

DECLARATION OF AMBASSADOR JAMES R. JONES

1. My name is James R. Jones. I was the United States Ambassador to Mexico from 1993 to July of 1997. I have read the relevant portions of former Governor Horacio Sanchez Unzueta's witness statement which pertain to my dealings with him regarding the Metalclad Corporation. I make this declaration for the purpose of correcting certain factual inaccuracies and clarifying some of the more pertinent events that occurred with regard to the Metalclad matter.

2. I first became aware of Metalclad Corporation's difficulties in opening the hazardous waste landfill at the site known as La Pedrera in San Luis Potosi in July of 1994. The Embassy arranged for several high-level meetings with the Mexican environmental attorney general's office, which resulted in the federal government's reiteration of support for the Metalclad project.

3. In 1995, after the Embassy's commercial office conducted a thorough review, the conclusion reached was that the Mexican government was unfairly denying Metalclad the opportunity to operate an environmentally sound hazardous waste landfill in San Luis Potosi. I held several meetings concerning the Metalclad issue with Mexican government officials, including Cabinet Ministers, Julia Carabias Lillo and Herminio Blanco, and the Chief of Staff to President Zedillo, Luis Tellez. The Embassy had the support and encouragement of the U.S. government and

several members of Congress. Such advocacy on behalf of U.S. companies was part of the Embassy's normal practice.

4. Mexican officials at the federal level told me that they agreed with our position on Metalclad and that they had tried very hard to convince the officials of both the San Luis Potosi state government and the municipality of Guadalcazar of the merits of the project and to accept and approve it. However, these same officials also emphasized that they were powerless to force state and local officials in San Luis Potosi to support the Metalclad project.

5. I also attempted to gain Governor Sanchez Unzueta's support for Metalclad's project. We had several meetings, phone conversations and exchanges of letters. On some occasions, he would promise to help resolve the issue. At other times, he alleged that Metalclad had committed improprieties or said that the company had no legal rights he could enforce.

6. In his witness statement, Governor Sanchez Unzueta says that in our first meeting on or about May of 1996, he told me that Metalclad would never be able to obtain the municipal permits that would allow them to legally operate the La Pedrera hazardous waste landfill. He also states he was able to convince me that Metalclad was a dishonest company.

7. Contrary to the Governor's statement that we met a few weeks after he received a phone call from Herminio Blanco in May of 1996, I believe it was not until August of 1996 that I finally met with Governor Sanchez Unzueta for the first time, and then

not until I had threatened to list the state of San Luis Potosi as being unfriendly to foreign investment that he requested a meeting with me.

8. Furthermore, and contradictory to the Governor's witness statement, I believed at the time, and still do, that it was the Governor or his government of San Luis Potosi who was less than honest about the events surrounding the permitting of the landfill rather than Metalclad. I had spoken with Metalclad representatives on several occasions and believed that they were doing everything possible to satisfy the federal government's and the Governor's concerns about the technical suitability of the site, gaining the necessary permits, educating the community about the benefits of the project and so forth.

9. It is true that in one of my meetings with Governor Sanchez Unzueta that I asked him to provide an affidavit regarding his continued objections to the project and evidence of his allegation about Metalclad's dishonest conduct in the matter. However, my response to the Governor was not as he has testified in his witness statement. With respect to the three points highlighted on page 14 of his statement, let me state:

a. Governor Sanchez Unzueta's assertion that in a meeting of September of 1996 I said that I would send the evidence against Metalclad regarding alleged improprieties committed by Metalclad in getting the state land use permit from his predecessor's government to the Department of Justice is incorrect. On the other hand, both I and the commercial officer

present at the meeting only told him that we had a sworn obligation to uphold the laws, which included the Foreign Corrupt Practices Act. Our official obligation was to report alleged violations such as this. Notwithstanding this, as far as I know, these allegations were found not to have merit.

b. Governor Sanchez Unzueta's testimony that I was going to disregard my intention to declare San Luis Potosi unfriendly to foreign investment is false. To the contrary, while I did not issue the draft press release that had already been prepared along these lines, I informed Mexican officials and U.S. business organizations about the Metalclad investment problem in San Luis Potosi and warned other U.S. businesses to proceed with caution before investing in that State.

c. Lastly, the Governor's characterization of my letter of January 14, 1997 as "applauding" his government's efforts to induce an agreement between Metalclad and the municipal government (attached to Governor Sanchez Unzueta's statement as Exhibit 28) is an attenuation of the truth. While I am sure that some of my letters indicated appreciation to the Governor for what he promised to do to solve the problem, this communication was not one of those instances. Far from applause, I was pushing the Governor to continue working towards a final agreement and reminding him of the serious consequences of a stalemate -- the settlement of the matter through the NAFTA dispute resolution process. On other occasions that the Governor did not mention in his statement, I was far more critical of his government's

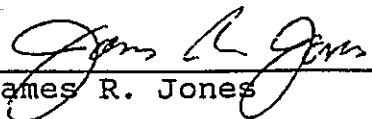
failure to resolve the matter fairly.

10. Further elaboration of these events is contained in two documents which were prepared by the U.S. Embassy in Mexico and are attached to this statement. Exhibit 1 is a chronology of events regarding the Embassy's efforts to help Metalclad obtain the Governor and local government's support for the landfill project. Exhibit 2 is a Memorandum of Conversation that was prepared subsequent to my meeting with the Governor in September of 1996 which gives in further detail the substance of our meeting.

11. When I left Mexico as Ambassador in June 1997, I never fully understood why neither the state government of San Luis Potosi nor the municipality would permit Metalclad to operate when (a) the company seemed to have all the necessary legal documents and requirements, and (b) the technology Metalclad brought to the project would actually improve the environmental conditions for the people of that area. All this in a nation whose land is plagued by the urgent and threatening reality of millions of tons of hazardous waste being dumped unlawfully in its environment every year.

I declare under penalty of perjury under the laws of the State of New York that the foregoing is true and correct.

Executed this 13 day of June, 1998 at New York, New York.


James R. Jones