

 Early Warning System

IFC-37456

AES Panama LNG



## Quick Facts

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|---------------------------------|--|
| <b>Countries</b>                | Panama   |
| <b>Specific Location</b>        | Telfer Island, Colon   |
| <b>Financial Institutions</b>   | International Finance Corporation (IFC)                                      |
| <b>Status</b>                   | Active   |
| <b>Bank Risk Rating</b>         | A  |
| <b>Voting Date</b>              | 2016-07-20   |
| <b>Borrower</b>                 | GAS NATURAL ATLANTICO S. DE R.L.   |
| <b>Sectors</b>                  | Energy, Infrastructure   |
| <b>Potential Rights Impacts</b> | Healthy Environment, Housing & Property, Labor & Livelihood, Right to Health |
| <b>Investment Type(s)</b>       | Loan   |
| <b>Investment Amount (USD)</b>  | \$ 150.00 million  |
| <b>Project Cost (USD)</b>       | \$ 1,100.00 million  |



## Project Description

**Project Summary:** The AES Panama Liquefied Natural Gas Project

The Project aims to contribute in meeting the energy demands of the country through the development, construction, operation and maintenance of liquefied natural gas energy infrastructure. The Project components include:

- 1) 380 MW combined cycle gas turbine power plant;
- 2) an onshore liquefied natural gas terminal with a 180,000 m<sup>3</sup> storage tank (approximately 80 TBTUs); and
- 3) a transmission line and substation to be connected to the national grid.

Construction was expected to begin in April 2016. According to project documents, the proposed combined cycle technology would allow the terminal and the plant emissions to produce energy with cleaner fuels through natural gas technology. Despite the language used in project documents, it should be pointed out the natural gas is a fossil fuel and that this technology should not be classified as clean. There are approximately 60,000 people within the five - kilometer radius of the project site. However according to the Institute of the Americas, there is a growing concern on AES Corporation's dominant position in Panama's electricity market. Accordingly, the AES has made a total of investment of over US\$ 1.3 billion in Panama since 1999. The company owns about 777 MW of generation capacity, comprising mostly of hydroelectric generation. AES is also the financier of the US\$ 630 million 223 MW Changuinola I dam where there is still an ongoing petition by the Ngobe indigenous communities at the Inter-American Commission on Human Rights.

**Location:** The plant and terminal will be built on an approximately 24-hectare site located near the Atlantic entrance of the Panama Canal in Telfer Island, which is in the province of Colon. Furthermore, according to project documents, the Project will occupy an area of 154 hectares at sea for the purposes of dredging and dredged material disposal site. The project areas of direct and indirect influence include six communities namely Puerto Cristobal, Ciudad Arco Iris, Margarita, Barrio Norte, Barrio Sur and Puerto Escondido from the surrounding area in the in the District of Colón.

**Resources needed:** Infrastructure will require acquisition of sites on land and sea, including the use of seawater for regasification.

**Key Dates:** This project was approved on July 20, 2016. It is active.



## Early Warning System Project Analysis

Risk Assessment: Category A. As part of the review of environmental and social risks and impacts of a proposed investment, the International Finance Corporation (IFC) uses a process of environmental and social categorization to reflect the magnitude of risks and impacts. Category A is assigned to a project if there are business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.

### APPLICABLE SOCIAL & ENVIRONMENTAL STANDARDS

Based on IFC documents, the following Performance Standards (PS) are triggered:

PS 1: Assessment and Management of Environmental and Social Risks and Impacts – this safeguard is triggered due to the nature of the project and mitigating the adverse project impacts in the surrounding District of Colon. The ESIA covers potential impacts and risks for the entire project life – cycle, assessment of potential cumulative impacts and frameworks such as the Environmental and Social Management Plans.

PS 2: Labor and Working Conditions – this is triggered because “the company expects the peak workforce during construction to reach about 1,500 to 2,000 direct position and until 3,000 for indirect jobs for both the plant and terminal. Operations will require up to 60 direct workers and approximately 200 indirect workers.” According to the ESIA, project activities could potentially affect worker’s health and security. Risks include infection diseases, accidents and other factors that could affect the mental and physical health.

PS 3: Resource Efficiency and Pollution Prevention – this PS is triggered because of the impacts on water, air emissions, noise, soil and waste generated (solid waste, wastewater discharge and hazardous materials). “The LNG terminal and the generation block will be installed in the same site, allowing synergies particularly with regard to the exchange of heat/cold for cooling of ambient air and operating the regasification system” that will have an impact on these resources.

PS 4: Community Health, Safety and Security – this safeguard is triggered because, “components of the LNG and power plant facilities are approximately 1.25 km from the nearest residential (area) in the community of Arco Iris.” Furthermore the “mobilization of a large amount of workers during the construction phase may increase the risk of communicable diseases including sexually transmitted diseases.”

PS 5: Land Acquisition and Involuntary Resettlement – relative to the land acquisition, this PS is triggered due to the acquisition of the land. “AES signed a 25 year rental agreement with the Panama Ports Company to develop the project in the concession area.”

PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources – this safeguard is triggered because of its terrestrial and marine impacts. “A flora and fauna baseline was conducted as part of the ESIA, in the project area for the terrestrial and marine areas.”



## People Affected By This Project

### OUR RISK ASSESSMENT

#### Right to Property and Adequate Housing:

This right is identified based on the limited information about the project location and the proximity of five km radius of the six communities identified to the project area. However, there are no further project information particularly on resettlement, the socio - economic baseline data for the communities to be directly affected and the identification of the corresponding mitigation measures.

#### Right to Livelihood:

Impacts on the fauna and flora of the location may risk the food security of communities in the area, to the extent that they are source of sustenance for communities. As marine and terrestrial life are affected by, for instance, water disturbances, illegal hunting and accidents, communities would have a source of their sustenance threatened.

#### Right to Healthy Environment:

This right may be impacted resulting from potential environmental impacts to air, water and biodiversity inherent to the type of energy infrastructure, as recognized by project documents and according to the brief report on the project stakeholder engagement. Project documents state that the natural vegetation in the terrestrial zone “has being totally degraded due to the high degree of anthropogenic impacts (namely the canal and terminal activities).” To the northwest side of the project are also wetlands, where species of conservation concern live, including mangroves. Dredging activities may also have impacts on the marine environment. Additionally, dredging may present other impacts due to relative proximity to the Panama Canal. Project developer has already been required to present extensive data to supplement original studies resulting from these concerns by the IFC. The Institute of Americas had also raised the issue of open access to natural gas whether Panama has the adequate framework for employing natural gas, the necessary associated transport and infrastructure requirements. In addition to this, the appropriate mitigation measures to address the potential adverse impacts to the communities affected.

Some of the impacts to the coastal environment result from the operations of this type of onshore LNG plant which requires the intake of high volumes of sea water and water discharges to regasify the gas. Intake of water through underwater pipes at 25,073.48 cubic meters per hour put marine life at risk of being pulled in and destroyed. The water discharges (pipes measure 2 meters in diameter) at hot temperatures (38 degrees centigrade, ten degrees higher than normal) have a high risk of affecting the marine ecosystem and surrounding vegetation. Again, the developer has been asked to clarify compliance with water discharge parameters in national regulations, and the methods for avoiding intake of marine life through pipes.

#### Right to Health:

Risks to human life include the potential for explosion and fire due to the use of a highly flammable fuel used in this energy infrastructure project. This risk of explosion and fire result from potential leaks or ruptures at several stages of operations, mainly the LNG tankers, the gas pipelines, and onshore storage tank which may impact workers on site and in communities surrounding the project site. Project developer has also been required to supplement information regarding proper contingency plans in the event of LNG leaks on land and water due to changes in temperature and pressure.

#### Labor Rights:

There is no and/or limited information how will the Bank comply with its Performance Standards on Labor and Working Conditions given the volume of local work force projected particularly at the construction phase. An Environmental, Health and Safety (EHS) Management Plan should also be disclosed in order to reflect both the Bank’s and Borrower’s commitment on maintaining the standards on occupational health and safety, labor conditions and community engagement among others. It should also be noted that there was a case in the past involving labor issues of AES. In 2013 the Compliance Advisor Ombudsman (CAO) had received an individual complaint raising labor issues, specifically demotion during employment and



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## Investment Description

- International Finance Corporation (IFC)

Bank financing: IFC

Borrower: Gas Natural Atlantico S. De R.L. (GNA). AES Corporation through its indirect ownership interest in Gas Natural Atlántico (GNA) “the company” and Costa Norte LNG Terminal will develop the project.

Amount of bank loan or investment: US\$ 150 million

Total project cost: Estimated at US\$1.1 billion



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### Private Actors Description

Both Project vehicles are Panamanian entities indirectly owned by two leading investors in the country: AES Corporation for 50.1% and the Motta Group for 49.9% (together, “the Sponsors”). AES Corporation is a New York Stock Exchange listed power company with over 37 GW of installed generation capacity and distribution assets globally. The Motta Group is a leading Panamanian business conglomerate, with equity interests across the infrastructure, banking and real estate sectors.



| Private Actor 1 | Private Actor 1 Role | Private Actor 1 Sector | Relation | Private Actor 2                  | Private Actor 2 Role | Private Actor 2 Sector |
|-----------------|----------------------|------------------------|----------|----------------------------------|----------------------|------------------------|
| -               | -                    | -                      | -        | AES Corporation                  | Parent Company       | -                      |
| -               | -                    | -                      | -        | GAS NATURAL ATLANTICO S. DE R.L. | Client               | -                      |
| -               | -                    | -                      | -        | Motta Internacional, S.A.        | Parent Company       | -                      |





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## Contact Information

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## ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at [CAO@worldbankgroup.org](mailto:CAO@worldbankgroup.org). You can learn more about the CAO and how to file a complaint at <http://www.cao-ombudsman.org/>



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## Bank Documents

- 1. Executive Summary.pdf
- 10. Compatibility Assessment.pdf
- 11. Noise modeling.pdf
- 12. Evaluacion Actividad Pesquera.pdf
- 2. Project ESIA.pdf
- 3. Project ESIA - Annexes.pdf
- 4. ESIA Project Addendum I - Responses to Min Environment.pdf
- 5. ESIA Project Addendum 2 - Responses to IFC.pdf
- 6. QRA.pdf
- 7. Cumulative Risk Assessment.pdf
- 8. Sediments Plume Modeling.pdf
- 9. Flora and Fauna Rescue Plan.pdf

## Campaign Documents

- Brasil: Projeto de usina termoeletrica e gasoduto coloca em risco povos e terras indigenas & meio-am
- Include communities in the decisions affecting them!
- Shareholder resolutions increase pressure on companies to address climate change
- Will a natural gas project in Panama actually benefit local communities?