

## Comments to CF Carbon Fund II Limited Regarding the Kamchay Hydropower Project (Cambodia)

20 January 2012

We request that the Kamchay Hydropower Project in Cambodia, which applied for validation in the fall of 2008 and has now reapplied, not be validated and allowed to apply for CDM credits, because it is not an additional project, was carried out in a poor manner and carries adverse environmental and social impacts. To review International Rivers' concerns regarding the Kamchay Dam and its previous application for carbon credits, submitted to SGS (Thailand) Limited on 11 March 2010, please see "Letter to SGS Re Kamchay Hydroelectric BOT Project (Cambodia)."<sup>1</sup>

### Summary of Concerns

- **The project is not additional.** Kamchay Dam is already operational. It was built by Sinohydro Corporation, China's leading dam builder, and financed entirely by the China Export-Import (Exim) Bank and Sinohydro, through funds raised during Sinohydro's initial public offering in September 2011.<sup>2</sup> Financing for the project existed before Sinohydro applied for carbon credits. The dam's inauguration took place only six days after Kamchay reapplied for CERs in 2011.
- **The project fails to meet its public participation requirements.** 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 dam was built without adequate or meaningful public participation and the project's required impact study was only completed after the dam was partially operating and only two months prior to the dam's full operation.
- **The project's environmental and social impacts fail to meet the CDM's sustainable development objective.** The project has flooded a national park that was 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\$330 million<sup>3</sup>, was almost entirely financed as part of a \$600 million aid package to

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<sup>1</sup> [www.internationalrivers.org/en/node/5175](http://www.internationalrivers.org/en/node/5175)

<sup>2</sup> "Sinohydro's first overseas BOT project begins operation," *People's Daily Online*. January 16 2012. [english.peopledaily.com.cn/90778/7706674.html](http://english.peopledaily.com.cn/90778/7706674.html)

<sup>3</sup> Environmental and Social Impact Assessment for the Kamchay Hydroelectric Project in Kampot Province by SAWAC for Sinohydro Kamchay Hydroelectric Project Co. LTD, September 2011.

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>4</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 was already committed to financing the Kamchay Dam (it has already been linked to this project in the media<sup>5</sup>). Furthermore, when Sinohydro first went public through an initial public offering (IPO) on the Shanghai Stock Exchange in September 2011 earning US \$2.21 billion, a representative from the company at the time had stated that some of funds raised would be used to finance the Kamchay Dam.<sup>6</sup>

In addition, Kamchay Dam was recently completed and began operation in December, 2011. According to the *People's Daily*, the official newspaper of the Communist Party of China, Kamchay Dam is already in operation, having been financed by Sinohydro.<sup>7</sup> Thus, the PDD is incorrect in arguing that the project would not have happened without CDM financing.

- While the project's PDD states that the project should be considered additional as it "will reduce air pollution by replacing coal-fired power plants with clean, renewable power," this is not correct. Given the unreliability of electricity generation of the Kamchay Dam, amongst other dams in Cambodia, due to low water levels during the dry season, the Prime Minister in Cambodia announced during the dam's inauguration that a new 270 MW coal plant will need to be built to help supplement the electricity shortage.<sup>8</sup>
- 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.

### **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 a contract to develop the Kamchay hydropower scheme. High-level Cambodian and

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<sup>4</sup> "Power Rates Won't Go Down if Loan Interest is High," *Cambodia Daily*, October 28, 2005, [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>5</sup> Ibid.

<sup>6</sup> "China IPO to benefit Kingdom." The Phnom Penh Post, 30 September 2011.

<sup>7</sup> "Sinohydro's first overseas BOT project begins operation," *People's Daily Online*. January 16 2012. [english.peopledaily.com.cn/90778/7706674.html](http://english.peopledaily.com.cn/90778/7706674.html)

<sup>8</sup> "PM Opens Kampot Hydrodam." The Phnom Penh Post, 8 December 2011, [www.phnompenhpost.com/index.php/2011120853228/Business/pm-opens-kampot-hydrodam.html](http://www.phnompenhpost.com/index.php/2011120853228/Business/pm-opens-kampot-hydrodam.html)

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.<sup>9</sup>

- 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. Furthermore, the project's contract between Sinohydro and the Cambodian Government has been questioned by Cambodian SRP Lawmaker Ho Vann, who stated "This contract is very weird because the profit goes to the company and the government pays for the accidents or natural damages caused by the dam." Ho Vann also stated that the electricity prices were higher and concession length was longer than in other neighboring countries.<sup>10</sup>

#### *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. In a 2007 baseline study on the project carried out by NGO Forum on Cambodia, the researchers found that amongst the people interviewed, 43 people were worried or unhappy about the dam, as opposed to the 18 people who were happy. Villagers had stated that they had not been informed of any of the future impacts from the Kamchay Dam and lived in fear that the project could collapse.<sup>11</sup> The dam's poor public consultation process is documented in research recently commissioned by the World Resources Institute.<sup>12</sup>

#### **Environmental and Social Impacts**

- The 112-meter high dam was constructed in the Bokor National Park, Kampot province, and flooded 2,000 hectares of protected forest. According to the dam's EIA, this forest is rich in biodiversity and the project area is habitat to 37 mammals, 68 bird species, 23 reptile species and 192 fish species. A 2002 study found that 10 endangered species, including Asian elephants, leopard cats and tigers. This area is also an important source

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<sup>9</sup> International Rivers and the Rivers Coalition in Cambodia. *Hydropower Development and China's Involvement*. January 2008.

[www.ngoforum.org.kh/eng/envp/oldenvdocs/HCRP\\_CambodiahydropowerandChineseinvolvementJan2008.pdf](http://www.ngoforum.org.kh/eng/envp/oldenvdocs/HCRP_CambodiahydropowerandChineseinvolvementJan2008.pdf)

<sup>10</sup> "Bad Weather Postpones Dam Opening." *The Cambodia Daily*. 19 November 2008.

<sup>11</sup> NGO Forum on Cambodia. *Kamchay Baseline Study, Makprang Commune, Kampot District, Kampot Province*, NGO Forum on Cambodia, December 2007.

<sup>12</sup> Grimsditch, Mark. "China's investment in hydropower in the Mekong region: The Kamchay Hydropower Dam, Kampot, Cambodia." 10 December 2011.

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.

- As the Kamchay Dam did not have a full Environmental Impact Assessment (EIA) completed prior to the dam's approval, the project was in violation of Cambodian law, which requires full impact assessments on all projects deemed to have serious impacts on the environment or society.<sup>13</sup> The Kamchay Dam did not abide by this law, as the project's draft EIA and Environmental Management Plan was only completed in 2011. The EIA was first made public at a consultation meeting in March 2011, in which no affected communities were invited to join. It was only in September 2011, when the EIA was presented at an inter-ministerial meeting, that the report became more widely accessible to the public. The EIA report was finally approved by Cambodia's Ministry of Environment on 7 October 2011. As the dam's EIA and Environmental Management Plan were only completed after the dam had already been under construction for over four years, the adverse impacts that arose from the project were not planned for or dealt with on a systematic basis, but rather on a case-by-case basis as they arose.
- The PDD wrongly asserts that only 38 worker's families farm and live on the land near the dam site. This is in contradiction to earlier reports made by Sinohydro. For example, in Sinohydro's August 2007 Progress Report, the company states: "Under the great support and assistance of Ministry of Industry, Mines and Energy, Sinohydro has gained the use rights of parts of lands. But it is still a big headache to Sinohydro because this project will concern hundreds of denizens."
- The project's impacts on the river's water quality has already begun to harm the local tourism industry, pollute irrigation water that feeds durian and rice fields, and contaminate Kampot Town's water supply, extracted just downstream of the 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 2008 to 7,700 in March 2008 at the popular Touk Chuu rapids immediately downstream. Furthermore, Chhun Hin, Provincial Director of the Department of Industry, Mines and Energy, stated that some of the dam's pipes had burst around the same time, thus directing unwanted construction residue into the river.<sup>14</sup>
- In January 2010, families who live off the local tourist trade surrounding a popular waterfall said that the Kamchay Dam has cut their earnings in half because the Toek Chhou waterfall has been reduced to a trickle. These individuals have yet to receive compensation.<sup>15</sup>
- Numerous protests have been held against the dam by locally affected communities. In November 2008, more than 70 families from two villages blocked a local road for the

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<sup>13</sup> Anukret on Environmental Impact Assessment Process 1999.

<sup>14</sup> "Kampot Tourism Takes Hit Amid Construction," *Cambodia Daily*, 24 March 2008.

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

second time claiming that since Sinohydro had begun operating a quarry supplying stone for the construction of Kamchay Dam early that year in January, which was destroying their land during the blasting.<sup>16</sup> In March 2009, local residents blocked access to the quarry, because Sinohydro had still not paid the compensation for property destroyed by blasting at the site after a year of waiting.<sup>17</sup> In May 2011, representatives of more than 200 families held a protest at the Kampot provincial hall against the closure of a road by Sinohydro in April, which was blocking people's ability to collect bamboo and vines needed for their basket-weaving businesses.<sup>18</sup>

- While the PDD states that the dam will provide jobs for around 800 Cambodians, recent independent research at the dam site has found employment irregular and dependent on the needs of the company. As construction has now finished, it is unclear whether these Cambodians will continue to have employment. The research carried out in September 2011 found that only 200 to 300 workers were still employed by the company as construction was wrapping up. There have also been tensions between the Cambodian workers and their Chinese counterparts as reported during interviews in the research.<sup>19</sup> Furthermore, this tension has extended into the public. In one incident in 2009, 10 Chinese construction workers assaulted two Cambodian traffic police.<sup>20</sup>

### **Recommendation:**

According to the above mentioned reasons, the Kamchay Dam's request for CDM credits should be rejected by the CDM validator on the basis of non-additionality, its inadequate stakeholder consultation and planning process, and because the dam can not be considered to be contributing to the Cambodia's sustainable development.

### **For more information:**

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<sup>16</sup> "Query Explosions Stir Protest Plans in Kampot," *Cambodia Daily*, 18 November 2008.

<sup>17</sup> "Villagers blockade Kampot dam quarry site over airborne rocks," *Phnom Penh Post*, March 11, 2009

<sup>18</sup> "Villagers Protest Over Road." *The Phnom Penh Post*. 20 May 2011.

<sup>19</sup> Grimsditch, Mark. "China's investment in hydropower in the Mekong region: The Kamchay Hydropower Dam, Kampot, Cambodia. 10 December 2011.

<sup>20</sup> "Workers sought in Kampot attack," *Phnom Penh Post*, October 14, 2009, [www.phnompenhpost.com/index.php/2009101428923/National-news/workers-sought-in-kampot-attack.html](http://www.phnompenhpost.com/index.php/2009101428923/National-news/workers-sought-in-kampot-attack.html)