

# RISKY BUSINESS FOR LAOS: THE NAM THEUN 2 HYDROPOWER PROJECT



Massive logging of the Nakai Plateau in anticipation of Nam Theun 2 has already destroyed a unique ecosystem and the livelihoods of thousands of people who depend on the forests for their survival. (Photo: Clive Hills and Virginia Morris)

The World Bank, with its long history of supporting destructive dams, is poised to support the controversial Nam Theun 2 Hydropower Project in the small Southeast Asian country of Laos.

The \$1.3 billion dam project is supposed to generate revenue for the cash-strapped Lao government by exporting power to neighboring Thailand. Despite claims that Nam Theun 2 will “alleviate poverty,” the project will instead impoverish thousands, saddle the Lao government with more debt and devastate tropical river ecosystems upon which so many depend for their livelihoods.

This briefing paper outlines some of the major concerns with Nam Theun 2 and counters some of the arguments made by its promoters. These concerns are summarized below.

- **Destroyed livelihoods** – will forcibly displace 6,200 indigenous people from their ancestral lands and severely impact a river system on which over 120,000 people now depend for their fishing and farming-based livelihoods.
- **Environmental impacts** – will have adverse impacts on biodiversity, including endangered bird, mammal and fish species.
- **Serious economic risk** – is a risky project for the Lao government, which is relying solely on Thailand to purchase power for the next 25 years.
- **Poor track record** – the Lao government’s troubled history of implementing hydropower projects does not auger well for a project as large, complex and risky as Nam Theun 2.
- **Violates World Commission on Dams Guidelines** – Violates six out of seven of the WCD’s strategic priorities, including those on public acceptance and options assessment.

# SOCIAL, ENVIRONMENTAL AND ECONOMIC IMPACTS OF NAM THEUN 2

The Nam Theun 2 Hydropower Project poses enormous social, environmental and economic threats to the people of Laos. Opposition within Laos is virtually nonexistent since there is no free press or forum in which to debate the merits of government development plans. Because of this, environmental and human rights groups outside Laos have been monitoring the project since it was first proposed. They are now demanding that the World Bank withdraw its support for Nam Theun 2. Some of the main concerns are outlined below.

## FORCED DISPLACEMENT, DESTROYED LIVELIHOODS

Roughly 6,200 indigenous people living on the Nakai Plateau would be evicted to make way for the Nam Theun 2 Dam and its reservoir. Independent research shows that another 120,000-150,000 people depend on the Xe Bang Fai River for their livelihoods. It is likely that these people would suffer from the destruction of fisheries, flooding of river-bank gardens and other impacts from the project. These people have never been properly consulted, let alone given their consent or agreement to the project.



This Laotian girl is one of 6,200 indigenous people to be displaced by Nam Theun 2.

## ENVIRONMENTAL IMPACTS

Nam Theun 2 will have significant impacts on biodiversity. The project is located in and adjacent to one of the largest remaining tropical forests in mainland Southeast Asia. The 450 square-kilometer reservoir will inundate habitat for 60 species of birds and mammals and disrupt migration routes. The area is home to a large variety of rare and endangered plant and animal species, including the white-winged duck and one of the last remaining populations of wild elephants in Laos.

The project will have adverse impacts on fisheries on the Theun River and the Xe Bang Fai. The Theun River provides habitat to more than 80 species of fish, including at least 16 endemic species. The project will dramatically lower downstream flow on the Theun River and increase water levels along the Xe Bang Fai. This will destroy fish habitat, impede migration patterns and could lead to the extinction of native fish communities.

## NO NEED FOR POWER IN THAILAND

Laos already produces more power than the country needs. Power from Nam Theun 2 will almost exclusively be exported

to Thailand. However, Thailand currently has a large surplus generating capacity and plenty of alternatives for meeting future energy needs.

A 1998 study commissioned by Thailand's National Energy Policy Office found that biomass-fired power plants had the potential to generate 3,000 MW of economically viable power. According to Thai energy ministry data, small power plants fired by gas and renewable energy could produce 4,000 MW of power - or more than four times the planned capacity

of Nam Theun 2 - yet these projects have been excluded from Thailand's latest Power Development Plan.

## POOR TRACK RECORD, LIMITED GOVERNMENT CAPACITY

The hydropower projects built so far in Laos have left a legacy of destroyed livelihoods, decimated fisheries and environmental destruction. 25,000 people have suffered from declines in fish catches, flooded vegetable gardens and loss of drinking water sources due to the Theun-Hinboun Hydropower Project, located 50 kilometers downstream of Nam Theun 2. While some mitigation and compensation measures are underway, villagers may never be able to recover from their losses and achieve self-sufficiency.

Things are even worse for the indigenous people forcibly resettled to make way for the Houay Ho Hydropower Project in southern Laos. Two thousand people have been living in desperate conditions in a resettlement site for the past five years, without enough arable land, fresh water to drink or rice to eat. Promises of help from the Lao government have not materialized. Even the Asian Development Bank admitted in a November 2003 project document that "[t]he government's capacity to implement large-scale complex hydropower projects still remains a major concern."

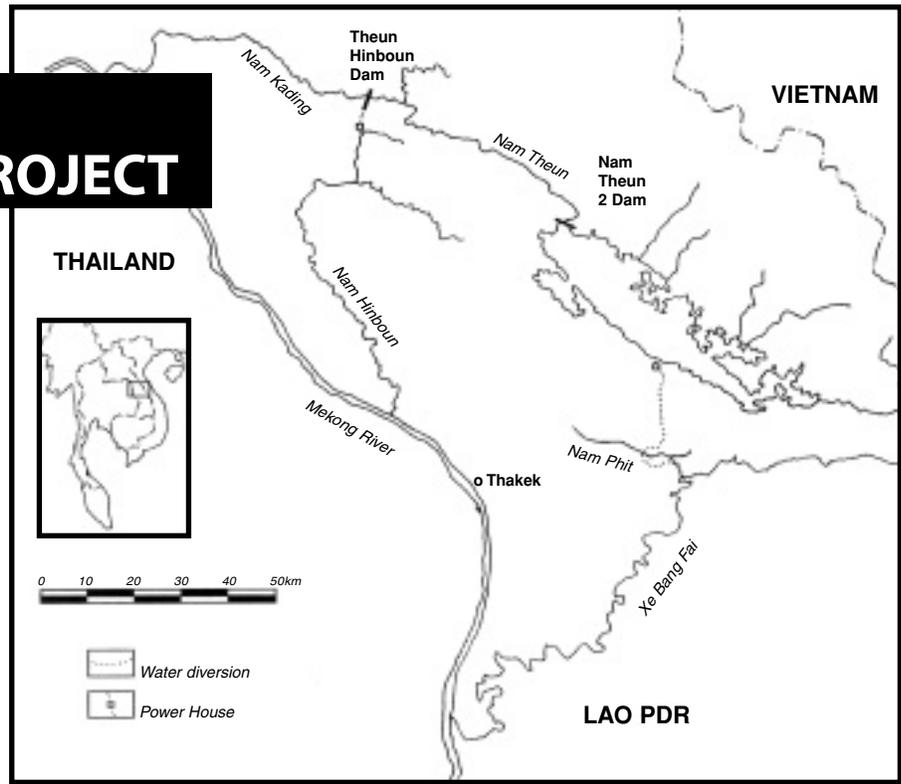
# NAM THEUN 2 HYDROPOWER PROJECT

## PROJECT DESCRIPTION

The 48-meter high Nam Theun 2 Dam would be located on the Theun River, a major tributary of the Mekong. Water would be stored in a reservoir on the Nakai Plateau and diverted to a powerhouse, before being released into another Mekong tributary, the Xe Bang Fai. The project is being developed by the Nam Theun 2 Power Company Limited (NTPC), which includes Electricité de France, the Electricity Generating Company of Thailand, Ital-Thai Development and the Lao government.

## STATUS

A power purchase agreement (PPA) between the project developers and the Thai electricity utility EGAT was signed in November 2003. EGAT committed to buying more than 90% of Nam Theun 2's electrical output for a period of 25 years. Because the project developers have only 18 months to secure financing for the project, the



Map of Nam Theun 2 Hydropower Project

World Bank, Asian Development Bank and other financiers will need to decide whether to provide support for Nam Theun 2 before May 2005.

## WORLD BANK SUPPORT CRUCIAL

A guarantee from the World Bank is crucial for developers. It insures them from many of the risks associated with working in Laos. Laos is run by a one-

party Communist regime that is practically bankrupt and does not have the legal and regulatory framework normally required by private investors. Without the World Bank to protect them, neither commercial banks nor export credit agencies would dare invest in Nam Theun 2. Simply put, without World Bank support, this project will not go forward.

## VIOLATES WORLD COMMISSION ON DAMS GUIDELINES

The World Bank came under heavy criticism in the November 2000 report of the World Commission on Dams (WCD) for its role in funding and promoting large dams. The WCD brought together government, industry, and civil society to evaluate the past performance of large dams and issue a set of recommendations for decision-making on dams and energy and water resources development.

These recommendations call for a new approach to development based on recognizing the fundamental human rights of communities affected by dams. The World Bank says it will take these guidelines into account when evaluating new dam projects. However, an analysis by International Rivers Network shows that Nam Theun 2 violates six out of seven of the WCD's strategic priorities, including those on public acceptance and options assessment.

## FALSE PROMISES

Nam Theun 2 proponents such as the World Bank and the Nam Theun 2 Power Company claim that dam construction will protect the environment and alleviate poverty in Laos. However, critics argue that the project will achieve neither. Here are responses to some of the main claims of project proponents.

**CLAIM:** *The dam should be built to resettle the people living on the Nakai Plateau, who are living in very poor conditions with few livelihood sources.*

**RESPONSE:** People living in the reservoir area have suffered serious impacts to their livelihoods and health as a result of uncontrolled logging on the Nakai Plateau that occurred in anticipation of Nam Theun 2. Efforts to restore their livelihoods have been solely linked to the dam. The people of the Nakai Plateau deserve reparations for the losses they have suffered as a result of project's potential development. However, providing the compensation that is owed to the people on the Nakai Plateau does not require the construction of a huge dam which will have massive impacts on the livelihoods of tens of thousands of people.

**CLAIM:** *Nam Theun 2 is a "poverty alleviation" project and revenues from power sales will be used for rural development in Laos.*

**RESPONSE:** There is no guarantee that revenues from Nam Theun 2 will be used for "poverty alleviation." The World Bank has no enforcement capability to ensure

that Lao citizens are properly compensated for livelihood losses or that the government and NTPC keep their promises of poverty alleviation or environmental protection. Past experience of hydropower projects in Laos shows that Nam Theun 2 will increase poverty for thousands of Laotians rather than alleviate it.

**CLAIM:** *The dam should be built to protect the ecologically significant watershed area. NTPC has promised to give the Lao government \$1 million annually for 30 years for a watershed management program.*

**RESPONSE:** Project developers admit that the reservoir will improve access to the watershed area, leading to increased hunting and trade in endangered species. At least 20,000 construction workers and their families will move to the area during the 5-year construction phase, creating additional hunting and poaching pressures on the protected area. The project could actually destroy rather than protect the watershed area.

Furthermore, Nam Theun 2 will have far-reaching impacts on the Theun and Xe Bang Fai river ecosystems that cannot be mitigated by simply protecting the reser-

voir area. The project will flood animal habitat, cut off traditional migration routes and threaten the survival of several mammal species. Fisheries impacts will occur upstream and downstream of the dam and along the Xe Bang Fai. Nam Theun 2 will have an overall destructive impact on the environment, which cannot be mitigated.

**CLAIM:** *Nam Theun 2 gained public acceptance in Laos through public participation programs held in 1997 and 2004.*

**RESPONSE:** Once a political decision was made by Lao leaders to go ahead with Nam Theun 2 in the mid-1990s, all debate was stifled. Many people have been afraid to express their concerns for fear of government reprisals. The lack of independent media, organizations and freedom of expression in Laos has prohibited open scrutiny of the project. Furthermore, Lao citizens have not been given accurate, balanced information about the potential risks and benefits of the project. In this context, public participation workshops held since the mid-1990s cannot be considered legitimate forms of consultation or participation

## CALL FOR WORLD BANK TO REJECT NAM THEUN 2

Nam Theun 2 is a social and environmental disaster in the making. Rather than alleviating poverty and conserving biodiversity, this project will lead to impoverishment of tens of thousands of Lao citizens. It will drive the Lao government deeper into debt, and foist an unnecessary and uncompetitive power purchase commitment on Thai ratepayers.

The World Bank should reject Nam Theun 2 and work on alternative plans for conserving the watershed area and ensuring that the 6,200 people living on the Nakai Plateau have adequate sources of livelihood.

### For more information, visit the following web sites:

International Rivers Network	<a href="http://www.irn.org/programs/mekong/">www.irn.org/programs/mekong/</a>
Towards Ecological Recovery and Regional Alliance (TERRA)	<a href="http://www.terraeper.org">www.terraeper.org</a>
Probe International	<a href="http://www.probeinternational.org">www.probeinternational.org</a>
Nam Theun 2 Power Company (NTPC)	<a href="http://www.namtheun2.com">www.namtheun2.com</a>
The World Bank	<a href="http://www.worldbank.org">www.worldbank.org</a>
World Commission on Dams	<a href="http://www.dams.org">www.dams.org</a>

IRN supports local communities working to protect their rivers and watersheds. We work to halt destructive river development projects and to encourage equitable and sustainable methods of meeting needs for water, energy and flood management.