

Mr Liu Fengqiu  
Chief Engineer  
Sinohydro International Corporation Limited

24 February 2014

Dear Mr Liu,

We hope you had pleasant Chinese new year celebrations and are in good health. We are writing regarding Sinohydro International Corporation's Sustainable Development and Environmental Policies. Following International Rivers' letter to Sinohydro's General Manager, Mr Zeng dated 13 January 2014, on the status and disclosure of Sinohydro's sustainable development policy framework, we understand that you will soon have management discussions to finalize a Sustainable Development Policy Framework.

As has occurred in the past, International Rivers would like to share with you several recommendations aimed at strengthening the Draft Policy Statements on Sustainable Development and Environmental Policy. Our recommendations are consistent with international standards established by the current World Bank safeguard standards and predating that, the World Commission on Dams, the Chinese government's guidelines on overseas investment and examples of good practice by Sinohydro Corporation. Furthermore, these recommendations are based on our monitoring of Sinohydro's overseas dam construction activities over the past five years and work with local NGOs impacted by Sinohydro's projects around the world.

1. Respect Legally Designated Protected Areas: We recommend that Sinohydro incorporate a policy statement on the types of projects it will *not* contract, specifically those in, or directly impacting sites recognized and protected by international agreements such as the World Heritage Convention and Convention on Wetlands (Ramsar), critical natural habitats (e.g. national parks) and disputed projects on transboundary waterways.

Our recommendation reflects international standards and Sinohydro's own practices:

- In 2003, the International Council on Mining and Minerals committed to considering World Heritage Sites as off-limits to development. Subsequently, Rio Tinto adopted World Heritage Sites as a "no-go" area for its projects.
- The World Bank in its *Natural Habitats Policy (Operations Policy 4.04)* commits the bank to not supporting projects that would result in the significant conversion or degradation of critical natural habitats, which are defined as IUCN I - IV protected areas.
- Sinohydro has shown some leadership in the area of dam building on transboundary rivers. Based on the concerns and objections of downstream countries to be impacted

by dams Sinohydro has expressed interest in building, it has withdrawn from the Chemoga Yeda Project and Grand Renaissance Dam on the Abay (Blue Nile) River in Ethiopia, and Yavan Dam on the Zeravshan River in Tajikistan.

We recommend the inclusion of the following statements under the Draft 2 Sustainable Development commitments document:

**To respect legally designated protected areas, the company will not undertake projects in, or directly impacting, sites recognized and protected by international agreements such as World Heritage Sites and RAMSAR sites, and projects with significant impacts on other critical natural habitats.**

**To assess the geo-political impacts of prospective hydropower construction contracts on transboundary rivers, including any objections from riparian countries.**

2. Respect for Local Communities: Sinohydro's handling of human rights abuses around the Agua Zarca project in Honduras is consistent with international practice and should be reflected in the Sustainable Development Policies. In July 2013 Sinohydro suspended site preparation activities due to conflict - prioritizing the safety of its workforce and helping to limit the escalation of violent situation between local indigenous communities and DESA – and eventually terminated contract in August 2013.

Indigenous peoples' livelihoods and cultures are often closely connected to the territories and ecosystems they inhabit. This is why indigenous peoples' rights have been enshrined by the international community in the United Nations Declaration on the Rights of Indigenous Peoples, which was supported by the government of China and 143 other countries in 2007. Sinohydro's role as a contractor in projects where the host country government's or project developers have neglected to obtain the consent of local indigenous communities, presents an enormous risk to Sinohydro operations because the project may not have the social license to be built. Even though it may be the host country government that fails to meet its human rights duties, as the United Nations Guiding Principles on Business and Human Rights state, this does not release Sinohydro from own independent responsibilities and the risks to the company from project opposition.

We recommend that the Draft 2 Sustainable Development commitments document include a separate commitment reflecting the principles set by Sinohydro's handling of Agua Zarca:

**In its relations with local communities, the company will respect human rights and where relevant the rights of indigenous peoples as set out in the United Nations Declaration on the Rights of Indigenous People and the UN Guiding Principles on Business and Human Rights, and where the company receives allegations of serious human rights abuse and conflict, suspend construction activities until all allegations can be investigated and issues resolved.**

3. Community Communications and Dialogue Mechanisms: We recommend that the Sustainable Development Policy reflect the standard established by the *Chinese Government's Guidelines for Environmental Protection in Foreign Investment and Cooperation* (January 2013) regarding community relations that require Chinese companies to establish a communications and dialogue mechanism, and solicit opinions and suggestions with respect to environmental impacts of construction projects (Article 20). Project based grievance and complaints mechanisms facilitate the implementation of the Chinese government's requirements because they send a message that the company wants to be held accountable for its behavior and enhances community engagement.

Grievance and complaints mechanisms can serve as important risk management tools. The nature and number of grievances can be an early indication that the project is in difficulty and requires additional management attention. With the Agua Zarca project, such a mechanism would have helped Sinohydro's management fully appreciate the seriousness of opposition to the project, which could have resulted in decisions to limit Sinohydro's financial losses.

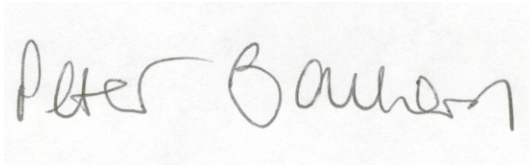
We recommend that Sinohydro's statements on community relations contained in Draft 2 Sustainable Development commitments document be brought into line with Chinese government guidelines by stating that Sinohydro will:

**Commit to establishing grievance and complaints procedures to facilitate communications and dialogue on its projects to take on opinions and suggestions with respect to the environmental and social impacts of its construction projects.**

Leading global actors are expected to follow leading global standards, including in the field of environmental policy. As a construction contractor, Sinohydro bears the all the risk if its projects do not have a social license to operate, if environmental impacts are not be thoroughly mitigated or becomes the focus of grievances if affected communities not adequately compensated. We encourage Sinohydro to use this opportunity to finalize an environmental policy that is of the highest environmental and social standards and publicly disclose it to assure shareholders, including the Chinese government, that Sinohydro is using risk management tools of the highest standard to address its business risks overseas.

We look forward to your response, and to continuing our constructive dialogue with you and your staff.

Your Sincerely,

A handwritten signature in black ink on a light-colored background. The signature reads "Peter Bosshard" in a cursive, slightly slanted script.

Dr Peter Bosshard  
Policy Director  
International Rivers

Grace Mang  
China Program Director  
International Rivers