

Jirote Na Nakorn  
Managing Director  
SGS (THAILAND) LIMITED  
100 Nanglinchee Road, Chongnonsee  
Yannawa  
10120 Bangkok  
Thailand

cc CDM Executive Board, SGS Headquarters

**Re: Submission for carbon credits of the Kamchay Hydroelectric BOT Project**

March 11, 2010

Dear Jirote Na Nakorn,

We are writing to express our concern over the application for carbon credits of Kamchay Hydroelectric BOT Project in Cambodia, which applied for validation back in the fall of 2008. While we missed the public comment period, our partners in Cambodia have serious concerns over the project. More details on the project's problems can be found in our 2008 trip report: <http://www.internationalrivers.org/en/node/2417>

**Summary of Concerns**

- The project is not additional. The project is being built and operated by Sinohydro Corporation, China's leading dam builder, and financed by the China Export-Import (Exim) Bank. Sinohydro is building dam projects across Africa and Southeast Asia. Financing for the project existed before Sinohydro applied for carbon credits. Construction was already underway two years before the project applied for CERs, and the project is currently already operating at 10-MW capacity.
- The project has been plagued by controversy, safety concerns, and lack of transparency. Negotiations between Chinese and Cambodian officials have been largely closed-door, leaving other stakeholders, including local authorities and the public, out of the process.
- The project would flood a national park that is rich in biodiversity and crucial to the livelihoods of the local villagers. The PDD does not state whether Sinohydro will provide compensation or support the development of alternative livelihoods to all the displaced and affected peoples.

**Additionality**

- The PDD asserts that the project is additional. However, Kamchay Dam, which costs US\$280 million, was entirely financed as part of a \$600 million aid package to Cambodia that was announced by the Chinese government in April 2006. In 2005, the *Cambodia*

*Daily* reported that Sinohydro had sought to secure a low interest loan from the China Exim Bank for the Kamchay Dam.<sup>1</sup> When China Exim Bank offered Sinohydro a 6% interest loan, the Cambodian government also became involved in the loan negotiations. In light of the fact that other projects financed by the \$600 million aid package are supported by the China Exim Bank, that Sinohydro has previously approached the China Exim Bank, and that most of China's development aid is channeled through the China Exim Bank, it is highly likely that China Exim Bank is already committed to financing the Kamchay Dam (it has already been linked to this project in the media<sup>2</sup>).

- The project has also already begun construction and operation, with 47 of the 112 meters already completed in December 2009. Since Sinohydro won final approval for the Kamchay Dam in mid-2006, progress at the construction site has been rapid. At the time of our field-research,<sup>3</sup> heavy construction machinery had arrived, imported from China, and construction of two access roads that run either side of the Kamchay river to the dam site were almost complete. The Cambodian Prime Minister Hun Sen opened the first stage of the dam on December 7<sup>th</sup>, 2009 for the opening of 10 MW.<sup>4</sup> A project this far advanced cannot make the argument that it would not have happened without CDM carbon financing.

#### *Investment Analysis*

- The PDD states that CERs are required to meet the financial benchmark internal rate of return of 9.5%. It states that without the sale of CERs the project IRR is 7.48%, but it does not state what the IRR would be if CERs are considered. The EB requires that the internal rate of return be below 8%. 7.48% barely avoids crossing this benchmark. As the EB has recently decided to review 38 hydro projects in China due to questionable additionality, this is just one more example of a project operated and financed by China that is already happening without carbon credits.

#### *Common Practice Analysis*

- The PDD only lists Kirirom I Hydro as the only existing hydroelectric plant on the Phnom Penh grid. It failed to mention the Sambor Hydropower Project, which is being proposed for Kratie province and could be from 465 MW to 3,300 MW. The Cambodian government would not agree to consider such large dams as Samor and Kamchay in 2006 if it did not already have feasible finance options under consideration.
- The Cambodian government is also studying and planning ten more dams, according to the Cambodian Prime Minister. According to the Chinese paper, the *People's Daily*, Sinohydro plans to build five dam sit he area, to be completed in 2011. Chinese companies will build the rest in the provinces of Pursat and Koh Kong.<sup>5</sup>

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<sup>1</sup> "Power Rates Won't Go Down if Loan Interest is High," *Cambodia Daily*, October 28, 2005, [http://www.newsmekong.org/power\\_rates\\_won\\_t\\_go\\_down\\_if\\_loan\\_interest\\_is\\_high](http://www.newsmekong.org/power_rates_won_t_go_down_if_loan_interest_is_high)

<sup>2</sup> Ibid.

<sup>3</sup> International Rivers and NGO Forum on Cambodia fieldtrip to Kampot province, 5-7 April, 2007, <http://www.internationalrivers.org/en/node/2417>

<sup>4</sup> Camodian Embassy Newsletter, December 11, 2009, <http://www.cambodianembassy.org.uk/newsletters/cat7/THE%20ECONOMY%20&%20BUSINESS%20NEWS%20Friday%2011th%20December%202009%20-%20No%20004.pdf>

<sup>5</sup> "Hun Sen praises China for building hydropower plants in Cambodia," *People's Daily*, December 7, 2009, <http://english.people.com.cn/90001/90776/90883/6834633.html>

## Lack of Transparency

- Opposition over the project's lack of transparency has come from both civil society and government officials. In April 2005, the Cambodian government awarded Sinohydro Corporation a contract to develop the Kamchay hydropower scheme. High-level Cambodian and Chinese government officials pushed forward the Kamchay dam in closed-door negotiations that largely left other stakeholders, including local authorities and the public, out of the process.
- Sinohydro plans to build, own and operate the Kamchay dam for 44 years, before transferring the project to the Cambodian government in 2050. Opposition politicians have questioned the length of the contract, which are typically 25-30 years. They have also questioned a July 2006 vote by Cambodia's National Assembly to guarantee Sinohydro financial compensation if the project faces difficulties or underperforms. Leaders of the ruling Cambodian People's Party (CPP) justified the guarantee by claiming that it was necessary to secure Sinohydro's investment. One abstaining opposition lawmaker, H.E. Keo Remy, pointed out that the Sinohydro contract had not been revealed to the lawmakers by the time of the vote.
- The project had also been considered by the Canadian International Development Agency (CIDA) a decade earlier, long before CDM financing became available. CIDA reportedly concluded the project was economically feasible, but discreetly withdrew its support following heavy pressure from a coalition of Cambodian and international NGOs concerned about the project's poor social and environmental standards.

## Environmental and Social Impacts

- The 112-meter high dam is being constructed in Bokor National Park, Kampot province, and will flood 2,000 hectares of protected forest. According to a 2002 survey, this forest is rich in biodiversity and the habitat of 31 mammals and 10 endangered species, including Asian elephants, leopard cats and tigers. This area is also an important source of non-timber forest products for local residents, many of whom depend on the income earned through selling forest products. The PDD does not state whether Sinohydro will provide compensation or support the development of alternative livelihoods.
- There are also concerns that poor river water quality could devastate the local tourism



Figure 1: The Kamchay River valley in Bokor National Park that will be flooded by the Kamchay Dam. Photo by Carl Middleton International Rivers

industry, pollute irrigation water that feeds durian and rice fields, and contaminate Kampot Town's water supply, extracted just downstream of the planned dam site. Shortly after construction commenced, the *Cambodia Daily* reported that water contamination from construction activities and untreated sewage discharges from the workers camp into the Kamchay River had caused tourism to plummet from 60,000 people in February to 7,700 in March at the popular Touk Chuu rapids immediately downstream.

- In March 2009, local residents blocked access to a quarry supplying stone for the construction of Kamchay Dam, because Sinohydro had not paid the compensation for property destroyed by blasting at the site after a year of waiting.<sup>6</sup>
- In January 2010, families who live off the local tourist trade surrounding a popular waterfall say that Kamchay Dam has cut their earnings in half because the waterfall has been reduced to a trickle. These individuals have yet to receive compensation.<sup>7</sup>
- The PDD states in Section D.2 that Sinohydro will make a "facility for biodiversity" in light of the land losses in Bokor National Park, but it also states in #8 of Section E.3 that land impacts will be dealt with by the Cambodian government. This is a contradiction and leaves the question of mitigating habitat and biodiversity loss open.
- The PDD states that it will hire local workers for construction. However, Sinohydro has already brought in Chinese workers, as it customarily does for its project sites in Southeast Asia and Africa. In 2009, 10 Chinese construction workers assaulted two Cambodian traffic police.<sup>8</sup>



Figure 2: Villagers collect forest products, a resource that will be lost when the Kamchay Dam is built. Photo by Carl Middleton International Rivers

### *Public Consultations*

- Very little information about potential impacts has been disseminated amongst communities living closest to the dam. There are also limited details within the project's EIA report. Almost all the village leaders consulted and reported in Section E.2 of the PDD expressed concerns about mountain landslides, dam collapse, erosion, and loss of forest and forestry livelihoods, which Sinohydro promises to address.
- According to Chhith Sam, Executive Director of NGO Forum on Cambodia: "We worry about what impact this dam will have on Bokor [National Park]'s forest and threatened species living in the reservoir area, as this area is well known for its high biodiversity." He added that the dam would cause communities living around the project site to lose

<sup>6</sup> "Villagers blockade Kampot dam quarry site over airborne rocks," *Phnom Penh Post*, March 11, 2009

<sup>7</sup> "New Kampot Dam Turns Waterfall to a Trickle," *Cambodia Daily*, January 15, 2010

<sup>8</sup> "Workers sought in Kampot attack," *Phnom Penh Post*, October 14, 2009,

<http://www.phnompenhpost.com/index.php/2009101428923/National-news/workers-sought-in-kampot-attack.html>

access to non-timber forest products, which he described as an "important" source of supplementary income. He also called on Sinohydro to make its mitigation and compensation plans publicly available, saying the "community has informed to us [that] they were never consulted by the company regarding any of the negative impacts the dam would cause and the mitigation measures that would be needed."

We are concerned about the environmental and social impacts mentioned both in the PDD and in our field report. The problems we have raised in this letter seriously question whether this project is additional and whether adequate public participation was pursued by the project developer, as required by the CDM and international standards like the World Commission on Dams. We request that validation of this project should be withheld until Sinohydro is able to prove that this project is additional and to resolve the negative environmental impacts and develop a compensation plan that meet with the basic needs of local fishermen and affected communities.

Sincerely,

A handwritten signature in black ink, appearing to read 'Payal Parekh', with a stylized flourish at the end.

Payal Parekh  
Climate Program Director  
International Rivers