

Paying the bill for destruction:

Thai society and the Nam Theun 2 dam in Lao PDR

After more than a decade of controversy, millions of dollars spent on assessment and mitigation studies, and civil society protests, the Nam Theun 2 dam in Lao PDR is set to go ahead with the World Bank offering its support. The project continues to be haunted by the lies of its proponents: “alleviation of poverty” in Laos, “cheapest energy option” for Thailand, and helping the “conservation” of the forested Nakai Plateau.



With Thailand agreeing to buy electricity from the Nam Theun 2 dam, *Srisuwan Kuankachorn* explores the controversy and reminds Thai society that it is in fact paying the bill for the destruction of the environment, local food security, local livelihood base and the culture of the communities in Laos.

For the Thai public, the Nam Theun 2 Hydro electric Project (NT2) to be built in Lao PDR is probably one of the least well-known issues concerning development in the Mekong Region. Until 14 March 2005: the “International Day of Action for Rivers” and two weeks before the World Bank’s executive board approved its loan guarantee package for the NT2.

On that day, hundreds of village people mostly from Ubon Ratchatani province in northeast Thailand, whose ecosystems and livelihoods were destroyed by another World Bank-funded dam – the Pak Mun Dam on the Mun River – turned up at the World Bank’s office in Bangkok to urge the Bank to withhold support for NT2. Unfortunately, their protests (complemented by many years of well-docu-

mented evidence by Thai and international nongovernmental organisations (NGOs) of the serious economic and environmental impacts of the project), proved futile and the Bank went ahead and supported the project. Even worse, certain sections of the Thai public expressed outrage at the protests, reprimanding Thai NGOs for interfering in a project in Laos.

This article is not intended to convince those few who indulge in such “NGO-phobia” (and those who dislike “anti-dam” protestors) since such efforts are ultimately useless. Nevertheless, it is important to communicate to people in Thai society the context of the debates about NT2 over these last years and the implications of buying the electricity from the NT2 dam for Thailand.

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On the one hand, for many reasons, this one-and-a-half-decade controversy has finally come to an end and the US\$ 1.3-billion-dollar project will now go ahead. The Government of Lao PDR (GOL) insists that it badly needs this project for economic reasons. The business interest groups participating in the joint venture and the World Bank were both in agreement with each other that this project would help address the “poverty crisis” in Laos while providing a “cheap energy option” for Thailand. After all, the Power Purchase Agreement between the Electricity Generating Authority of Thailand (EGAT) and the Nam Theun 2 Power Company (NTPC) had already been signed. Yet, on the other hand, if it is such a winning situation for all, why is there so much opposition and controversy?

While NT2 can probably be considered a “super-mega” project for Laos where only a few large dams exist, it is not much of even a “mega” project for Thailand in these days of government and private sector infrastructure projects and plans costing billions-of-dollars. For the Thais, first of all, the question is not at all about the financing involved, nor perhaps so much about the environmental issues that remain highly controversial. But the issue is definitely about the various “options” of which NT2 appears as one of the most attractive in economic terms. As a matter of fact, Thai people are set to consume over 90 per cent of the electricity output of the NT2 dam. However, the very issue flagged by NGOs monitoring the energy sector is that Thailand is capable of generating the same amount of electricity at much lower costs than NT2.

The Power Purchase Agreement requires EGAT, the sole buyer of the NT2-produced electricity, to pay 0.047 US cents (or 1.974 baht) for one kilowatt-hour (kWh) of NT2 electricity while the EGAT-owned gas-fired and combined-cycle plants coming on line offer only 0.04 cents (or 1.7 baht) per kWh – in effect energy that would be 14 per cent cheaper. Moreover, EGAT’s own energy efficiency improvement programme has been successful in producing energy savings at only 0.012 cents (or 0.5 baht) for saving one kWh within the system.¹

Buying power from NT2 would have significant impacts on the country’s energy sector in the long

term. Thai NGOs stated that the Bank had influenced, as well as not fully revealed many aspects of, the results of its recent economics studies for NT2 in order to justify recommending NT2 as a “least-cost energy option” for Thailand. Thailand’s electricity demand forecast is usually extrapolated by the country’s projections for economic growth. The Bank used demand-forecast figures from Thailand’s “Power Development Plan 2002” which based its energy forecasts on an annual economic growth rate of 6.5 per cent – a figure that is now widely accepted even by the Prime Minister and government officials as obsolete given the present uncertainties clouding the Thai economy including the continuing violence in South Thailand, the bird-flu outbreaks, skyrocketing oil prices, ongoing recovery from last year’s tsunami disaster and the subsequent slump in the tourism industry, mounting household debt and the volatile global economic situation.

The first quarter of 2005 has witnessed not only a continuation of most of these uncertainties but also a trade deficit for the first time in six years. Independent economic observers have turned increasingly pessimistic about the medium- and long-term growth prospects for the country. The Bank of Thailand has revised downwards several times its growth projection and the latest projection is below 5 per cent. Even the World Bank jumped on the bandwagon: in late April 2005, the Bank revealed its own revised economic forecast for Thailand that decreases the growth rate (from the previous 5.8 per cent) to 5.2 per cent. Taking into account more probable growth rates, energy campaigners and economists suggested that the 2002 forecast based on 6.5 per cent growth could be reduced

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¹ Lao power may not be the best buy, *Bangkok Post*, 15 March 2005

significantly enough to make the NT2 dam a totally unnecessary project.

There is no need to elaborate the point that many activists have clearly articulated in their NT2 campaign: that the Bank fails to comply with its own rules. It is only important to reiterate that one can never expect economic analysts to agree about predictions of Thai growth. This is simply because, to them, there

are too many, and too often fluid, parameters to make any valid calculations. But a common point we may perhaps draw from their recent opinions is that projecting growth at 6.5 per cent is simply nonsense given the whole uncertain economic situation of Thailand. In fact, the regime (of forecasting) subject only to the GDP growth, which is virtually incalculable as a precise figure, is the heart of the crisis of inefficiency of

the power sector in Thailand. For decades, the forecast regime has survived due to its inherent non-transparency and the centralisation of the energy sector as well as the lack of public capacity to monitor and question the power sector's plans and assumptions.

Consequently, determining the annual rise in energy demand at 7 per cent using a simple formula of projected GDP growth being stable at 6.5 per cent (as assumed by the energy forecasters and the Bank) is not only unrealistic but also unscrupulous as this only leads to unnecessary investment of billions of dollars to build new power plants and sign take-or-pay deals with neighbouring countries. Households and manufacturers would likely have to bear unfairly expensive tariffs as the automatic price mechanism allows for the shifting of any "stranded costs" incurred as a result of poor performance of EGAT (and its imprudent investments and deals with foreign providers) in causing oversupply in the energy sector. Consequences

will also include displacement of the opportunity of Thailand to re-orientate the energy sector towards more economically efficient, more environmentally sound and more human-friendly technologies.

One must also take into account the social disruption to the local communities in Laos who are forced to sacrifice their homes and livelihoods to make way for power plants and large dams as in the case of NT2. But this vicious cycle of imprudent investment, social fabric disruption and socialisation/externalisation of the investment costs, which are attributed to the non-transparency and centralisation of the power sector itself, unfortunately seems likely to continue.

Thai NGOs have found irregularities around the element of power pricing of NT2 while the two governments were moving close to inking the deal in the late 1990s. Unfortunately, the best that Thai NGOs could do was to only slow down the negotiations that eventually concluded with an agreement to build the dam. One key question that arises is why EGAT, the sole buyer of NT2 power and the Thai negotiating authority, could agree to a deal that poses the risk of an unnecessary price burden for Thai electricity users? Is this non-transparent deal driven by vested interests or some specific political reason on the part of the government? Or was the agreement reached without the government's awareness that the terms were not favourable to the Thai public, which would otherwise have found the deal unacceptable had the negotiation been made transparent. One reason is EGAT's own economic self-interest in successfully concluding the NT2 deal: EGAT's subsidiary, the Electricity Generating Company (EGCO), holds a 25 per cent share in the consortium for building and operating NT2.

While Thais will find the price of NT2 electricity too high, Laos will find the dam's benefit too low. The latter will in fact earn only US\$250 million (at net present value) or approximately 10 billion baht throughout the concession period of 25 years. No matter how small the Lao economy is today, this money is insignificant and no comparison to the social and environmental consequences that the country will suffer. In exchange for cash, Laos has to forgo the livelihood of 6,000-7,000 ethnic minority peoples who



On 14 March 2005, people affected by World Bank-sponsored Pak Mun and Lam Takhong projects, as well as Thai consumer and environmental groups, rallied outside the World Bank office in Bangkok, urging the Bank not to finance the NT2 dam.

are to be resettled, and are at risk of suffering while trying to adapt to new geographical surroundings. Moreover, the design of the NT2 project requires the diversion of water from the Nam Theun to the Xe Bang Fai River, threatening the lives and livelihoods of another 100,000 people living along the river.

Dam construction has been propagated as a strategy for “poverty alleviation”. For instance, the Asian Development Bank (ADB) claims that poverty alleviation is the over-arching goal of its Greater Mekong Subregion (GMS) Economic Cooperation Programme, with the proposed “Mekong power grid” as one of the ADB-GMS flagship initiatives. As well as creating a regional grid, the initiative would establish a system for regional power trade and lay the groundwork for an ambitious programme of hydropower development. A large number of local communities in the Mekong Region are therefore facing a growing threat of their natural resources being taken away in the name of “poverty alleviation”.

A fundamental flaw of any dam planning in the world is that the project’s beneficiaries consistently overestimate the “economic benefits” while blurring the fate of the victims and the threats to ecosystems. The real problems of social disruption and environmental destruction are fully revealed only after construction is complete. Even worse, in many cases, the project’s actual economic benefit is below what was initially projected.

Both the Bank and the Lao government should have learned from the lessons of the Bank-financed Pak Mun dam, whose affected people are still continuing their struggle to restore their river-based livelihoods. The Bank cannot deny that the cost of the Pak Mun project is nearly 70 per cent over initial estimates; there has been more ecological damage than initially anticipated; and, the benefit in terms of electricity is almost negligible. The undesirable consequences of the Pak Mun dam were confirmed by the World Commission on Dams (WCD), and more recently substantiated by the Thai-government-commissioned study conducted by the Ubon Ratchatani University in a bid to end this particularly long-standing conflict between EGAT and the Thai government on one side

and the local people of the Mun River on the other.

In this sense, although the Thai government, EGAT and the World Bank are not any different, the World Bank is to blame the most. Many campaigners and activists around the world have monitored and tried to reform the Bank’s operations; some may even have felt that the Bank could change to become more responsible and open to different opinions. But judging from its stance on NT2, the Bank has not changed and I believe that it never will.

Apart from the dubious economic promise of generating revenue for Laos, the other issue with NT2 concerns the environment. One may consider that it is the sovereign right of Laos to destroy 450 square kilometres of tropical forest in the heart of the Nakai Plateau to make way for NT2. But then, it is also the legitimate right of conservationists and environmental activists around the world to express their concern and try to protect that forest. For it is become increasingly recognised as a universal principle by the global community in the borderless, globalising world that “environment-knows-no-borders”. It is therefore incumbent on whichever country government and institution wanting to destroy the environment for “development” to address the environmental concerns involved. But instead of this, the Laotian authorities (and, in a perverse situation, international conservationists like the Wildlife Conservation Society and the International Union for Nature Conservation) have offered a bizarre argument: building NT2 would help protect the forests due to the investors’ promise to donate a million dollars annually for the next 31 years to conserve the adjacent Nakai-Nam Theun National Protected Area. As a well-known Thai forest conservationist stated, “This is like cutting off your foot to buy pain-killing medicine.”

If the Lao forest authority does need this grant money for conservation, there are many other ways to get it. Virtually any of the large conservation groups in the North could help support conservation efforts through their own funding or by fundraising. It is a well-known fact that many European and North American conservation groups have mobilised massive fundraising efforts that resulted in collecting millions

of dollars for forest conservation efforts in countries like Brazil and Costa Rica (although one must remember that many of these conservation programmes are also controversial in their own way for attempting to relocate local communities from forest areas in the name of “conservation”).

Professional development planners are supposed to weigh up a variety of development scenarios and put them on the table for politicians to decide. To me,



the fact that NT2 was presented as the only option for development is an indication of the Lao technocrats’ failure. Thai energy technocrats who possess a tunnel vision deserve no sympathy either. Nor do I have sympathy for the community

of Thai technocrats who have tended to subscribe to the goal of “economic development” never mind the cost to peoples, their ecosystems and their cultures.

If countries like Thailand are to really contribute to the betterment of the living standard of the Lao people, they should first of all stay away from indulging in the thinking of how to benefit the country, or an old-style nationalist thinking. It requires countries to take different approaches other than engaging with questionable mega-investments that often turn out to bring more harm than good. I must also assert that I do not think that this is simple in the case of Laos and the NT2 project where Laos is supposed to earn US\$250 million from the investment on NT2 over a 25-year period. Here, one must remember Laos not just as a so-called least developed country, but also as a country suffering from decades of political conflicts and civil wars including strong interference from its neighbours and international powers; a country still facing unjust trade barriers with countries like Thailand; a country where large agricultural areas remain un-utilisable due to the ordinance and chemical residues of the US-Indochina war in the 1970s; and a country where much of the forests and natural ecosystems remain intact and should be conserved.

For any of these reasons, it is legitimate that such countries as Laos demand special treatment from the world community. As a specific example, the US must take responsibility to clean up its unexploded ordinance that it air-dumped over large parts of Laos during its bombing raids in Indochina. Or more broadly, I see it an obligation of the northern country governments to relieve Laos of its debt burden.

A recent sport news report grabbed the headlines of many Thai newspapers about the potential collaboration of Japan, China and Thailand to donate some 4 billion baht (US\$100 million) to make Laos a future host of one of the Southeast Asian Games. To me, that amounts to two-fifths of the amount promised as revenue from the NT2 to the Lao government in just a two-week-long event – in effect, the NT2’s promise of US\$250 million over a period of 25 years becomes totally insignificant considering the combined economic capacity of countries such as China, Japan, Thailand as well as Singapore and Malaysia if they had the willingness to assist Laos. For instance, as the biggest trading partner of Laos, Thailand’s shift of its cross-border trade policy from the present arrangements imposing trade barriers or practicing unfair treatment towards more preferential trade mechanisms may provide benefits to more farming communities in Laos than a mega-project such as NT2.

In writing this article, I do not intend to oppose Laos’ attempt to develop its own economy and make its own development choices. To a degree, I can also understand that the Lao planners see no other choice given the enormous pressures from dam-builders and financial institutions such as the World Bank to make investments in large infrastructure projects. But I find unbearable this particular method of Thailand’s contribution to the Lao people’s fight against “poverty”. In effect, paying a little more for my electricity definitely does not matter to me if the money does go to helping the Lao people. But what really does matter is that in reality, I have to pay the bill for what I believe is the destruction of the environment, local food security, local livelihood base and culture of the local communities in Laos.