



Belo Horizonte, April 11th, 2003.

PCF PARTICIPANTS COMMITTEE
c/o PROTOTYPE CARBON FUND
attn. Mr. Kenneth Newcombe – Fund Manager
The World Bank
1818 H Street, NW,
Washington D.C. 20433 - USA

Ref.: Letter from FASE-ES.

Dear PCF investors,

Reference is made to the letter on the Plantar CDM Project, dated March 2003, sent to you by a Brazilian NGO named FASE-ES.

Before clarifying each of the alleged facts on the referred letter, we shall mention that the same charges had already been brought to our knowledge, as per the article made available on the internet by WRM (World Rainforest Movement), which has been supported by FASE-ES, entitled “Brazil: Civil society letter to the Prototype Carbon Fund on Plantar's eucalyptus plantations”. As soon as Plantar became aware of such document, a letter, dated January 2nd, 2003, was addressed, by email and by fax, to WRM and FASE-ES (which is enclosed and whose arrival was confirmed, by telephone, by Mrs. Ana Filipina from WRM). At that time, they were already alerted on the inconsistency of the charges and an invitation for visiting Plantar's facilities was explicitly made to both organizations, allowing themselves to have the answers to any doubts or questioning, in the best possible manner. As you will be able to verify, the accusations do not match with the reality and we have always been ready to debate all these points with the NGO's, in a harmonic manner.

Considering the re-edition of such charges, we regret to note that our initiative towards the establishment of dialogue, which we deem a keystone condition for the accomplishment of reasonable knowledge and understanding of any subject, had been neglected until last week. Appropriate knowledge precedes the credibility and the legitimacy of public opinions, and, above all, the virtue of justice. Notwithstanding, we reiterated our invitation to both organizations, by sending a registered letter on March 31st, for an official visit to the Project facilities, in view of dissipating any doubts and of having any questioning answered. Finally, on April 3rd, 2003, we received, for the very first time, a response from WRM, indicating that they expect to be available by the end of May.

Having clarified our efforts aimed at dialogue, we would like to draw your attention to each of the points that have been raised, and to the real facts related to them. Please, also note the attached *dossier*, containing a set of documents and signatures of institutions and individuals, which are real and closer stakeholders. Some of these documents deserve your special attention, as it is the case of the letter sent by Sindicato Rural de São Mateus/ES (Rural Workers Union of São Mateus/ES) - one of the alleged signatories of FASE's letter - stating that they had never heard about the Plantar Project until the time they were contacted by Plantar, as per our reaction to FASE's letter.

- Local communities have frequently been consulted about the presence of Plantar in the region, both by FSC public audiences as well as by the stakeholders consultation carried out in the very beginning of our engagement with the World Bank, as the trustee of the Prototype Carbon Fund. So far, non-approval comments have never been registered. On the contrary, most of the registries emphasize the social, environmental and economic benefits that have come along with our entrepreneurial activities, which will be further mentioned herewith. All of the comments and concerns have been dully addressed by the assessors (Reports available at www.prototypecarbonfund.org and at www.fscsoax.org).
- In the late 60's, when Plantar started its activities, there were no records of indigenous peoples that inhabited our lands and plantations. In addition, *Tupinikins* and/or *Guaranis* tribes have never been around Plantar lands, once they are originally from the States of Espírito Santo (ES) and Bahia.¹ Additional information can be found at www.funai.org.br . Thus, Plantar has never contributed for the eviction nor for the despair of indigenous peoples. Actually and unfortunately, we have never been in touch with them, due to the simple fact that we are far away from each other. Certainly, the NGO is not referring to Plantar.
- Plantar has never owned 280,000 hectares of eucalyptus plantations. The company did posses part of this land (which was actually not planted with Eucalyptus), years ago, but most of it has already been sold. Nowadays, as the Project determines, we are working on the establishment of 23,100 hectares of high yielding plantations, based on improved cloning technology, and we are harvesting our remaining old and low yielding ones. Here again, there has been a misunderstanding.
- As per the "carbon sink" issue raised on the letter, it is clear that FASE-ES did not understand the main and clearest component of the Project, which is concerned to energy substitution. Even less, the really complex LULUCF issue, which is to be addressed by COP 9 in December. The PCF Team deeply knows the Plantar Project, holding the most advanced know-how in what concerns CDM Projects and can fully respond to all of these incomprehensible criticisms. Notwithstanding, Plantar is always willing to clarify any aspects you may deem necessary.
- It is not difficult to realize how FASE-ES does not recognize obvious environmental benefits related to the Project. One of the several examples is the Biodiversity and Environmental Monitoring Plan, which will significantly enhance the status of both our

¹ Sources: <http://pegue.com/indio/>, <http://www.socioambiental.org/website/pib/portugues/outros/mapa.htm> , <http://www.deltainformatica.com.br/uniaoopre.html> , Accessed on April 1st, 2003.

legal reserves and permanent preservation areas. That is one more reason why we are pleased that the NGO accepted our invitation.

- Whenever land use change was necessary, Plantar procedures have always complied with all of the requirements from state and federal forestry bodies. As a matter of fact, Brazilian forestry law is widely considered one of the strictest in the world. Minas Gerais State forestry law is even more severe and also fully enforceable, not to mention the very strict World Bank due diligence by which the company has been carefully evaluated. On the other hand and unfortunately, the use of charcoal made out of native vegetation is a reality that bothers balanced pig iron manufacturers, environmentalists and authorities. Although the use of “native charcoal” may be authorized by law - under very special circumstances and within very strict limits - it unveils a pressing evidence of the serious consequences which may be even worsened by the scarcity of sustainable plantations. That is exactly one of the main goals of the Plantar Project: to establish sustainable plantations, capable of supplying 100% well managed eucalyptus plantations charcoal for pig iron manufacturing, as a benchmark for the whole independent sector, thus curbing negative impacts brought by the use of native vegetation.
- Plantar has never owned nor used any of the so called “devolutas” lands.
- The areas where Plantar is settled are not economically dependant on cerrado products, as indicated in the letter. Besides fully preserving both the legal reserves and permanent preservation areas, Plantar also contributes for the conservation of traditional species of the cerrado, as the “pequizeiro”, and the company has never imposed any restrictions for those who collect fruits for subsistence purposes. As further mentioned herewith, the Curvelo region is really dependant on cattle-raising activities, with heavy environmental impacts and low value added.
- In what concerns the environmental management practices performed by Plantar, it is our duty to emphasize that the company has not only acted in accordance to the principles set by federal and state authorities, as they evolve, but, in many ways, Plantar has implemented programs which go increasingly beyond ordinary legislation, whether by following FSC principles, World Bank/PCF scientifically-based monitoring criteria, or its own innovative practices. As a matter of fact, we can refer to the following programs, among others, and it is important to stress that all of them are strictly monitored by the FSC, the World Bank, state/federal authorities and are constantly checked by the Project verifiers:
 - Initial research evaluation of local fauna and flora,
 - Monitoring of qualitative and quantitative fauna and flora indicators,
 - Quarterly monitoring of physical, chemical and biological aspects of the stream-waters which go through Plantar properties both at the entrance and at the end of its lands,
 - Environmental education campaigns in association with surrounding public schools,
 - Intensive fire protection measures as the construction of large fire watch towers,
 - Periodic campaigns on fire prevention and training of fire brigades,

- Proper management of plantations, legal reserves and permanent reserve areas (minimum cultivation, soil protection, firebreaks, ecological corridors, nutrient control for soils, etc.),
- Monitoring of labor conditions,
- Monitoring of health impacts.

Regarding the accusation that our eucalyptus plantations have dried up rivers, it is of the essence to clarify that, due to inherent cerrado characteristics, some streams do dry for a few months in the same way that they further recover. The cerrado ecosystem presents well determined raining periods, which cause intermittence. As any fast growing species, eucalyptus needs underground water. Nevertheless, scientific studies have shown that, as long as proper management is carried out, as Plantar does, plantations do not cause any lack of water supply to specific regions. In this sense, many traditional cultures or careless pasture/grazing are much more harmful to water sheds and hydro systems than eucalyptus plantations.

“...available evidences have shown that the eucalyptus species normally utilized for intensive production of industrial wood are nothing different from other forest species in what concerns the stomata control of transpiration. On the other hand, the values of losses (of water) through interception in eucalyptus plantations are absolutely within the variation found in plantations of other forest species and even smaller than those observed in natural forest”.²

“...eucalyptus is the focus of research carried out by the Northern Rio de Janeiro State University - UNEF - which aims at alternative ways of cultivating species with maximum productivity and minimum environmental impacts. The research is subject of a Ph.D. Thesis, by Forestry Engineer Luís Cláudio Maranhão Froufe, which refuses the thesis that eucalyptus is a harmful culture to the environment. According to him, every vigorously growing vegetal species tends to absorb large volumes of water and nutrients in a certain stage of its development. But, as Maranhão explains, it refers to a cycle, once water and nutrients go back to the soil....To the forestry engineer, the idea of eucalyptus being necessarily a harmful culture to the environment is a “myth”...”³

“...Any project, with a carbon sequestration component, which holds a certificate as the FSC green stamp, provides one more warranty for the investor”, explains Fernando Veiga - Consultant for the Pro-Natura Institute and member of the Climate Observatory...” (Available at www.ambientebrasil.com.br, accessed on April 3rd, 2003)

What we have indeed observed, alongside FSC auditors, is that drying indicators have decreased in nascent and permanent preservation areas, recovered by Plantar, which are surrounded by eucalyptus. This result is of utmost importance once it provides sound basis for the restoration of degraded areas - remnant of previous third parties actions - thus enhancing water availability to all.

² LIMA, Walter de Paula, Impacto Ambiental do Eucalipto, Editora da Universidade de São Paulo, page 127. Reference translation: “Eucalyptus Environmental Impact”, Edited by the University of São Paulo. Our translation.

³ Ambiente Brasil. Segundo Pesquisador, manejo correto do eucalypto beneficia o meio ambiente. Available at: <http://www.ambientebrasil.com.br/noticias/index.php3?action=ler&id=9613>. Accessed on: February 6, 2003. Our translation. Reference translation: “According to Researcher, eucalyptus correct management benefits the environment”

All of the above mentioned facts, actions and programs have not indicated any endangering circumstance, but the opposite. As an example, we can pose the scientific analysis of the water outflow from our property, which indicates quality improvements in comparison to the inflow, according to registries from the last couple of years. As one can easily notice, the outcome of our activities represent clear and measurable benefits for the whole ecological system around our properties.

- The road detour related to the nursery operations (not implementation) has not caused any damage to the local population. On the contrary, the original route is still there and there are no constrains for pedestrians traffic, nor for cyclists, horse riders etc.. Regarding the vehicles traffic, the road has indeed been slightly diverted in order to avoid dust contact with seedlings. The new road was built, at the expenses of Plantar, with the support of the Curvelo Township, once it is a municipal road. Nowadays, the old route is open and even vehicles would still be able to go over it, but drivers simply prefer to take the detour because of its quality improvement, despite spending three or four minutes more. Such advantage has already lead to many benefits. One of them is to completely prevent public and school buses from getting suck during the raining periods, as it frequently happened before, not to mention the reduced maintenance costs due to the elimination of several holes.
- Plantar has never used child nor slave labor. Our working conditions are in complete accordance with labor laws. Besides complying with FSC standards, the company is frequently audited under its ISO certified quality management system and is also certified by ABRINQ Foundation⁴ for its social responsibility, being qualified as a “company friend of children”. Representatives from the IPCC, FAO, ILO, among others, have already visited Plantar’s facilities. In fact, only in 2002, around 200 people visited the Project. All of them have seen for themselves our working conditions. Plantar and many companies have really been cited by the Regional Working Office (DRT) due to very controversial hermeneutic, concerning outsourcing principles, and not because it offers “dangerous” working conditions. At the time of the referred citation, official regulations⁵ were not and are still not consistently clear whether or not a company could outsource part of its main activities. Instead of choosing the path of a legal dispute, as most of the companies did, Plantar decided to enter into an agreement with the Curvelo DRT, committing itself to manufacture charcoal with its own workforce, instead of dealing with contractors. Accordingly, we are already fully operating under the agreement.
- There was indeed a Parliamentary Investigation Commission (CPI), related to the charcoal manufacturing conditions. Plantar was cited as every single company of the sector was. However, as expected, no irregularities were found at Plantar and the company remains a benchmarking reference in terms of social benefits for its employees (i.e. occupational health care, half scholarships to all employees from basic education to graduate degrees, free meals and food supply kits to lower income employees, etc.).

⁴ ABRINQ Foundation certification verifies entrepreneurial compliance to ten principles specifically focused on social and labor responsibilities, such as active opposition to child labor, the promotion of health and education programs, the defense of civil rights, and investment in children.

⁵ A law amendment is currently being debated on the Brazilian National Congress. Such debate is on the floor exactly because of previous controversies.

- According to FASE-ES “...the occupation of “cerrado” areas contributed greatly to the crisis in the local economy that was heavily dependent on the products of this native vegetation. In Curvelo, various food products factories closed because of a lack of raw material, increasing unemployment...”. The truth is precisely the opposite. First of all, a few families may rely on the commercialization of cerrado fruits to earn their living, which is perfectly fine. As previously stated, Plantar has never placed any constraints on that and it is very hard to imagine how could the establishment of a company, which does not occupy more than 4,5%⁶ of the Curvelo Township area, cause a crisis in the fruit collecting economy. Secondly, it is commonly and widely known that the Curvelo regional economy is not even likely dependant on fruit collecting but, instead, it relies on cattle-raising. Thirdly, if we are to compare the employment opportunities created by the forestry industry and by cattle-raising activities, the numbers are very clear. A good example is Plantar’s last land purchase of land in Felixlandia. The company acquired a former cattle-raising farm which did not provide more than 20 jobs. In the same area, we currently have almost 300 permanent employees. In Curvelo, Plantar provides more than 1000 direct jobs, not to mention indirect figures. The Forestry Sector in Brazil is responsible for the maintenance of 1.6 million jobs, represents 4% of the Brazilian GDP, and 8% of national exports⁷, contributing vigorously for the reduction of the country’s increased external vulnerability and also for avoiding urban concentration - true causes of unemployment. At last, Plantar can not accept the unintelligible charge of having caused massive job layoffs, once the company has significantly expanded since the beginning of its operations, due to the Forestry Management services provided to third parties. Nowadays, we are very proud to refer to the ILO report, that points Plantar as the largest forestry contractor employer in the World.⁸

- Plantar’s FSC certification is just being expanded and will soon cover around 50% of the total forestry area, as it will be disclosed on the new SCS certification report to be published by next month. It must be stressed that 100% of the Project Area is being and will be certified, in a continuous basis. It is never enough to remind that the report also addresses several of the inconsistent charges raised by FASE-ES and WRM. It is also worth mentioning that FASE-ES has been invited to the public audiences, but they have never come for the open and public debate. As opposed to their letter, representatives of the workers and local communities have been consulted, and their comments and concerns have been dully addressed by the auditors. All of this will be registered on the public report.

⁶ Source: State Government of Minas Gerais. Available at www.mg.gov.br, accessed on April 3rd, 2003.

⁷ Source: ABRACAVE – Brazilian Association of Renewable Forests

⁸ ILO. Globalization and Sustainability: the Forest and the Wood Industries on the Move. Report for discussion at the Tripartite Meeting of the Social and Labor Dimensions of the Forest and Wood Industries on the Move. Geneva, 2001. According to the report “*Something that tends to be overlooked when strong opinions are held is that there is no such thing as the contractor. Contractors can be farmers, self-employed individuals with a chainsaw, or, often, family firms with a few machines; a few are medium-sized enterprises with ten to 20 machines and a good number of employees. Very rarely are they large firms like the biggest South African contractor with 1,200 employees. Plantar of Brazil, with its average workforce of 3,000, is probably the biggest forestry contractor in the world, but is clearly unique.*” Nowadays the current number is of 7000 direct employees, and as the report says the Plantar case is unique, which may even contribute for such a misunderstanding by FASE-ES.

It is very unfortunate to realize the tremendous lack of knowledge or understanding, concerned to Plantar's activities as a whole and also to CDM regulations, on which FASE-ES has based all of its complains. However, this is not surprising, once FASE-ES is established in a few States but not in Minas Gerais, as well as the majority of the alleged signatories. Once our dialogue attempts had constantly been rejected, that the alleged signatories have not been clearly identified, and that informational/scientific accurate facts have not been presented, it is very troublesome to conceive how could FASE-ES hold enough knowledge or comprehension to criticize it all. Therefore, we must reject these charges.

It is with indignation that we face such harmful and inconsistent charges, despite all of our permanent efforts to disclose and to publicize Plantar's activities, and, especially, the CDM Project. Nevertheless, you can rest assured that the company will remain committed to transparency and that we will not cease to continuously act preventively, in order to avoid any kind of misunderstanding.

Since the beginning of our Project activities and even of Plantar's establishment in Curvelo, in the late 60's, we have never faced despair nor rejection by local communities, as the company has been in constant touch with them, nor have we caused damage to the local economy or to the environment. Facts and figures tell the opposite. To reinforce and to further endorse all of this, you will find attached a *dossier* with several support documents subscribed by representative local stakeholders, state/federal authorities and other civil society organizations. Most of them were issued over the last days, in view of the referred charges.

Once more, Plantar truly appreciates the support you have been relying upon us, reaffirming our most sincere commitment to sustainable development. We remain at your service to answer any questions you may have.

We would like to take advantage of this opportunity to kindly invite you all for a visit, as per your convenience. Plantar looks forward to hearing from you.

Faithfully yours,

Gualter de Moura Alves
President
PLANTAR S/A.

Geraldo Alves de Moura
Business and Financial Director
PLANTAR S/A.