Proposed Nam Theun 2 Hydroelectric Project in Lao PDR  
Washington DC Technical Workshop  
September 10, 2004

ANNEX F

Submissions from Participants:

1. PROBE INTERNATIONAL

September 15, 2004

Attn: David Hales  
Council for Sustainability Policy, Worldwatch Institute & Moderator  
World Bank Workshop on Proposed Nam Theun 2 Hydroelectric Project, Lao PDR  
held in Washington DC  

CC: Marcel Masse, Canada’s Executive Director  
Stephen Free, Senior Advisor to Canada’s Executive Director

Re: Probe International’s Summary Remarks on World Bank Financing for the Nam Theun 2 Hydroelectric Project in Lao PDR

Probe International’s Interest

Probe International is a Canadian taxpayer-supported citizens group that opposes the use of Canada’s foreign aid for:

1) environmentally destructive and uneconomic development schemes;
2) subsidizing private profit at the expense of taxpayers, captive electricity ratepayers, or the environment; and
3) unaccountable governments that do not respect the rule of law or the individual and community property rights of citizens.

Based on our review of all available information, World Bank and Asian Development Bank funding for Nam Theun 2 constitutes all three categories of foreign aid abuse. Specific criticisms of the Nam Theun 2 plans are found in Probe’s written submissions:


4) Friends of the Earth Western conservation groups back Indochina’s most environmentally destructive hydro scheme, (A review of the Nam Theun 2 Power Company’s watershed management plans), September 7, 2004.

Final Remarks

Nam Theun 2 is No Model Infrastructure Project

Contrary to what the Bank would have the public believe, World Bank funding for Nam Theun 2 would send the wrong signal to private investors and power companies in the region – that electricity investment deals remain ultra risky, ultra secretive, take years to negotiate, and are still driven by foreign aid subsidies and monopoly deal-making rather than the best available technologies, customer needs, and an open and competitive bidding process based on respect for the rights of consumers and citizens, not just the rights of investors. Nam Theun 2 is no model for infrastructure investment and the Bank’s own power sector experts know it. In its desire to cajole private investment into Nam Theun 2, the Bank has imprudently set up a framework whereby the Nam Theun 2 Power Company is relieved of the project’s real risks, and is guaranteed revenue over a 25-year period. Laotians meanwhile would be forced to bear the burden of resettlement failure and irreparable damages to their ecosystems without guaranteed recourse to the power company for damages, without being fully informed about the expected damages and risk of failure, without the right to opt for alternative development strategies that don’t destroy their resources, and without guaranteed compensation in any event. With this framework for private profit, public risk, the Bank is victimizing defenceless Laotians. It is not unreasonable therefore to predict conflict will result – this in a country that has already suffered a decade of economic deprivation thanks to the Bank’s fixation on a single unbankable power project.

World Bank Denounces Critics Rather Than Prove Its Case

In parallel with the World Bank’s workshops on the proposed Nam Theun 2 hydro project in Laos, the Bank is running a media campaign that discredits the Bank’s alleged commitment to an honest and impartial assessment of the Nam Theun 2 project. Writing this week in the Business Times of Singapore, the Bank’s external affairs officer, Peter Stephens, argues that while the Bank has made no decision on financing Nam Theun 2, anyone opposed to the project is effectively denying Laotians their chance for a better life based on some irrational fear of large dams. What utter nonsense. Tying the fate of Laotians to construction of a single hydro export scheme is a political trick, one that would be promptly denounced as such by Laotians if Lao PDR were a free country.
Nam Theun 2 critics, including Probe International, are not telling Laotians or the Lao government what it should or should not do; we have simply asked the World Bank to either live up to its own standards and back up its claim that Nam Theun 2 will be different from past hydro dam failures – OR decline funding for the project. This would have to include demonstrating how local people will not be victimized as they have been in the past, how the plans for ‘new livelihood options’ will triple resettlers’ income in eight years, how much Laotians will have to borrow from the World Bank to pay for the dam’s externalized costs, how the Bank will penalize corruption and mismanagement, and how the project compares to other economic development strategies. We cannot emphasize enough that the World Bank’s Nam Theun 2 team of experts have failed to make their case. Perhaps that failure explains why the Bank’s external relations department has adopted a tone verging on hysteria, claiming that without Nam Theun 2 Laotians will be banished to “eternal poverty.”

We reject outright the Bank’s notion that Laos has no other option but Nam Theun 2. Saying so does not make it true. The fact is that Laotians have been denied other options for development by the alliance struck by the World Bank, its client-government, and the Nam Theun 2 Power Company. By all accounts, Laos wasn’t a good place to do business or invest a decade ago and that remains true today because of policy choices made by the Lao government, not because NGOs have no confidence in Nam Theun 2. If the Lao government decided to open its doors to private investment, respect the rule of law, and recognize its citizens’ land and resource rights, investors and development would follow. Because the Lao government has adopted Nam Theun 2 as its political and economic lifeline, rather than reform, the country has remained an economic backwater mired in poverty and ignorance.

**Nam Theun 2 Costs Still Not Counted, Ten Years Later**

The World Bank claims it will only support the billion-dollar Nam Theun 2 hydro venture if it can ensure that the benefits to Laotians outweigh its costs to Laotians. Yet the developers have not completed this analysis. Based on Probe International’s review of the developers’ plans, the World Bank’s recent policy statements, and the Bank’s responses to questions posed at the September 10th Nam Theun 2 workshop in Washington, we have no confidence that the proponents can deliver the promised benefits from this project.

Costs not counted include: the cost of downstream livelihood, resource, and property damages; the cost of providing replacement livelihood income for all project victims over the project life (including those resettled, the 5800 people now living in the Theun watershed, the more than 40,000 people affected downstream), the opportunity cost of flooding more than 600 square kilometres of the Nakai Plateau in central Laos and destroying fisheries in two river systems.

The Bank’s assurances that it has studied the project exhaustively is simply false: the fact is major costs to Laotians remain uncounted, even after a decade of support from the World Bank. The number of people affected has still not been properly assessed, no
detailed compensation plans have been worked out for people living in the Theun watershed and downstream of the dam. Proponents say this is “a work in progress” -- we believe these “gaps” in the plans and cost assessment signify a lack of respect for the rights of those affected to know precisely how they will be affected and what compensation the company is prepared to provide before final decisions are taken and irrevocable damage is inflicted upon local people’s resources and livelihoods. Conducting a rigorous assessment and availing local people of the facts about how their river, land and livelihoods will be affected by a large hydro dam is not rocket science, though the Bank certainly gives that impression.

The proponents’ assurances that further cost assessment will be done after the project financing is approved is not acceptable or credible. Costs not properly assessed and internalized by the power company now are unlikely to get attention later after financing is approved given the Lao government’s conflict of interest as a part-owner of the Nam Theun 2 power company with a clear interest in maximizing its profits not assessing costs to local people. This conflict of interest should be recognized by the Bank as the single biggest obstacle to delivering fair compensation and benefits to affected people, not the lack of capacity as so often cited by the Bank as the rationale for more Bank funding.

World Bank Oversight

The Bank is putting a great deal of emphasis on its own ability to enforce and police the project, without acknowledging that the Bank has no track record for the kind of intensive oversight it now claims it is ready to provide, nor does it have any real authority or capacity to act as enforcers or to uphold the rights of Laotians when they conflict with the interests of its client-government. The Bank claims one of its antidotes for corruption and illegal logging is a new watershed management authority free from all illegal logging interests in central Laos, and one that will subject all contracting and equipment procurement decisions to strict approval and auditing procedures. Similar claims were made by the Bank in the case of the Lesotho Highland Water Authority and yet the Lesotho courts found a Canadian firm, Acres International, guilty of bribery in connection with a World Bank contract. The Bank’s claims that it can keep Nam Theun 2 corruption-free are not persuasive given its track record and the lack of government accountability and democratic oversight in Laos.

Conclusion

After participating in the September 10th workshop, Probe International remains concerned that the Nam Theun 2 project will lead to more unnecessary poverty and environmental degradation in Laos, and that the World Bank simply cannot guarantee successful implementation. Therefore, we urge the Canadian government and the World Bank to decline funding. (The question of whether and how much the World Bank owes Laotians for 10 years of economic stagnation on the Nakai Plateau while the Bank “considered” Nam Theun 2 is a separate issue beyond the scope of this memo.)
If you have any questions or require clarification about any of the points raised in this memo please do not hesitate to contact me directly at 416 964 9223 ext 228

Sincerely,

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2. PROBE INTERNATIONAL
Probe International’s Message

Probe International argues against Canadian or World Bank support for the Nam Theun 2 hydropower project in Lao PDR because the project represents a costly, unnecessary, unreliable, and environmentally damaging addition to Thailand’s power system. World Bank funding would not serve as a hand up to the rural poor of Lao PDR, as its proponents claim. Instead, it would give the French and Thai power monopolists behind the Nam Theun 2 Power Company a hand out at the expense of Thai ratepayers, the rural poor in Lao PDR, the environment, and the economy. The people of Lao PDR and Thailand would be better served by democratic utility reform and investment in cleaner, high-value, and lower-cost generating technologies. Bank financing for the Nam Theun 2 power deal would: ensure the Thai power market is over-supplied with artificially cheap power; discourage investment in higher-value, lower-cost generating options; and sink Electricité du Laos further into debt. It would also send the wrong signal to investors and utilities that monopoly self-dealing still drives electricity investment decisions in the region, rather than consumer demands, technological advances, and public acceptability.

A Lost Decade in Lao PDR: The World Bank and the Nam Theun 2 Hydro Project

The World Bank is expected to decide this year whether or not to finance one of the largest and most controversial hydro projects in Southeast Asia, the proposed US$1.1 billion

1. Nam Theun 2 dam in Lao PDR. Officially, the Bank is “months away from any final decision on whether we can support the project or not,” according to a Bank spokesperson.

2. However, Loy Chansavat, a Laotian advisor to the Nam Theun 2 Power Company, reports that the Bank is likely to approve financing by early 2005.

3. Construction is expected to start mid-2005. After years without a market or investors, the Nam Theun 2 Power Company led by French utility giant, Electricité de France, signed an agreement last November to sell the dam’s output to Thailand’s electricity generating authority (EGAT). The 25-year deal, worth an estimated US$6 billion, commits EGAT to purchase 995 megawatts for an average price of 4.15 US cents per kilowatt-hour starting in 2010.

4. Led by Electricité de France with its 35 percent stake, the Nam Theun 2 Power Company includes the Electricity Generating Company, the private subsidiary of Thailand’s national power company, Electricity Generating Authority of Thailand, Ital-Thai Development, Thailand’s largest construction company, and the national power company of Lao PDR, Electricité du Laos. The company’s technical advisor is PB Power, part of the New York-based Parsons Brinckerhoff engineering group.

5. Financing Nam Theun 2 has been a stumbling block for the developers over the last decade. Two-thirds of the project revenue is to go to the dam’s French and Thai developers yet they have been unwilling to risk their capital and will not be able to attract commercial financing, unless the World Bank provides a political risk guarantee and subsidies to help defray the dam’s high social and environmental costs. To protect would-be Nam Theun 2 investors, the World Bank approved a special guarantee mechanism in 1997 following nearly two years of discussion with the Nam Theun 2
consortium (at that time led by Australian engineering giant, Transfield). If the guarantee is applied, the World Bank would pay commercial lenders a portion (i.e., US$100 million) of what they are owed by the Nam Theun 2 Power Company in the event it cannot service its debts due to war, civil disturbances, expropriation, violation of concession contracts or other forms of government interference.

6. The Bank is also considering a loan between $20 and $30 million to cover part of the social and environmental program costs.

7. Without protection and subsidies, commercial banks and Western export credit agencies are reluctant to risk their capital on a billion-dollar partnership with a bankrupt and formerly communist regime. As Paul Cargill of Mallesons Stephen Jacque, the Lao PDR government’s lawyers, explains: “we all know where and what Laos is. . . . When [investors] look for the Lao legal system (being the laws themselves and the courts that apply and interpret those laws), they see an underdeveloped system which does not June 2004 Probe International Backgrounder.
3. OPEN LETTER FROM 16 NORTH AMERICAN CIVIL SOCIETY ORGANIZATIONS

September 10, 2004

The Proposed Nam Theun 2 Hydropower Project in Laos

As the World Bank conducts a “technical workshop” in Washington, DC on the proposed Nam Theun 2 project in Laos, many serious concerns call into question the project’s ability to meet the World Bank’s goal of poverty reduction.

The $1.3 billion hydropower project will displace more than 6,000 indigenous people and impact more than 100,000 villagers who depend on the Xe Bang Fai River for fish, agriculture and other aspects of their livelihood. We are concerned that the risk of resettlement failure is high given that the small amount of land being provided to villagers is of poor quality and unsuitable for rice production.1

The project will have dramatic effects on two river basins. Even the Nam Theun 2 Power Company (NTPC) admits that many of these impacts cannot be mitigated and instead will permanently alter river ecology and river-based livelihood systems. NTPC predicts “a collapse in the aquatic food chain,” along the Xe Bang Fai. Fish catches would drop by 40 to 60 percent. Aquatic plants, snails, mussels, and shrimp traditionally collected for food or sale at local markets would disappear. And riverside land used for high-value crops in the dry season would be permanently flooded by the dam's discharges.2

We recognize that the Nam Theun 2 will generate revenues for watershed management and foreign exchange for the central Lao government. However, the Government’s capacity to manage protected areas and utilize project revenues for the benefit of Laos’ poorest people has been called into question. Furthermore, the experience with other dams in Laos indicates that much more needs to be done to ensure that the World Bank and the Asian Development Bank (ADB) have effective mechanisms in place to monitor compliance with social and environmental conditions once project construction is complete.

The project developers and the Government of Laos are seeking close to $300 million from the World Bank and the ADB in loans and guarantees for Nam Theun 2. Given that total World Bank and ADB annual commitments to Laos have averaged approximately $100 million over the past few years, we are concerned that funding for Nam Theun 2 will displace more direct forms of poverty reduction aid and absorb a disproportionate share of the country’s aid resources in the coming years.

1 The Social Development Plan states that the soils in the resettlement area “in general are heavily leached and infertile” and there is a “severe limitation on their arable land uses.” (Chapter 21, Page 5)
2 Nam Theun 2 Hydroelectric Project, Social Development Plan (July 2004), Volume 3, Xe Bang Fai EMDP and Resettlement Framework, Chapter 32, Description of Livelihood Impacts
While there have been a recent series of meetings in Laos to share project plans with villagers and elicit feedback, genuine consultations on development options have not occurred. According to the U.S. State Department’s 2003 Country Report for Laos, the human rights record “remained poor” and the government “prohibited most criticism that it deemed harmful to its reputation.” Furthermore, the right to organize and join associations is “restricted in practice” and the government “prohibited associations that criticized the Government.” This environment makes it extremely difficult - if not impossible - for Lao citizens to question the priorities of their government and to seek redress when agreements or commitments are not met.

Nam Theun 2 is an extremely large and complex project. A number of critical studies are outstanding or have not been released to the public, yet the World Bank and ADB appear to be rushing to appraisal. After more than a decade of project development, we are concerned about the number of unanswered questions that remain. A compelling case has not been presented to demonstrate that poverty reduction benefits justify the economic, social, and environmental risks of Nam Theun 2.

Endorsed by:

ActionAid International USA
Bank Information Center, USA
Center for Economic Justice, USA
Citizens’ Network on Essential Services, USA
Environmental Defense, USA
Friends of the Earth, Canada
Friends of the Earth, USA
Halifax Initiative Coalition, Canada
International Rivers Network, USA
Jubilee USA Network
Pacific Environment, USA
Pesticide Action Network North America
Public Citizen, USA
Rainforest Action Network, USA
Sustainable Energy & Economy Network, USA
50 Years Is Enough: U.S. Network for Global Economic Justice

4. ENVIRONMENTAL DEFENSE
1. **There has been no assessment of alternative options for Laos.** The World Bank calls Nam Theun 2 the best hope for poverty reduction in Laos. That claim is entirely unsubstantiated and manipulative. The World Bank has not conducted any assessment of alternative options for employment creation or revenue generation for Laos. The World Bank has not compared Nam Theun 2 to other non-hydropower options which might generate similar revenue streams over the next 30 years. The World Bank has not assessed or consulted with villagers on alternative options for raising the living standards of people on the Nakai Plateau (this project alone was presented to villagers with promises that it will make their life better; their “enthusiasm” is not surprising). The World Bank has not conducted a comprehensive economic, social and environmental cost-benefit analysis to justify support for this high-risk project instead of other development options. These analyses should have been conducted years ago, before Nam Theun 2 became the only game in town. Without these analyses, there is no way to honestly assess if Nam Theun 2 merits World Bank support or if its risks are justifiable.

2. **The track record in Laos is dismal.** ADB’s own governance assessment for Laos notes that corruption is pervasive. Despite very recent “progress” on World Bank-supported public management reforms, a June 2004 World Bank OED evaluation (reviewing performance since 1993 on some of the same reform objectives that had to be repeated again in the Financial Management Adjustment Credit) finds both World Bank and borrower performance to be unsatisfactory. The review notes that “budget discipline did not improve significantly” over the past decade and that in addition to a lack of implementation capacity, there is a “weak commitment to reform at the level of the true policy-makers.” The ADB admitted in its first TA paper for Nam Theun 2 that “the Government’s capacity to implement large-scale complex hydropower projects still remains a major concern.” Very little time has passed since these assessments and recent “improvements” in government performance are the exception rather than the rule. Real world examples of the dismal track record abound: dams financed by the ADB only a few short years ago have decimated fisheries, destroyed people’s access to clean drinking water and flooded rice and vegetable gardens. Experience has shown that dams in Laos are more likely to exacerbate rather than alleviate poverty. Why will things be different this time around, especially after the World Bank’s key point of leverage – a decision to support NT2 – is gone.
The World Bank and ADB have provided no justification for their misplaced optimism in the case of Nam Theun 2.

3. **There are significant outstanding issues and questions.** It is very clear from the international technical workshops that despite all of the time and money that has been invested to date, there are far too many outstanding issues to justify initiating appraisal for NT2. Complete analyses of the potential economic and financial risks and benefits of the project for the government and people of Laos have not been released, and many social and environmental studies are still under preparation. Major impacts are still not understood, baseline data is missing and mitigation plans have not been developed. Despite this, the World Bank is rushing to appraise and approve the project before a May 2005 deadline for financial close expires.

4. **The “poor” human rights situation in Laos.** According to the U.S. State Department’s February 2004 report “the [Lao] Government’s human rights record remained poor, and it continued to commit serious abuses.” With no local civil society organizations, no free press, no independent judiciary and a Government that prohibits “most criticism it deems harmful to its reputation,” promises of grievance redress and monitoring ring hollow for villagers who will be absorbing all of the project’s risks. The Lao government is not committed to reform or to human rights, and resettlement projects in Laos have had disastrous consequences. Debate about NT2 is even stifled in industrialized countries, where international NGOs with programs in Laos are afraid to raise concerns for fear of not having their Lao visas re-issued.

Before a decision is taken to initiate appraisal, the World Bank should make public an explicit assessment of the project vis a vis its “decision making framework,” and it should respond to the directive from its donors in the IDA-13 replenishment agreement to explain how NT2 takes into account the core values and strategic priorities of the World Commission on Dams.
5. WORLD RESOURCES INSTITUTE

Note from Frances Seymour to Melissa Fossburg:

Thanks for the reminder to send any additional comments related to the workshop by today. I'd like to take the opportunity to translate a question that I asked at the workshop into a recommendation, and to make one additional request for documentation.

(1) I recommend that the World Bank conduct and publish an analysis of the extent to which the NT2 project conforms with the "Strategic Priorities for Decision-Making" articulated in the report of the World Commission on Dams almost four years ago. I believe that publication of such an analysis would be an important step to underpin the integrity of the third pillar of the Bank's decision framework.

(2) Following completion of the series of five workshops culminating in Vientiane and prior to a decision to move ahead with project appraisal, I suggest that the World Bank publish the results of its analysis of the degree to which the project meets the terms of the three pillars of the Bank's decision framework articulated by Mr. Delvoie in his opening presentation at the workshop.

Thanks again for the solicitation of further input. I look forward to seeing the summary report.
6. CHRIS HERMANN

This responds to the invitation to provide comments on the available NT2 workshop materials and to comment on some aspects of such materials.

The following comments are submitted in my capacity as an individual workshop participant and are not submitted as, and do not represent, official agency views, much less should they be viewed as constituting official US comments. Due to time and other constraints, these comments do not necessarily cover points that might be raised by a more complete review of the materials and will of course be limited to informational matters relevant to evaluation.

1. In general, the quality of the presentation of the materials--clarity, candor, comprehensiveness of the subjects covered--is unusually good. The project sponsors and other responsible parties are to be commended for an unusual, perhaps unprecedented, level of transparency in this regard. This is perhaps a reflection of the commitment to candor and quality conveyed at the workshop by Mr. Delvoie.

2. Status of Supporting Studies. Annex A of the SESIA (Advanced Draft, July 2004) identifies numerous supporting studies, some of which are also briefly mentioned in the EAMP (Preface, p. xvii), which appear from the descriptions in the SESIA and EAMP to be relevant to issues basic to project evaluation, e.g., GOL capacity assessment, cumulative impact assessment, due diligence on livelihood options, environmental and social cost benefit analysis, lower XBF hydrology modelling, gender impact assessment, and riparian release study. It would be useful to know more about the sequencing of these studies in relation to key stages in the project cycle such as project appraisal.

3. Integration of Environmental and Social Costs into the Project. Workshop presenters emphasized at several points that the project could be differentiated from past donor-supported hydroprojects in two ways--first, that environmental and social costs would be integrated rather than externalized, and second, that downstream impacts would be carefully examined. Two basic downstream impacts of the project involve rivers: the complete and partial dewaterings of the Nam Theun for a considerable distance; and the inundation of the XBF such that hitherto-intermittent rainy season conditions combined with a large weekly fluctuation will prevail through the year.

Under these circumstances, an environmental cost-integrating approach would seem to include

(i) deriving an appropriate riparian release flow from consideration of alternative ecological management objectives for the Nam Theun, then assigning the cost of an appropriate level of release to the project. This contrasts with the project approach, which appears to have exogenously derived a minimum average riparian release of 2 m³/s (measured weekly) plus a complementary release, then developed a management objective (maintaining connectivity) that came closest to what the available water might be able to do. The SESIA states that the
alternative of increasing the riparian release was "not considered" (p. 17) and it
does not appear from the EAMP (p. 59) that the riparian
release review currently underway will address this issue. It appears that the
usefulness of the riparian review, though valuable, is basically limited to
determining a release pattern for the complementary flow.

[As a separate but related matter, the effectiveness of any riparian release to achieve
management objectives will be affected by the temperature, quality and speed of the
water released. It is unclear what steps other than a cone valve for aeration will be taken
to address this issue.]

(ii) managing releases to the XBF to minimize fluctuations, then assigning the cost of
an non-economic releases to the project. The weekly 32-hour minimum release
into the XBF is readily avoidable. Yet, according to the SESIA (Table D.2), the
option of maintaining weekday release levels was not even considered. Avoiding
this fluctuation could have several significant project benefits: reduced risk of
slumping and erosion, reduced sedimentation loss and turbidity effects, avoiding
the indirect disturbance of aquatic conditions in wetlands, ephemeral streams,
tributaries, etc., of episodic draining towards the mainstream.

4. Integrating Fish Impacts and Livelihood Impacts. According to the SD Plan (July 04),
the SDP including Chapters 31 and 32 supercedes previous impact assessments of the
issues they cover. Chapter 31 on fish impacts, while inconclusive in many respects,
raises all manner of red flags, most prominently with respect to

(i) the food chain in the mainstream ("collapse....is highly likely"),
(ii) inundation of mainstream spawning habitat, and
(iii) anaerobic and toxic release water in the dry season (notwithstanding aeration
structures).

On a perhaps hasty reading, it seems to stop short of actually assessing impact on
fish or predicting any recovery as the new morphology takes shape. So it is unclear what
is, and what is the basis for, the recent "agreement" on impacts described in the
workshop. And it is unclear how Chapter 32 on livelihood impacts, which assumes a
significantly diminished but not insignificant level of fish catch, integrates the highly
suggestive (of large and irreversible impact at least in the upper XBF) but inconclusive
Chapter 31 analysis.

[As a separate but related matter, it is unclear on what basis the author differentiates so
completely between the mainstream impacts and impacts in linked tributaries, etc. It
should be better explained what immunizes such ecosystems from newly unfavorable
hydrological and biological conditions in the mainstream, given migration and other
inter-dependencies.]

[As a separate but related matter, it is unclear what Chapter 32 assumes about post-NT2
non-mainstream fish productivity. It appears to assume that levels of productivity will be
unaffected by the project impacts on the mainstream or by fishing pressure diverted from
the mainstream. Or, in the alternative, does it assume that any reduction in such fisheries is not directly or indirectly induced by the project?]

[As Chapter 32 indicates, over-fishing can impact productivity in successive years but its use to limit livelihood restoration could compromise an important objective since the true 'cause' of reduced productivity is unlikely ever to be known or simple.]

[As a separate but related matter, it would be useful to have more information on the basis for the estimate of a 1.5 C temperature drop for reservoir water reaching the XBF and the associated finding of "minimal impact" on fish (SDP, Paragraph 40.2.3). Chapter 31 (Paragraph 87.3.2.1), which predicts a 3-5 C drop at the point of release, seems more cautious about the mitigation potential of the Downstream Channel and does not relate it to reduced impact on fish.

5. Compensation Strategy and Livelihood Restoration. Workshop materials state that "NTPC is contractually responsible for implementing and covering the cost of all mitigation and management measures during construction and operation" (Project Specifics Powerpoint, slide 23).

In this connection, presenters indicated that the contractual compensation obligation was potentially open-ended. Chapter 40 of the SDP seems to limit compensation to three defined impacts--reduction in mainstream fisheries catch, inability of establish dry season riverbank gardens and field due to increased river levels and erosion, and difficulties in crossing the XBF river, with the amount and type of compensation to be decided after impact was assessed--and excludes compensation for overbank-flooding impacts.

The relation of the project to livelihood from flood-based agriculture is unclear. Isn't the 'right' flood a source of highly productive agriculture in the area. Yet Project materials state (SDP Chapter 40, paragraph 40.8.1, among other places) that XBF rainy season floods "almost every year result in damage to wet season crops" as a premise for suggesting that the project will prove a disguised blessing by assisting a shift to more secure dry season irrigation. To what extent are livelihoods dependent on "good" floods that will be suppressed by Project-induced flood management. Should such flood-dependent livelihood loss be compensated, particularly if dry-season irrigation cannot be substituted without additional non-Project support.

Along the same lines, Chapter 40.9 and .10 describe various approaches to livelihood restoration (direct strategies like fish ponds, indirect ones like protein substitutes, or non-food based development) but do not describe the robustness of such strategies. According to some observers’ reports, fish ponds in the area are not widespread or very successful (Shoemaker, The People and their River, 2001, among others). Will the AFD due diligence study on livelihood options address this and if so will when will it be available for public review.

[The exclusion of compensation for overbank-flooding seems to assume a high level of confidence in predicting and managing floods and reservoir releases at Mahaxai. Would
6. Economic Assessment of Environmental and Social Costs. Paragraph 122 and Table H.1 of the SESIA present preliminary estimates of local and global environmental/social costs and benefits. Paragraph 122 states that local impacts are positive. Table H.1 indicates that this result derives from 'new economic activities' in the NNT NPA and, apparently, considerably scaled-up pilots of 'livelihood programs' in the Nakai Plateau. Downstream impacts in the XBF are highly negative. Downstream Nam Theun environmental and social effects and Mekong River effects are not counted. Should statements such as those in Paragraph 122 be modified and qualified to reflect these distributional issues and gaps.

7. Intertemporal Releases. A workshop presenter explained the contractual obligation to release water when available to compensate for water not released when needed to meet power needs. Is the potential magnitude of such releases and how they might affect hydrological conditions described in the EAMP or elsewhere? If not, will more information on this be made available?

8. WCD Report. As WRI commented at the workshop, an analysis of the recommendations of the report of the World Commission on Dams as they relate to the proposed project would be useful.

Many thanks.
7. PROBE INTERNATIONAL ON BEHALF OF FRIENDS OF THE EARTH

September 7, 2004
Friends of the Earth
Western conservationists back Indochina’s most environmentally destructive hydro scheme

Wildlife funding linked to dam revenue

This week in Washington, the World Bank will be showcasing plans for a French-led hydro venture in Laos that, if built, would flood critical habitat for globally threatened wildlife, including the Asian elephant, barking deer, and large-antlered muntjac.

The developers’ rationale for building the US$1.1 billion Nam Theun 2 dam, Indochina’s largest, is straightforward. By selling the dam’s output to Thailand, the developers, led by Electricite de France, expect to generate almost US$6 billion in guaranteed revenue for their shareholders. They also expect subsidies from the World Bank and other donor agencies to offset the dam’s social and environmental liabilities, particularly the cost of livelihood damages downstream. For the Nam Theun 2 developers, there is no downside.

Far less understandable is the promotion Nam Theun 2 has received from Western conservationists, including the New York-based Wildlife Conservation Society and Switzerland’s International Union for Conservation of Nature (IUCN). Like the dam builders, WCS and IUCN scientists see Nam Theun 2 as a source of revenue for wildlife research and management of the dam’s 4200-square kilometre watershed as a national park.

WCS and IUCN scientists are well aware Nam Theun 2 would obliterate wildlife on the Nakai Plateau, the heart of the Theun watershed. As the developers’ watershed management plan predicts, When the reservoir fills, wildlife will be drowned, displaced or stranded on the islands formed. The experts know animal rescue programs don’t work. They know once the Plateau’s special mix of grasslands and wetlands are flooded, it cannot be recovered. And they know that once the watershed is opened up to four thousand dam construction workers and their families, and becomes accessible by road, poachers and loggers (illegal or otherwise) won’t be far behind.

But the dam’s impacts doesn’t concern these pro-dam conservationists. Instead, they’ve set their sights on the area around the dam’s reservoir. With help from the World Bank, they’ve worked out a deal with the Nam Theun 2 Power Company: a budget of more than US$30 million over 25 years. Most of that money will be used to hire Western conservation advisors and provide them with the equipment and staff they need to study wildlife while restricting local people’s use of the watershed.

According to the concession agreement signed by the power company and the Lao government, there will be money for four-wheel drive vehicles, boats and boat
drivers, cooks and mechanics, air-conditioned offices, satellite TV, computers, ranger stations, radio towers and, for field work, everything from binoculars to solar-powered refrigerators.

"It’s all about money,” writes Dr. Alan Rabinowitz, a longtime WCS Director, money to train people, hire staff, for vehicles, buildings, for all kinds of things which do not exist in that area one bit right now.

Unfortunately, the 5,800 indigenous people living inside the newly-designated Nakai-Nam Theun park won’t fare nearly so well. First, the Lao government doesn’t recognize their property rights and blames them for deforestation rather than the country’s military-backed logging operations. Second, only about one percent of the park budget would go to so-called livelihood improvement schemes for park residents facing all sorts of restrictions on their traditional livelihoods. None of these programs come with any guarantee that money spent equals local benefits.

The dam builders say forest-dependent communities will be compensated according to their losses. Yet no detailed plan or budget for compensation has been worked out, despite ten years of project planning. Put this together with the government’s longstanding refusal to uphold its citizens’ property rights and it looks as though Nakai-Nam Theun residents could be waiting a long time for fair promised compensation, if it ever comes.

Meanwhile, the alliance between Western conservationists and dam builders is staked on self interest: both covet the Nakai-Nam Theun watershed for their own business. They also share the conceit that Laotians cannot save their own forests and wildlife -- at least not without plenty of Western aid and conservationists. They overlook the fact that indigenous people have been part of the Nakai-Nam Theun ecosystem for centuries, and have the knowledge to live within and prosper from the forest without destroying it.

If saving wildlife were truly the goal, Western conservationists (and the World Bank) would champion the rights of Laotians as the legal owners and guardians of their country’s forests and wildlife. Instead, they’ve struck an illegitimate bargain with those who would destroy it.
Thousands of Laotian farmers have been promised new livelihoods after resettlement

i. to make way for the World Bank-backed hydro dam in Laos, one of Asia’s poorest countries. But a review of the developers’ resettlement plans, now ten years in the making, indicate there’s a high risk of failure. If built, Nam Theun 2 would flood an area the size of Singapore and force more than 7,000 subsistence farmers off their land.

ii. Proponents insist Nam Theun 2 will be unlike other large Bank-funded dams, which have destroyed rural livelihoods and left farmers destitute.

iii. Resettlers’ income will be tripled within eight years, according to the developers’ plans.

iv. But the developers also admit plenty can go wrong. Just as villagers feared the new farm plots are too small, the soil is unfit for rice production, and there probably won’t be enough land for grazing resettlers’ livestock after the Nakai Plateau is flooded.

v. in fact, none of the proposed livelihood options come with any guaranteed benefits or evidence of economic viability for resettled farmers. Take forestry development, for example. The developers themselves aren’t optimistic. Their social development plan states that ‘profitability of pulpwood production is likely to be close to marginal given the poor sites available at the Plateau. . . . [and is] fraught with risks as many things could happen over the long term that pose a threat to the profitability of the crop.

vi. What the developers have committed to do is spend about US$38 million on related infrastructure and government training programs over 25 years.

vii. But as the developers have noted, there remains some uncertainty whether livelihood programmes will be able to deliver the targeted income levels for resettled households.

viii. And, if the plan fails, if only in part, [resettlers] lives will be impacted negatively in a very direct way as they bear the risks disproportionately.

ix. The developers know the risks and yet, incredibly, they aren’t offering fair compensation, either for people’s actual losses or to help them survive until the promised new livelihoods and income targets materialize.

x. Here’s a dam-building consortium anticipating almost US$6 billion in guaranteed electricity sales to Thailand, yet all they’re prepared to give displaced farmers as
income support is a couple of sacks of rice each year an amount equivalent to 25 percent of one Laotian’s yearly rice consumption for the project’s first eight years of operation.

xiv. On top of this, they say each resettled household would receive a forestry dividend of US$100 per year, but that’s only if the forest allocated to resettlers is logged, which would wipe out a vital source of food, medicine, and other essentials.

xv. A fair compensation plan would look very different. Quite apart from investments in dubious livelihood improvement schemes, the Nam Theun 2 Power Company owes Nakai villagers for sacrificing their land and resources, and for enduring a decade of economic stagnation. The company owes them full market value compensation for lost resources, livelihoods, income, and opportunity, for at least as long as the project fails to triple resettlers’ income as promised. Anything less makes resettlers victims of the Nam Theun 2 Power Company, not its beneficiaries. As is, the risk of further impoverishing Nakai villagers is unacceptably high.

End Notes:

i. Nam Theun 2 Hydroelectric Project Social Development Plan Volumes 1 and 2 www.namtheun2.com
For the company’s description of project risks see, for example: Chapter 1, Table 1-6: Possible Adverse Trends and Planned Interventions, p.20; and Chapter 8, Risk Management Framework, Monitoring and Evaluation, p.8. A variety of potential risks are associated with the provision and use of these compensation measures which could result in the benefits not accruing to affected people as anticipated. These risks are listed in Table 8.4 to 8.6, pp.10-11.


iii. The figures 640 square kilometers and 7,200 people displaced are from Nam Theun 2 - Summary Environmental and Social Impact Assessment (Advanced Draft), July 2004 p.6. Earlier project documents use 450 square kilometers and 6,200 people.

iv. Nam Theun 2 Hydroelectric Project Social Development Plan, Volume 1, Chapter 1: Introduction, p.3. See also presentation by former US presidential advisor, Dr. Lee Talbot, and member, Nam Theun 2 International Panel of Environmental and Social Experts, in Symposium Nam Theun 2 Window to the Future, Vientiane, July 3, 2002, p. 56. Large dams in our experience are almost never environmentally benign or beneficial, nor do they end up benefiting the local people involved. However, because of the cooperation between the Government, the developers, and the World Bank, we have found that planning and preparation is different for this project.
v. Ibid., Volume 2, Part 3, Chapter 25: Livelihood Integration and Income Scenarios Transition to Stability, p. 3.


viii. Ibid., Volume 1, Chapter 8, Risk Management Framework, Monitoring and Evaluation, p.x.

See also Nam Theun 2 Watershed Management Protection Authority Social and Environmental Management Framework and Operational Plan (SEMFOP), Part 5: Resource Access Restriction Framework, Table 5.13: Possible restrictions on current forest use, and proposed mitigation measures, xxxx, 2004, p.23. People on the Nakai Plateau typically own more cattle per family than elsewhere in Lao PDR. The company’s watershed management plans call for a reduction in the number of cattle raised in the Nakai-Nam Theun Conservation Area if the project goes ahead.

ix. Ibid., Volume 2, Chapter 23, p.11.


xii. Nam Theun 2 Hydroelectric Project Social Development Plan, Volume 1, Chapter 8, Risk Management Framework, Monitoring and Evaluation, p.2.

xiii. The Nam Theun 2 Power Company would have us believe that offering villagers a choice of five untested livelihood options is a credible strategy for reducing farmers risk. Resettlers are offered a diverse and flexible basket of livelihood options from which they can select, test and either develop or reject, according to their individual situation or their personal aspirations. Chapter 8, p.3.

xiv. Ibid., Chapter 8, Risk Management Framework, Monitoring and Evaluation, p.7.

xv. Ibid., p.7.

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