

Sinohydro's Sustainable Development Plan

International Rivers' Comments and Recommendations

International Rivers recognizes Sinohydro's efforts to develop an environmental policy that reflects the highest international standards. We believe that this policy will set a high benchmark for Sinohydro and other Chinese dam builders and engineering contractors operating overseas. Strong implementation of this policy will enable Sinohydro to reduce its overseas risks and build on its reputation in the global dam building market. This is the second opportunity that International Rivers has had to comment on Sinohydro's environmental policy.

Overall, the principles and standards that Sinohydro is committing to are clear and consistent with international standards. The Policy Framework for Sustainable Development, Environmental Protection Policy Statement and Sustainable Development Policy Statement (The Plan) make a commitment to engagement and dialogue with a diverse group of stakeholders including host communities to achieve mutually beneficial outcomes. Ultimately, meaningful and sustained engagement with local communities will reduce business and reputational risk for Sinohydro and its investors. The decision to adopt of the World Bank's safeguard policies will ensure that Sinohydro's environmental and social practices are grounded in international standards. The World Bank policies will be an important reference point for the drafting of Sinohydro's Health Safety Environment (HSE) Business Practice Manual.

Implementation of this policy will be challenging but is necessary to address both Sinohydro's international responsibilities and risks. To facilitate the implementation of this policy, we recommend that Sinohydro adopt a number of projects as pilots or test cases to focus implementation efforts. We have also made remarks on implementation in the Next Steps Section.

Overarching Policy Framework for Sustainable Development

The practice implications of the sustainable development policy framework will be significant for Sinohydro's operations. To focus the company's resources and energy on getting the implementation of these policies right, it would be prudent for Sinohydro to nominate several pilot projects to enable the best practices to emerge and learn from any mistakes. This should be made clear in the overarching policy framework

The implementation of the policy and associated protocols should be prioritized in a selection of pilot projects sites and form the basis of best practice case studies. These best practice case studies will be invaluable models as the company implements the policy. These pilot projects should include a range of Sinohydro business areas (e.g. road building, construction and dam building) with differing intensities of environmental impact (e.g. range from a significant impact on the environment and local communities to minimal impacts). The pilot projects should be geographically diverse (e.g. Latin America, Africa, South-East Asia) to enable a full ambit of implementation experiences to be developed. Ultimately, the pilot process will enable Sinohydro to review and adjust the policy framework and assist with full implementation across Sinohydro's operations. We recommend that pilot projects be selected and operational by 2012.

While the Environmental Protection Policy Statement is relatively strong and comprehensive on social policy issues, there is limited reference to when and how these goals will be achieved in the implementation timeline. We recommend that additional social policy goals be adopted, and appropriate targets and implementation dates be assigned. We have made recommendations on targets and timelines in the detailed comments attached.

Environmental Protection Policy Statement

Overall, the statement is comprehensive and thorough on environmental and biodiversity protection. This statement makes clear that Sinohydro intends to avoid, minimize and mitigate environmental harm throughout the project cycle. An important commitment is the adoption and implementation of the World Bank safeguard policies. As noted above, the World Bank policies should serve as the minimum standard in the drafting of the Sinohydro's Health Safety Environment (HSE) Business Practice Manual - by doing this Sinohydro will ensure that its practices will be consistent international standards. We recommend that Sinohydro clarify that the World Bank safeguard policies will set a minimum standard for Sinohydro operations from which it will continually improve its practices.

The policy needs to be stronger in the area of community relations and engagement. The policy should recognize the importance of two-way communication between the company and communities. Consent from local communities and sustained dialogue throughout the project cycle is not only critical to mutually beneficial outcomes but also reduces the risk of project delay from conflict and opposition, as well as any adverse impacts on Sinohydro's reputation. Sinohydro should adopt the requirement of consent from the local communities as best practice for the project. In practical terms, this could be included in minimal condition when Sinohydro is assessing international tender opportunities or included in project feasibility assessments. The failure to do so will risk repeating the violent conflict which has affected other Chinese dam builders involved in the Myitsone and Taping Dam Projects in Burma.

Sustainable Development Policy Statement

The Sustainable Development Policy Statement articulates the fundamental principles and activities that will enable Sinohydro to make a contribution to sustainable development. The current goals and actions seek to primarily overcome the challenges of working overseas such as multicultural teams, global governance and ethics, and communication from afar. While overcoming these challenges will be critical to the sustainability of Sinohydro operations, it is not clear how they link to balancing environmental, social and economic priorities, which is at the heart of sustainable development policy-making. This statement is currently very weak on environmental priorities. Adding statements reasserting Sinohydro's commitment to environmental protection should address this. To this end, the statement should include a goal such as "we will identify, assess and manage risks posed by our operations to the environment" and a corresponding action such as "we will develop management plans addressing the impacts on biodiversity, water, waste, land and air, for all relevant Sinohydro project sites."

Next steps

Implementation

As noted above, the challenges of implementing this plan across Sinohydro's global operations are significant and will require dedicated resources and development of in-house expertise. Implementation will require a fundamental shift in the way Sinohydro approaches environmental and community issues across all its project sites from the executive level to the site worker. In some cases, the application of the policy may result in situations where Sinohydro decides not to participate in a project. We believe that Sinohydro's leadership in these circumstances will be its competitive advantage and will result in reputation benefits.

A realistic starting point for the implementation of The Plan will be the development of the environmental section of the HSE Handbook. As Sinohydro has already identified in the draft policy statements, the World Bank's safeguard policies should be the reference point for the development of these operational procedures and standards. This should be followed by the development of training curriculums and employee development programs to ensure that Sinohydro employees and contractors are supported in implementing these policy commitments.

Broader Government Sector Guidelines

The Chinese government is also in the process of developing environmental policy guidelines for Chinese overseas investment. The Ministries of Commerce and Environmental Protection are developing these guidelines. We suggest that Sinohydro present its draft environmental policy to the Ministry of Environmental Protection as an example of the high standard which the Chinese overseas hydropower industry should be striving towards.

Annex: Detailed comments

Overarching Policy Framework for Sustainable Development

Recommendation	Page reference	Comment
Include an overarching principle on environmental protection	1	<p>This commitment should be made clear in the overarching plan to complement the very clear commitments in the Environmental Protection Plan.</p> <p>Suggest replacing:</p> <p>“For every activity, identify all significant environmental impacts in order to prevent and minimize impacts on the environment and to reduce possible sources of pollution,”</p> <p>with a clearer statement that Sinohydro:</p> <p>“will prevent, reduce and control any negative impacts on the environment from our operations, products and services.”</p>
Reorganize and separate principles into “actions” and “principles”	1	<p>The policy framework includes both actions and principles which is confusing.</p> <p>Principles are by definition fundamental values that should guide Sinohydro’s operations, management policies and practices, and decision-making processes.</p> <p>Actions are commitments to do something and should logically support the principles.</p> <p>On this basis, the following items should be identified as principles:</p> <ul style="list-style-type: none"> • Full respect for applicable laws on the international, national and local levels. • Ensure supervision of product quality, respect for the environment and host communities (see recommendation below), and guarantee the health and safety for works in all environments and work areas. This commitment also extends to workers of contractors and subcontractors operating at all our work sites. • Prevent, reduce and control any negative impacts on the environment from our operations, products and services. <p>The remaining items should be grouped together as “actions”.</p>
Include reference to communities in the principles sections	1 and 2	<p>Suggest that the principles refer to a commitment from Sinohydro to respect communities affected by its projects. The wording of such a commitment could be incorporated into existing text (new text underlined):</p> <p>“Ensure supervision of product quality, respect for the environment <u>and local communities</u>, and guarantee the health and safety for works in all environments and work areas. This commitment also extends to workers of contractors and subcontractors operating at all our work sites.”</p>

Recommendation	Page reference	Comment
Objectives and Implementation Timeline – Environmental Protection		
Improve presentation and comprehension by separating out environmental protection, and community relations and development objectives	4 & 5	Create a new section “Objectives in Community Relations and Development”
Clarify the language regarding the development of environmental management systems	4 (second listed objective)	<p>The current text “all environmentally relevant locations” is ambiguous and it is unclear what this means.</p> <p>This statement could be improved by rewording the objective as follows: “all relevant locations deploy environmental management systems.”</p> <p>The objective should read “Project schedules for the introduction of environmental management systems have been defined and are being implemented.”</p>
Clarify language on the objective on environmental standards to protect biodiversity	4 (third listed objective)	<p>We recommend clearer wording be adopted.</p> <p>The current objective “elaboration of environmental standards to protect biodiversity on construction sites” should be changed to “development of environmental standards to protect biodiversity impacted by construction at project sites.”</p> <p>The achievements for this objective should also be made clearer. Our recommended wording is below:</p> <ul style="list-style-type: none"> • A process for Environmental Impact Assessment is developed. • Common controls and practice to mitigate environmental impacts are identified. • Project sites are identified for pilot testing of environmental protection measures.
Clarify language on the objective to “Save resources, develop new energies” and combine with the objective to “reduce and recycle waste” to avoid duplication	5	<p>We recommend that this objective be combined to avoid duplication. This objective should read as “Save resources, recycle and reduce waste and reduce energy use.”</p> <p>The relevant achievements should include:</p> <ul style="list-style-type: none"> • Identify environmental performance targets on reducing resource use, waste and energy use • Development of an implementation plan to achieve targets
Recommend removing reference to Nam Ngum 5 project because it is not relevant	5	Remove reference to Nam Ngum 5 project as this refers to new energy sources for community development rather than Sinohydro's own energy use. Its inclusion is otherwise confusing and not relevant.
Include a new objective to undertake five pilot projects to implement environmental protection policy standards	-	<p>To support the effective implementation of Sinohydro's Sustainable Development Plan, Sinohydro should proceed with implementation across a number of pilot projects.</p> <p>Proposed text:</p> <p>2011 Objective: “Undertake pilot projects to implement environmental protection and social policy standards.”</p> <p>2011 Achievement: “Five pilot project sites are identified and implementation of the policy standards is underway.”</p>

Recommendation	Page reference	Comment
<p>Include Community Relations and Community Development objectives to reflect policy commitments contained in the Environmental Protection Plan</p>	<p>-</p>	<p>The Environmental Protection Plan includes a number of strong and important community relations and development actions. These should be reflected in the implementation targets and timeline.</p> <p>We believe the following objectives and achievements will contribute to the implementation of these policy positions and are realistic.</p> <p>2012 Objectives:</p> <ul style="list-style-type: none"> • Define complaints procedure for project stakeholders (including affected communities) • Select and conduct pilot activities on complementary community economic development activities and community dialogue • Conduct trainings for overseas employees on community relations and stakeholder management • Require community consultations and broad based community support for all new projects <p>2015 Objectives:</p> <ul style="list-style-type: none"> • Ensure that affected communities benefit from economic activity created by Sinohydro projects • Consultation mechanisms are developed for local communities affected by Sinohydro operations where Sinohydro is a project developer

Environmental Protection Policy Statement

Recommendation	Page reference	Comment
Recognize the importance of two-way communication flow between Sinohydro and local communities	1, Introductory paragraph	<p>Consent from local communities and sustained dialogue throughout the project cycle are critical to creating mutually beneficial situations. Addressing concerns and feedback from affected communities is just as important as the project developer providing information about the projects progress.</p> <p>We recommend that language be included in the introductory paragraph to acknowledge the two-way communication flow:</p> <p><i>"Sinohydro will engage regularly, openly and honestly with the people interested in and affected by our operations. We will strive for mutually beneficial outcomes by taking their views and concerns into account in our decision-making."</i></p>
Include a commitment to conduct social impact assessments	2	<p>To accurately assess, prevent and mitigate project impacts on the surrounding community, social impact assessments should be conducted as best practice and be recognized in the policy statement. We suggest new and additional text requiring the conduct of social impact assessments be included in the following context: (proposed text is indicated by the underline)</p> <p><i>"Fostering social and economic development to achieve long term sustainable community development and respect for the culture of local communities where Sinohydro operates including (new text underlined):</i></p> <ul style="list-style-type: none"> - Conducting a social impact assessment; - Open and informed communication with communities; - Resettlement action plans that include livelihood options, resettlement site options, compensation and new infrastructure; - A complaints mechanisms; - Participation in local initiatives and aid projects; and - Dialogue with local NGOs of the host country."
Clarify that World Bank Safeguard policies will set the minimum standard for Sinohydro operations and practices	1	<p>We have recommended above that the Statement clarify the standing of the World Bank's safeguard policies. To avoid uncertainty, it would be prudent to state that the safeguard policies will serve as the minimum standard.</p> <p>We recommend that the commitment be as follows (new text underlined)</p> <p><i>"Adopt all the World Bank's safeguard policies as a minimum standard for Sinohydro's operations."</i></p>
Extend the commitment to reducing greenhouse gas emissions for the life cycle of Sinohydro's activities	2	<p>Given that Sinohydro can be both a designer, builder and operator of large infrastructure projects, Sinohydro should work to better understand the sources of greenhouse gas emissions associated with its operations based on the best available science and work to reduce those emissions.</p> <p>It is recommended that the commitment on greenhouse gas emissions be rewords as follows: <i>"Reduce greenhouse gas emissions from the full lifecycle of our projects from design through to operation."</i></p>

Sustainable Development Policy Statement

Recommendation	Page reference	Comment
Reword the phrase “Sustainability involves the following challenges”	1	<p>The substance of the text does not match with the heading. These are really Sinohydro's goals and objectives.</p> <p>This heading should be renamed “Achieving sustainability requires the following company objectives.”</p>
Include an environmental protection provision	1, Challenges	<p>As discussed above in the general comments, this section lacks reference to environmental protection objectives.</p> <p>We recommend the inclusion of an environmental protection goal such as “We will identify, assess and manage risks posed by our operations to the environment.”</p>
Include a corresponding environmental protection action	1, Actions	<p>As discussed above this section lacks reference to environmental protection actions.</p> <p>We recommend the inclusion of an environmental protection action such as “We will develop environmental management plans addressing impacts including on biodiversity, water, waste, land and air.”</p>
Include of a commitment to comply with any relevant guidelines issues by the Chinese government	1, Actions	<p>MOFCOM and MEP are expected to release environmental policy guidelines for Chinese overseas investment. Sinohydro should comply with these guidelines once finalized.</p> <p>We recommend that as a principle Sinohydro should comply with relevant Chinese laws and government guidelines. This would be achieved by the inclusion of the following text (new text underlined):</p> <p>“Insuring compliance with the requirements stated in local laws and in the relevant guidelines issues by the <u>Chinese government and International Organizations</u>.”</p>
Clarify that Sinohydro will create reliable system for reviewing its own sustainability performance	1, Action	Recommend that it be made clear that a reliable system for reviewing sustainability performance will apply to Sinohydro operations, as well as suppliers.