

The Jordan Industrial Joint Gateway Project: A River Runs Through It

**Abd al-Rahman Sultan & Charles Lenchner,
Friends of the Earth Middle East**

September 2000

Introduction

The Jordan Industrial Joint Gateway Project is a planned industrial park/free trade zone that straddles the Jordan River between Israel and Jordan. The IFC has not yet made a determination to support the Jordan Gateway Project and is likely to complete its environmental due diligence in September 2000.

The project entered the IFC pipeline just before construction began, in April 2000. Environmental organizations in both Israel and Jordan had expressed their opposition to the siting of the project the previous year, but the project sponsors generally refused to discuss the issue with NGOs until after all decisions had been made. No Environmental Impact Assessment was done in Jordan until after the IFC demanded one. The IFC claims that its participation is raising the quality of the project, although it says it cannot take responsibility for decisions made prior to its participation.

This project raises several issues related to the IFC's policies in practice and how the IFC chooses projects. First, this case study points out the problems with IFC's coming late to a project and places in question what role the environmental impact assessment plays in project decision-making. Second, the development rationale for the project has not been publicly articulated and Israeli and Jordanian NGOs have raised important questions

regarding both the development rationale and long-term economic viability of the project. Third, the project raises issues about the meaningfulness of the IFC's consultation requirements. Finally, the case study raises questions regarding whether the project sponsor could find investors without IFC participation and, therefore, whether the IFC ought to support this project as it would be usurping the role of the private sector.

Project Overview

The Jordan Industrial Joint Gateway Project is actually two industrial complexes on either side of the Jordan River between Israel and Jordan. While the Israeli project will be small, and is meant mainly for offices, warehouses and export and trade-related activities, the Jordanian side will be a full-fledged industrial complex flanking the Jordan River. The project will permanently alter the character of the Jordan River Valley, which is overwhelmingly rural.

This project grew from the interest of Israel and Jordan to promote regional economic growth. An agreement to set up Qualified Industrial Zones (QIZ) between Israel, Jordan and the United States is a primary reason for the cross-border development scheme. Under the QIZ agreement, goods produced in Qualified

Making the Case for Change

Industrial Zones in Jordan, with a minimum percentage of value added in Israel, are eligible for export to the United States without tariffs. This creates a strong incentive for cross-border transactions, as goods go back and forth across the Israeli-Jordanian border in preparation for export. This sort of joint economic activity has been publicly promoted as a means of creating greater economic ties between Israel and Jordan that will lead to more normal peaceful relations between the two countries. Therefore, these types of joint projects enjoy strong political backing in both countries and are supported by many NGOs.

The project sponsor is FIBI Investment House Ltd., which is a subsidiary of FIBI Holdings, the Safra banking group's business arm in Israel. The project is located on the banks of the Jordan River, 8 kilometers south of the Sheikh Hussein Bridge. The Jordanian side will be more than 50 hectares in size to start, with plans for expansion to 127 hectares in the future. The project also entails the construction of a new bridge between Jordan and Israel that will be used to facilitate trade and export activities.

The Jordanian part of the enterprise will require an investment of \$30 million. The IFC is considering a \$15 million loan. When complete, the project may employ up to 14,000 Jordanians, with a large percentage of the goods produced traded through Israel, under the free trade conditions described above.

Overview of Key Problems

Siting Issues & the Role of the EA. Environmental groups are firmly opposed to the current siting of the project, arguing that the Jordan River Valley has not been subject to industrial development and should remain a primarily agricultural/rural region. These groups are not opposed to the development of a new industrial project. On the contrary – environmental organizations in Jordan have openly expressed support for the aims of this

project. However, if construction continues at the current site, the Jordan River Valley will be irreparably and negatively affected. Both Israeli and Jordanian environmental authorities have discussed the need for a binational nature reserve along the Jordan River. NGOs from the third riparian, the West Bank, have also protested the site, and joined the call for a nature reserve. Allowing this project to move forward will make it much more difficult to create such a reserve and to preserve the character of the valley. Planning documents from before 1998 make no provision for industrial development along the river, and the Jordanian environmental authorities have written a letter urging their government not to develop industry along the river banks.

In reply to the charge that the environmental authorities are generally opposed to Jordan River Valley *industrial* development, the IFC and project sponsor state correctly that, legally speaking, it is the Jordan Valley Authority which controls the land, and that all permits have been secured. In Israel, the Ministry of Environment finally agreed to the project following intense political pressure on Dalia Itzik, the Minister of Environment, and a minor site change. (The site on the Israeli side was moved away from the banks of the river, to a field a few hundred meters away.) Israel has actually stated its intention to apply for World Heritage status for the Jordan River Valley from UNESCO, a decision in line with all planning documents that precede 1998, when the project was first proposed.

Not only will the industrial complex and associated infrastructure impact the Jordan River Valley, but they may also lead to additional, unplanned development as people move into the area for jobs. The site is located in a rural area, far from sources of labor, infrastructure and other advantages of an urban location. While ideally such issues would be considered and addressed in the environmental assessment, which would in turn inform the decision on siting, in this case preparation of the EA started

only after construction at the current site had begun. Since the EA in this case is taking place after the onset of construction, it seems unlikely that the EA will seriously explore alternatives sites to the project.

Inadequate Consultation. The project sponsor has failed to adequately consult either with local environmental organizations or with environmental authorities in both Israel and Jordan prior to the start of construction. Environmental organizations have been attempting to engage the sponsor on this issue for close to 18 months. For most of this time, the project sponsors have refused to engage in dialogue with NGOs. The project sponsors have not only left environmental NGOs out of the process, they did not consult with the environmental authorities in Israel or Jordan until all key planning decisions were made. An Israeli official with the Ministry of Trade and Industry told Friends of the Earth – Middle East (FoEME) that it was an unfortunate mistake that environmental officials were not brought into the discussion during the planning phase.

Unclear Development Rationale. The project is designed to take advantage of the proximity to Israel to establish a Qualified Industrial Zone (QIZ), as described above. The QIZ arrangement allows products manufactured in Jordan to be exported to the US under Israel's Free Trade Agreement with the US – provided that a certain minimum of the value added was in Israel. Thus products manufactured in QIZs could be exported to the United States without tariffs, giving industries located in them a clear advantage.

Jordan joined the WTO in May. Recently, the US Trade Representative's office announced that a US – Jordan Free Trade Agreement will be signed by the end of the year. Thus Jordan will have free trade status with the United States in the future. Against this background, the advantages of QIZ status are minimized over time along with a substantial part of the rationale for a cross-border site. When asked about this in the Israeli press, the sponsor claimed that the site

still had border proximity in its favor, 'taking advantage of the comparative advantages of each country.' (Globes, June 19). Neither the IFC nor the sponsor have been forthcoming with an explanation of what these 'comparative advantages' are, why border proximity makes a difference, and how the environmental costs associated with this site (a new bridge, for example) outweigh the negative impacts.

The Jordan Gateway Project, if completed, would not be the only QIZ. Nine other QIZ's in Jordan have been completed or approved, and none of them are close to the border with Israel. The QIZ in Irbid is full, and is undergoing a 50 per cent expansion in size. It seems that lack of border proximity is not a barrier for the potential tenants of QIZ's. Furthermore, sites located in or near urban areas enjoy many advantages – like access to skilled labor – that the Jordan Gateway Project site lacks.

Finally, NGOs and government planning documents have designated the region for tourist development, taking advantage of the area's heritage and environment. In pursuing industrial development, the IFC is making a more sustainable course of development harder to achieve.

Necessity of IFC Financing. Given that the project sponsor has begun construction prior to securing the IFC loan, it appears that the project sponsor does not need IFC support in order to go forward with the project. The IFC's limited, publicly-financed resources may be better spent on projects with greater development rationales that are truly in need of IFC financing.

NGO Advocacy

Construction began in the face of mounting opposition from all of the major environmental groups in the region. Once FoEME learned that the IFC was considering a loan, they sent a letter to the IFC alerting them to the project's problems. Soon after, letters were sent

Making the Case for Change

demanding that work be stopped on the project until a full EA had been completed.

Environmental NGOs have increasingly called into question the economic rationale of the project. Given Jordan's recent accession to the WTO and the pending US-Jordan Free Trade Agreement, NGOs have questioned whether the project is necessary or advisable at the current site.

On May 23, during a visit to Israel, World Bank President James Wolfensohn was awarded an honorary doctorate by Ben Gurion University. FoEME was allowed to make a presentation on the Jordan Gateway Project, after which President Wolfensohn pledged to investigate the matter personally. On August 28, four months later, President Wolfensohn replied that he had been briefed on the issues and is "confident that IFC staff is conducting the environmental and social due diligence in a fully open and transparent manner, including holding discussions with [...] all interested parties..." In other words, there was no official investigation into the substance of the concerns raised by local organizations regarding the behaviour of the IFC. The hollow response in which the Bank President merely repeats the assessment of the very IFC staff whose decisions are being challenged took four months, and did not contain any substantive response to the criticisms of environmentalists in the region.

IFC is expected to make a decision on this project towards the end of 2000. Today the resistance to this project is focused on getting the IFC to turn down the loan. Individuals and organizations from the Middle East, Europe, and the United States have written to the IFC expressing their concerns.

IFC Response

The IFC has claimed that its involvement has resulted in improvements to the project, including the completion of an EIA, protection of an archeological find at the construction site,

and the instigation of formal consultation with NGOs in Israel and Jordan. According to the IFC, the lack of consultation and environmental assessment is what IFC involvement can fix, even though it comes after all the important decisions have been made regarding project siting.

The IFC's own assessment is that the current site is the most appropriate, although no documentation has been given to support that position. In a letter from May 19, the IFC states that it has "concluded that the present site is the best option from an environmental and social perspective for both Israel and Jordan." This conclusion was reached before the EA was written, and seems to indicate that the project had the full support of IFC staff months before the due diligence process was complete. In fact, the project sponsor used quotes from this letter before official planning bodies in Israel to support the claim that IFC approved the site – months before the project was submitted to the IFC's Board of Directors for approval.

The IFC says that it commonly joins a project after work has begun, and that they have no mandate to question the site location. IFC involvement has resulted in the preparation of an environmental assessment. While this is a positive development – promoting better environmental due diligence – the timing of the EA calls its role into question. The purpose of an EA is to inform the decision-making process, including, for example, the decision of where to site a project. It seems unlikely that the EA will serve that purpose in this case, however, as project design was substantially completed and construction begun prior to the preparation of the EA.

The IFC suggests that its involvement will promote environmentally sensitive development in the Jordan Valley region, since IFC financing comes with stringent environmental due diligence requirements. Given that the due diligence documents in this case are not informing the planning and decision-making

process, the confidence in IFC's due diligence requirements to promote environmentally sustainable development in the Jordan Valley seems misplaced.

IFC representatives have told FoEME that the lack of consultation between the project sponsors and environmental groups stemmed from the lack of experience of the sponsors, who are unfamiliar with international or IFC standards. The IFC manual 'Doing Better Business Through Effective Public Consultation and Disclosure' contains numerous prescriptions for project sponsors. According to IFC representatives, it is not IFC's policy to refuse financing to projects that do not follow the best practices manual. At a meeting with FoEME in May, the IFC stated that the attitude of the sponsor in Jordan was unfortunate, and that they are urging them to be more communicative. They further stated that the IFC's role in encouraging the project sponsor to engage in greater consultation was a rationale for IFC involvement, not a grounds for denying financing.

The IFC told FoEME that it is evaluating the project's viability in light of the expected changes in Jordan's trade status. The project sponsor, speaking to the Israeli National Planning Committee in August, stated that the upcoming US-Jordan Free Trade Agreement would not affect the project's viability, since the investors plan on becoming profitable within ten years, i.e., just as the staggered tariff reductions are completed.

In conclusion, the IFC failed to exercise proper due diligence in accepting the site selection made by the sponsor, without making that decision part of the scope of its environmental assessment. This was particularly significant because of the well known public controversy between local environmentalists and the sponsor, who – as acknowledged by the IFC – did not abide by its own guidelines for consultation and environmental assessment. The behavior of the IFC has had the effect of supporting all the decisions made by the

sponsor, and preventing local stakeholders from having any influence beforehand.

Current Status

The IFC has not yet released its EA, although this is expected by the end of September. Given the fact that construction has already begun, the IFC report seems likely to justify the current site, without an in depth discussion of alternatives. Actually, the IFC is on record supporting the existing site many months before an EA was conducted. The Jordanian project sponsor remains unwilling to consult with local communities and NGOs. Opponents hope that the changing trade situation, which could render the project uneconomic in the medium and long term, will convince the project sponsor or IFC not to continue with the project. In the mean time, NGOs will continue to highlight the IFC's complicity in the project sponsor's misbehavior, and to try and stop the loan from being approved.

In August, the following NGOs released a *Joint Statement from the Middle East Environmental Community* condemning the Jordan Gateway Project and calling on the IFC to turn down the loan: Friends of the Earth Middle East; Society for the Protection of Nature in Israel; Royal Society for the Conservation of Nature in Jordan; Palestinian Hydrology Group; Israel Union for Environmental Defense; Green Course; and the Jordan Society for Sustainable Development. It concludes:

“The environmental communities of Israel, Jordan, and the WB&G [West Bank and Gaza] are united in opposing the JGP [Jordan Gateway Project] and all that it stands for – inappropriate development imposed from above, lack of basic due diligence or timely consultation, refusal to communicate with the environmental community, and lack of integration with previous plans for the region. The JGP must be stopped, for if it is not, then our Jordan River will have crossed the line from being a pristine rural area into a disaster for one of the regions last remaining open spaces.”

Making the Case for Change

For further information contact:

Friends of the Earth Middle East.

Charles Lenchner, <clenchner@foe.org>

Abd al-Rahman, <foeme@go.jo.com>

International Finance Corporation

Neeraj Jain, IFC Investment Officer

Eml: <Njain@ifc.org>

Fax: 202-974-4397

Niels Vestergaard, IFC Environmental Specialist

Eml: <Nvestergaard@ifc.org>

Fax: 202-974-4389