The Granite Corporation is a global paper company headquartered in the United States. Its operations range from the Americas to Europe and the Far East. Granite is an industry leader in the production and sales of containerboard, corrugated containers, and paper bags. The company is also a major supplier of lumber, plywood, and veneer to the construction and furniture industries. Granite competes against other large transnational paper companies.

Wood in the form of wood chips is Granite’s major raw material. Granite, unlike some of its competitors, has chosen a strategy of leasing and managing forest lands rather than back integrating and owning forests. This strategy began to hurt Granite in the 1980’s when U.S. environmentalists placed tremendous pressure on the U.S. government to stop harvesting wood from national forests. When the U.S. government began closing forests to harvesters, Granite executives realized that the company would have to look outside the U.S. for a source of wood chips.

In the late 1980’s, Granite decided to explore Central America as a source for wood chips. The Costa Rican forestry industry was highly receptive to Granite, and in 1989 the company created a subsidiary, Granite Forestal, S. A. in Costa Rica. Concurrently, Granite was exploring the feasibility of a second subsidiary in Honduras. Each subsidiary would provide management of plantation forestry as well as a 100% Granite-owned mill to produce wood chips for export. The Costa Rican facility would focus on managing gmelina trees, a short fiber wood that is excellent for lightweight paper products. The Honduran facility would manage a pine forest, which provides a long fiber wood that is excellent in heavy weight paper products such as corrugated boxboard.

Granite in Latin America

Costa Rica is a Central American republic bordered by Nicaragua and Panama. (Please see the attached map.) It is about the size of West Virginia, and has a population of 3 million. Costa Rica has a relatively stable democratic government. Its economy relies heavily on tourism and agricultural exports. Much of its mainly agrarian population is in poverty. Of key importance to Granite is that Costa Rica, due to poor forest management, had the highest deforestation rates in Latin America with little standing forest outside of protected areas.

Honduras is also a Central American republic. Just north of Costa Rica, Honduras is bordered by Nicaragua, Guatemala, and El Salvador. It is about 1.5 times the size of Costa Rica and tends to have a military-run government that calls itself a democracy. Honduras’ level of poverty is greater than that of Costa Rica and it is viewed as economically behind Costa Rica.

Granite faced two very unusual situations in these countries. In Costa Rica, Granite found huge expanses of land that were arid. This was caused by poor land management by local farmers who were untrained in land management. Over grazing had led to soil degradation. Granite felt that it could enter Costa Rica and actually bring these areas back into useful production by planting and managing gmelina forests. Granite’s plan was synergistic with Costa Rican government policies that encouraged reforestation of abandoned pasturelands, as well as foreign investment (the latter through tax incentives). In Honduras, Granite faced a different situation. Along the remote Honduran Mosquite Coast, there was a large pine forest which was not well managed and as a result, was prone to uncontrolled fires. Granite’s plan, initially supported by the Honduran government, was to manage the Mosquite Coast pine forest and harvest from it, ultimately actually increasing the number of trees in the acreage.

Although oversimplifying an extremely complex situation, it is important to understand that Central Americans have a love-hate relationship with the United States. On one hand, they respect the U.S. for its thriving economy and they rely on it for both critical imports as well as to help bolster their exports. However, Central Americans share a common history of exploitation, first by the Europeans, and then later through resource depletion by U.S. multinational corporations.
Granite’s Plans are destroyed in Honduras

Not long after Granite announced its plans for the Mosquite Coast in 1989, environmentalists both in Honduras and throughout the world expressed dismay with the proposed benefits of Granite’s forest management. Environmentalists felt that Granite, like other U.S. multinational corporations, would deplete valuable Honduran forest at the expense of Honduras. The environmentalists placed a great deal of pressure on the Honduran government, launching a worldwide negative media blitz against Granite. After significant expense and repeated defense of its position, Granite was forced to withdraw from its Honduran project. The decision to withdraw from Honduras was a highly emotional one for Granite’s top management who had originated the plan.

Granite’s Plans in Costa Rica

Granite hired a Costa Rican, M. Kohl, as General Manager of Granite S.A. Kohl was a member of a wealthy and successful business family in Costa Rica. When hired by Granite, Kohl was with the Costa Rican Forestry Industry Association and was the person who had first interested Granite in Costa Rica. Kohl’s family was well connected with the Calderon government, which was in power prior to 1994. The family did not hold positions of influence in the new government that was elected in 1994. Kohl spoke fluent English.

Kohl’s boss was Jean Clancy, an American. Clancy was General Manager for Granite’s Wood Products Division. Clancy had a degree in forestry and extensive experience in operations, both harvesting and wood chip production. Clancy had no Spanish language skills and no prior experience negotiating with foreign governments.

In April 1989, Granite Forestal S.A., working with the Costa Rican Ministry of Natural Resources (MNR), developed a Two-Phase Plan for operations in Costa Rica. These plans were outlined in a First Framework Agreement between Granite and the MNR.

First Framework Agreement between Granite and MNR Costa Rica

<table>
<thead>
<tr>
<th>Ownership of land</th>
<th>100% leased by Granite S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of chip mill</td>
<td>100% owned by Granite S.A.</td>
</tr>
<tr>
<td>Investment by Granite</td>
<td>$5 million</td>
</tr>
<tr>
<td>Jobs created</td>
<td>Direct -200, Indirect - 750</td>
</tr>
<tr>
<td>Chip export ratio</td>
<td>90% export, 10% for Costa Rican timber industry</td>
</tr>
<tr>
<td>Tax credits</td>
<td>50% off the standard industrial rate</td>
</tr>
</tbody>
</table>

Phase I (Years 1-5)
Cultivate 24,000 hectares (a hectare is 10,000 square meters, or approximately 2.5 acres) of gmelina trees. Lands to be leased from small private landowners. Plant approximately 4000 hectares annually in growing gmelina trees which have a short 5-6 year maturation cycle and can grow up to eighteen feet per year.

Phase II (Years 6 and beyond)
Harvest approximately 4000 hectares per year. Transport logs to chip mill for processing. Export chips via container ship. (These ships require a deep-water port.)

1990-1994: The Second Framework Agreement and Relations with the Costa Rican Government under President Calderon

Negotiations between Kohl and Clancy and several government agencies continued over plantations, the chip mill, the port, and taxes. From the MNR, Granite received permits under current forestry law to plant and harvest gmelina trees. In July of 1989, Granite planted its first gmelina trees. With the Ministry of Foreign Commerce, Granite negotiated a “zona franca” or free trade zone exempting the company from import or export tariffs. Granite already had received a 50% industrial tax reduction in the First Framework Agreement.

With the Ministry of Public Works and Transportation, Granite developed a Second Framework Agreement concerning plans for the chip mill and dock construction in Punta Estrella. This plan included eventual public access to the Punta Estrella dock. The plan was pending when the environmentalists’ campaign against Granite heated up.
1992-1994: The Environmentalist Campaign against Granite

In 1992, environmentalists (many of whom had been involved in the original campaign against Granite in Honduras) turned their attention to Granite in Costa Rica. They conducted a biological survey of Punta Estrella, as well as of the effects on the land of planting large homogeneous gmelina plantations. Although international environmental groups were involved in the effort, the local environmental association - AECO, headed by Senor/Senora Hoyas, led the national campaign against Granite. Hoyas was a Costa Rican national, trained in biology, who believed strongly in developing ecotourism as a means of fueling the economy while preserving the beautiful Costa Rican environment. Hoyas was passionate and charismatic about this cause, after seeing how the banana companies destroyed vast tracts of land. Although Hoyas recognized the importance of economic development, the sanctity of the land came first. Hoyas was well aware that Granite withdrew from Honduras after a lengthy and acrimonious campaign by environmentalists.

By 1993, the environmentalists’ cause was receiving both local and international press coverage, including a BBC documentary and a report by CNN on Granite’s plantations in Costa Rica and plans for operation in Punta Estrella. By late 1993, AECO was fully engaged in opposing Granite.

AECO’s Positions on Granite’s Plans in Costa Rica

- Monoculture plantations in general are considered unhealthy to plant life.
- Gmelina is a non-indigenous, fast growing tree that degrades soil nutrients.
- Gmelina attracts dangerous pests and fungi that could affect other Costa Rican crops.
- The chip mill will disrupt migration patterns and wildlife in the pristine Punta Estrella.
- Construction and port operations will lead to silt and waste pollution that will disrupt the fragile biodiversity of Punta Estrella. (Punta Estrella is a fragile deep gulf that is considered a biological wonder.)

In response, Granite began to work on its own Environmental Impact Study. The study’s results, which Granite released to the press, disagreed with every AECO position.

1994: The Figueres Government

In early 1994, Jose Maria Figueres was elected President of Costa Rica on a platform of sustainable development via economic, social, and environmental change. The new government replaced most of the officials with whom Granite had been negotiating, including the Minister of MNR. The new minister, though a Costa Rican native, was educated in business and environmental planning at Harvard. The new minister was on record as supporting foreign investment to develop Costa Rica. However, the minister also expressed commitment to protect Costa Rica from exploitation by multinational companies.

In May 1994, the Figueres government hosted a seminar to explain its new environmental policy, “From Forest to Society: A New Costa Rican Model for Development in Alliance with Nature”. The day following the conference, AECO placed a full-page ad in prominent Costa Rican newspapers with a map detailing Granite’s planned operation in Punta Estrella. The ad was titled, “The First Challenge to the Figueres Administration”. President Figueres responded in June by forming an interministry commission to analyze the agreed-to First Framework Agreement and the pending Second Framework Agreement. The commission was lead by MNR and included representatives of other involved government ministries. The commission’s report was published in August 1994.

Report of the Figueres Commission on Granite Corporation in Costa Rica

Environmental Issues:

- Concluded that gmelina plantations do not degrade the soil or attract harmful pests and fungi.
- Recognized the value of biodiversity in the area of the proposed chip mill in Punta Estrella, but emphasized that the area was already in use for agricultural purposes and that no new roads would be required.
- Believed that precautions proposed by Granite related to waste and noise pollution would be sufficient, if followed through; however, noted that Costa Rica does not have the resources to monitor Granite’s operation.
- Recognized that the depth of the gulf at Punta Estrella is a unique biological wonder and that the area risked irreversible damage from chip plant waste or a container ship accident.

**Social Issues:**

- Acknowledged the legitimacy of local community concerns that opening Punta Estrella to Granite would result in the entire area being opened to industry to the detriment of the area’s fledgling tourist industry.

- Recognized local residents’ concerns that the port and highway traffic to sustain it might invite undesirable social elements into the area.

**Economic Issues:**

- Deemed public access to a Punta Estrella dock as not feasible.

- Considered the plantations’ contribution as a source of employment and stream of income to small landowners as a positive benefit to Costa Rica.

- Concluded that tax incentives provided Granite were in line with those provided other foreign investors.

- Viewed the agreement that 90% of the production be exported as acceptable from a balance of payments perspective, but unacceptable from the perspective of not providing sufficient timber for Costa Rican use and thereby not deterring deforestation of rain forests for that purpose.

**Recommendations:**

- Continue to support the Granite plantation project.

- Move mill to Guaria and dock to the old port at Golfito. This port, built for the banana industry, was abandoned 10 years ago. The port is currently significantly polluted.

**The Negotiation**

After reviewing the commission’s report, the President has instructed MNR to begin a new round of negotiations with Granite. The President made it clear that AECO should somehow be involved in the negotiations. The minister of MNR invited representatives of Granite and AECO to meet to discuss the location of the chip mill and the dock. Granite indicated eagerness to meet with the minister, but refused to sit at the table with representatives of AECO. After some discussion, Granite agreed that AECO might make a 10-minute presentation at the outset of the meeting, after which AECO might observe the negotiation. Granite made it very clear that it would not talk directly with AECO or any other environmental group.
MAP OF COSTA RICA