally transferred to or retained by another party."³⁸

- Concerns around Free Prior and Informed Consent (FPIC):** The ESRS (4.7) states that FPIC has been obtained in writing from the 10 Indigenous communities in the project's area of direct impact (ADI) as of June 2021 but admits that impacts will be felt in particular among three IP communities that collect natural resources from the natural forests within Parcel's estancias, as the most significant potential impact is to ecosystem services. Also, there is a disconnect between the FPIC claim and the documents that demonstrate that FPIC occurred. There is no documentation supporting the claims of FPIC. The only documentation available is the Baseline document which mentions meetings with communities that happened during the pre-consultation process. There is no record of the proper FPIC, no indication about who consented (and who did not), nor information on the language in which these consultations were held. In addition, FPIC is a continuous process, and the project documents do not discuss how consent will be maintained. This concern has been confirmed by interviews with local communities done by Grupo SUNU de Acción Intercultural: the community members reported that they thought the meeting was to receive charitable support, but none realized that they had signed on to the Parcel project. The meetings were confusing, information scattered, no written documentation was handed to them, and many of them reported pressure to sign the document, especially by the INDI representative (Instituto Paraguayo del Indígena), described by different communities as 'arrogant' and 'aggressive' (as a result, a

38 Accountability Framework Initiative, 2019, point 9.4, <https://accountability-framework.org/wp-content/uploads/2019/06/Accountability-Framework-Core-Principles.pdf>



In yellow Parcel plantations according to the Parcel ESIA. In red are the Indigenous lands mapped by Tierras Indígenas. In green, the roads to the mill.

community that refused to sign the meeting papers now fears to lose government support.) In addition, the communities mentioned asking to review the content in the documents created after the consultations, but the visitors denied this petition alleging that sharing those documents with them was forbidden. SUNU also reported that communities perceived a clear intention to force agreements, in many cases restricting freedom of expression and constraining a space for deliberation free of manipulation. Special emphasis was made on INDI officials (Instituto Paraguayo del Indígena) who were present at the meetings, who, far from acting as protectors of the rights of indigenous peoples, used their influence to try to condition communities to accept the project (**see the attached report “Main Findings: FPIC consultation process, Paracel, Paraguay.”**)

- **Transparency and access to information:** We have noticed inconsistencies and challenges related to documentation disclosure and accessibility. It has been difficult to pinpoint all the available documents since they are dispersed between the IDB Invest and DFC websites. Additionally, it is not clear which of the ESIA's correspond to which project component. Beyond that, the most worrying issue we identified is that not all documents are translated into Spanish, nor to Guaraní, which is an official language for at least 80% of the Paraguayan population. From the total 25 documents available on the IDB Invest website, only 10 are in Spanish, and the remaining 15 are in English. However, after trying to identify each document, it seems that 5 documents in Spanish haven't been translated into English and 10 documents in English that are not available in Spanish. Moreover, the DFC website has a list of 16 documents available; none are available in Spanish or Guaraní. Also, there is a need for DFC and IDB Invest to disclose co-financing information because that seems to be missing in the project documents. In addition, communities on the ground have not received enough information, and an overall lack of transparency has tarnished their ability to understand this project's complexity and its components fully. Moreover, local communities reported that there is very little or no information about the project's risks, impacts, and benefits. Although the company claims to have held 52 meetings and 349 interviews with community members³⁹, most of the Guaraní Indigenous

representatives and representatives of peasants organizations with whom we talked do not have much information about the project. They reported that they have not been contacted or informed by Paracel, and if they had been contacted, they do not have clarity on the risks, impacts, and benefits of the project (**see the attached report “Main Findings: FPIC consultation process, Paracel, Paraguay.”**)

- **Relationship between the cattle and paper industry:** The existing eucalyptus plantations have been developed on former cattle ranch properties that may have been responsible for chasing off Indigenous communities and customary land owners in the past. The ESRS does not take into account this potential risk and how past harms will be potentially addressed or remediated. Further conversion to pulpwood plantations fuelled by the mill project can only worsen this already precarious situation. Unresolved social conflicts or legacy issues are a liability that risks becoming chronic, resulting in stranded assets for a value significantly higher than the involved investment. To put it in perspective, in a comparable sector like the palm oil industry in Indonesia, average tangible and intangible costs per hectare of social conflicts have been assessed between US\$ 3,530 and US\$ 28,941.⁴⁰ Applying these costs to the eucalyptus plantations needed to run the new planned mill in Concepcion, the risk assessed would be between US\$ 73 million and \$1 billion.
- **Operational and sector-specific risks:** The pulp and paper industry is an integrated and highly technological industry where know-how is critical. For this reason, very rarely do newcomers manage to be successful. In this sense, Paracel Celulosa is an unusual company. It is a joint venture between the oil and energy Paraguayan conglomerate Zapag Group, and Girindus Investments AB.⁴¹ Zapag has little or no experience in the pulp and paper sector. Girindus Investments AB is a company based in Stockholm, Sweden, with just one single employee. Its activity focuses on “securities and commodity contracts intermediation and brokerage.”⁴² Considering that the project is not about building a small-scale mill, but a fully

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40 Daemeter, The cost of conflict in oil palm in Indonesia, 2016, https://daemeter.org/new/uploads/20170121193336.The_Cost_of_Conflict_in_Oil_Palm_Indonesia_.pdf

41 Paracel, About, <https://paracel.com.py/en/aboutus/>

42 D&B Business Directory, https://www.dnb.com/business-directory/company-profiles.girindus_investments_ab.54469c4ff64dea98c6d5db-16dc9c4df.html

39 Paracel Plan for relation with the community and other social actors, August 2021, <https://www3.dfc.gov/environment/eia/parcel/Communi->

operational plant with a pulping capacity of 1,500,000 tonnes, concerns about the experience and competence of the companies involved are plausible and justified.



A virtual mill. Source: Paracel Celulosa

- 3. Undertake a comprehensive review of how the consultation process to obtain FPIC was conducted by Paracel and understand FPIC as a continuous process:** IDB Invest should effectively supervise that PS7 is fully applied and the rights of Indigenous groups are upheld. Specifically regarding FPIC, the IDB Invest should conduct an FPIC verification process as part of its own due diligence and oversight. The FPIC process needs to be well documented, and Paracel needs to provide well-documented evidence. Also, FPIC should be understood as a continuous process.
- 4. Develop a comprehensive analysis of the long-term plantation and mill effluent's impacts on the drinkable water table and the impacts of agrochemicals on the surrounding environment.**

Recommendations

IDB Invest, or any other financier, should postpone its decision about financing this project until the following actions are taken:

- 1. Strengthen the consultation process and stakeholder engagement:** Paracel should conduct effective stakeholder consultations and engagement beyond the boundaries of the actual project site and disclose all information regarding project risks and benefits to project-affected communities and stakeholders in a culturally appropriate and transparent manner. Stakeholders should be able to receive effective information about the impacts, risks, and benefits of the project and all of its components and be informed about the different ways in which they can engage and participate throughout the project cycle. Also, the stakeholder engagement process should address communities' concerns regarding potential negative impacts on their territories and livelihoods.
- 2. Strengthen environmental and social appraisal and supervision:** The IDB Invest should conduct a contextual risk assessment that evaluates external risks of the operating environment, such as legacy issues, unresolved land disputes, the role of intelligence forces, internal armed conflict, etc. All these risks need to be factored into decision-making and overall risk management, including potential unsolved land issues.