

The Nam Theun 2 Hydropower Project in Laos

Another World Bank Disaster in the Making

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

The \$1.1 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 4,500 indigenous people from their ancestral lands and severely impact a river system on which 130,000 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 on Thailand as the sole purchaser of power for the next 25 years despite Thailand's current oversupply.

Uncontrolled Logging

Widespread logging has already occurred in the reservoir area, as well as parts of the watershed area. The Lao government has failed to adhere to commitments on logging, making compliance with future commitments unlikely.

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.

OCTOBER 2002

Briefing Paper 5

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 4,500 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 120,000-130,000 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 consulted, let alone given their consent or agreement to the project.



This Laotian girl is one of 4,500 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 elephants, white-winged ducks and the saola, a rare and only recently documented large mammal.

The project will have adverse impacts on fisheries in the Theun River and 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, it currently has a large surplus generating

capacity and there are concerns that the Thai electric utility EGAT could have difficulty honoring existing power purchase agreements.

Despite this, the political situation between the governments of Thailand and Laos may force EGAT to sign an agreement with the developers of Nam Theun 2, regardless of whether Thailand needs the electricity or not. If this is the case, both Lao and Thai citizens would be forced to share the financial burden, for irreversible environmental and social damage in the case of Laos, and for

expensive electricity in the case of Thailand.

Uncontrolled Logging

Severe environmental impacts have already occurred even though the dam may never be built. Since 1990, a Lao military-run logging company has cleared more than one million cubic meters of old-growth tropical pine wood from the reservoir area on the Nakai Plateau. This has had an enormous impact on the Plateau ecosystem and on the natural resource base of the indigenous people living there.

The logging has taken place despite a World Bank statement in 1995 that "the Government will need to demon-

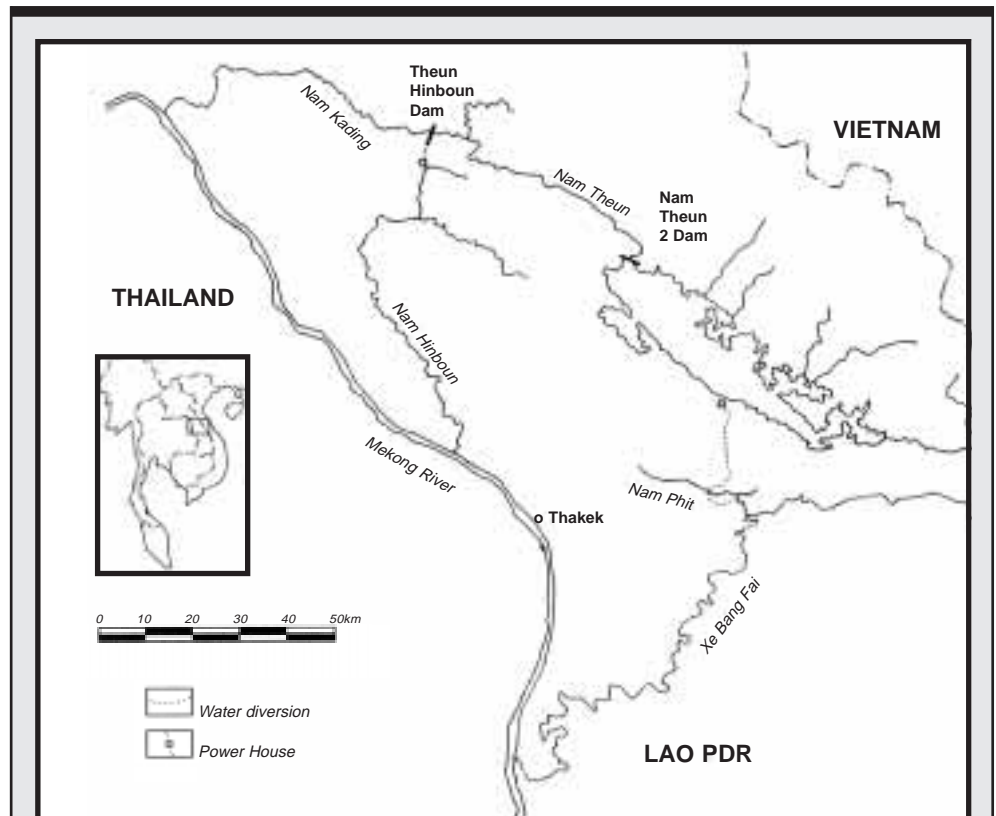
strate clearly that logging has been brought under control” before the Bank would consider supporting the project. Logging has also occurred outside of the planned reservoir area, including in the community forestry area, which was supposed to provide new livelihoods for those displaced by the project.

If the World Bank is unable to ensure compliance with conditionalities imposed prior to project approval, it is difficult to see how it will be able to ensure compliance once money and guarantees have been dispersed and the project is under construction.

Violates World Commission on Dams Guidelines

The World Bank was criticized 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.



Map of Nam Theun 2 Hydropower Project

Project Description

The 50-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 Electricity Consortium (NTEC), which includes Electricité de France, the Electricity Generating Company of Thailand, Ital-Thai Development and the Lao government.

Status

Nam Theun 2 is currently on hold, awaiting the finalization of a power purchase agreement between the project developers and the Thai electricity utility EGAT. Once that happens, the World Bank’s International Development Association, which provides low-interest loans to governments in the poorest countries, may then commence a formal appraisal process to decide whether to provide support for Nam Theun 2.

World Bank Support Crucial

A political risk 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.

False Promises

Nam Theun 2 proponents such as the World Bank and the Nam Theun Electricity Consortium 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: It is true that people living in the inundation area have suffered serious impacts to their livelihoods and health. Their natural resource base is so degraded from anticipatory logging of the reservoir area that it is likely that some people will have to relocate. However, there is no need to build a huge dam in order to relocate these 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 NTEC’s promises of poverty alleviation or environmental protection are kept. 25,000 people have suffered

impacts to their livelihoods due to the Theun-Hinboun Hydropower Project, located 50 kilometers downstream of Nam Theun 2, and are still waiting for compensation and mitigation measures to be implemented. Past experience 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. NTEC has promised to give the Lao government \$1 million annually for 30 years for a watershed management program.

Response: One of the main components of the watershed management program is the use of the Lao army to patrol and protect the watershed area. This is problematic since the Lao army runs extensive logging operations and has a track record of disregarding existing logging restrictions, even those set-up for Nam Theun 2. There is no reason to believe this would be any different in the future.

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 reservoir 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 a World Bank-promoted public participation program in 1997.

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 are afraid to express their concerns for fear of government reprisals. Lack of independent media, organizations and freedom of expression in Laos has prohibited open scrutiny of the project. In this context, the 1997 public workshops cannot be considered a legitimate form 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 4,500 people living on the Nakai Plateau have adequate sources of livelihood.

For more information, visit the following web sites:

International Rivers Network: www.irn.org

Towards Ecological Recovery and Regional Alliance (TERRA): www.terraper.org

Probe International: www.probeinternational.org

Nam Theun Electricity Consortium (NTEC): www.namtheun2.com

The World Bank: www.worldbank.org



International Rivers Network

1847 BERKELEY WAY, BERKELEY, CA 94703, US
TEL: 1-510-848-1155 FAX: 1-510-848-1008
WEB: WWW.IRN.ORG EMAIL: IRN@IRN.ORG