



July 31st, 2018

Statement¹

**Grave damage caused by dam collapse in southern Laos
Funds from Japan involved in the project development**

**- Donor countries and development agencies must support the Lao government
in seeking compensation from the dam companies, and
re-direct their aid policies that rely on hydropower development -**

On July 23rd, a devastating incident occurred in the Sanamxay District of Attapeu Province in southern Laos. The top of a saddle dam (*1) installed at one of the reservoirs of the Xe Pian-Xe Namnoy hydropower project (*2) collapsed, releasing a massive amount of water. As a result, six villages directly downstream were inundated by the water, while 13 villages were also affected by severe flooding. The Xe Pian-Xe Namnoy dam is under construction in the Sekong River basin, a transboundary tributary of the Mekong River. As a consequence, the heavy flow of water has also reached downstream into Cambodia, causing damage to border communities in the Stung Treng Province.

We express our collective grief for all who have lost their lives within Laos as a result, and extend our sincere concerns for the thousands of others who have been affected.

According to early reports, dozens of deaths have been confirmed and at least 6,000 people in 1,370 households have lost their homes to date. The precise scope of damage, however, remains unknown. Significantly, in September last year, there was a similar type of situation reported at a different dam site under construction in Laos, which also broke and caused damage to the surrounding area (*3).

A collapse at the Xe Pian-Xe Namnoy Project put every life in the affected area in jeopardy, including children and elderly. In addition, livestock such as buffalos and chickens, along with dogs and cats are among the untold death toll. There are also thousands of people still waiting for emergency aid at this very moment (*4). According to media, the companies that are responsible for the construction and management of the project noticed a problem at the site on July 20th (*5). However, it was not until the day of the collapse that they communicated to the Lao government agencies to ask them to evacuate local residents. Even if the villages had received a more timely evacuation order, by that time it would have already been impossible for all local residents to reach higher ground before the water reached the area. Among other issues, this suggests that it was not a natural disaster; instead, it was a disaster caused by the complicit role of the project proponents, as it was directly related to neglect on the part of the dam construction and management companies. The companies involved must therefore be strictly held accountable for ensuring full reparations.

¹ This is an English translation of the Japanese original. For any discrepancies, the Japanese original, which was posted on July 31st, can be referenced. The English translation, posted on August 6th, although containing some adjusted wording, seeks to maintain the perspective of the original.

The Xe Pian-Xe Namnoy dam project is implemented by a joint venture between a Thai company, two South Korean companies, and a Lao state-owned enterprise. Japan is also involved in its financing. Among the Thai banks that co-finance the joint venture, the Bank of Ayudhya Public Company is currently under the umbrella of Japan's Mitsubishi UFJ Financial Group (MUFG). The bank's 76.88% share is held by the MUFG's Mitsubishi UFJ Bank (MUFG Bank) (*6). Although the Bank of Ayudhya's decision to finance the joint venture was made before the integration of the bank with MUFG Bank, currently a number of Japanese nationals hold the bank's management positions, including CEO (*7). Also, Japan's Government Pension Investment Fund (GPIF) owns shares worth 1,402,665,244 yen (approximately 13,954,300 USD) of the Krungthai Bank, another Thai co-financer of the joint venture, and credits worth 6,268,142,275 yen (approximately 58,993,900 USD) of the Export-Import Bank of Korea, which finances Lao Holding State Enterprise (LHSE) that formed the joint venture (both figures as of end of fiscal year 2017) (*8).

In light of the *UN Guiding Principles on Business and Human Rights* (GPs), at a minimum, the project proponents involved should be responsible for providing short and long-term remedial measures for the affected residents in a sincere manner (*9). In particular, as per the *Environment Society Governance (ESG) Investment* standards to which Japan's GPIF has committed to uphold, institutional investors in projects such as Xe Pian-Xe Namnoy, are counted among complicit actors that together bear responsibilities for the ecological, social and economic consequences (*10).

The companies directly involved in the dam project must take the primary responsibility for the consequences of this incident, both in terms of the immediate suffering of thousands of directly affected people, but also long-lasting implications. Nevertheless, the roles of financial institutions that made it possible for the companies to build the dam, the development policies of the Lao government (which depend heavily on large-scale dam building), and the donor countries and agencies that have supported such development policies all need to be examined.

Today, 46 dams are in operation and over 50 dams are planned for construction in Laos (*11). At least 4 of them are located in the mainstream of the Mekong River, while several are set to advance in the Sekong River basin. The Lao government has considered the export of electricity generated by hydropower dams as a key to economic development. As large-scale dam development has accompanying risks and implications, however, the rich forest ecologies within Laos and abundant fishery resources along both the Mekong River and its tributaries have already been irreparably damaged. Dam developments also take a great toll on the lives and livelihoods of local people and reconciling for these losses remains difficult, if not impossible. The consequences of the collapse of a dam, such as that of Xe Pian-Xe Namnoy, are among many of the risks of large-scale dam development that are often not taken into account by governments and donor agencies promoting these projects.

It was the hydropower surveys led by Japanese consulting firms in the 1950s and 1960s that led the Lao government to set dam construction as the cornerstone of its development policies. At the same time, the World Bank and the Asian Development Bank (ADB), to which the Japanese government provides significant funds, are also strongly backing dam development in Laos (including developing dams along the Sekong and its tributaries, such as the Xe Pian-Xe Namnoy project). In recent years, dam development has been further accelerated after the World Bank and ADB approved the finance of the Nam Theun 2 (NT2) hydropower dam project in central Laos in 2005 to serve as a "model for poverty reduction and sustainable development." In June 2018, Japan's Ministry of Finance, which oversees the World Bank and ADB, said at a meeting with

Mekong Watch, "NT2 has improved the watershed management abilities of the Lao government." For years, however, we have witnessed local communities become increasingly impoverished due to the impacts of NT2 dam. This incident at the Xe Pian-Xe Namnoy site sheds light on the devastating impacts of dams to which local communities are exposed.

Laotian people have the potential to create their own unique development model, based on initiatives that would support communities in sharing the country's rich natural resources for the generations to come (e.g., with community-based tourism and community-centered agricultural initiatives with low environmental impacts). Rather than making the full use of such potential, donor countries and development agencies have long supported large-scale dam development. In this way, it can be said that they have indirectly contributed to the accident. Donor countries and agencies must not only lend full support to the Lao government to seek fair compensation from the companies involved in the Xe Pian-Xe Namnoy project, but also proactively support a review of development policies that are highly dependent on dam building. Donor countries and agencies must also urge the Lao government to consider halting the operations of existing dams that are expected to not be able to cope with the today's unpredictable climate, and canceling construction plans that would have significant environmental and social impacts that exceed the project's financial benefit. Furthermore, donor countries and agencies must revise their development policies for Laos, immediately ending their role in promoting large-scale dam construction.

Notes:

- *1. A saddle dam is an auxiliary dam constructed across a saddle or low point of the perimeter of a reservoir. In the project, five saddle dams were constructed around the dam reservoir. It was "Saddle Dam D" that broke.
- *2. The Xe Pian-Xe Namnoy hydropower project has a generating capacity of 410 megawatts. It is a large-scale project which encompasses three main dams and five saddle dams on the Bolaven Plateau in southern Laos, with generation of electricity planned from two of the reservoirs. The total construction cost amounts to approximately 1.02 billion USD. The project is implemented by Xe Pian-Xe Namnoy Power Company (PNPC), a joint investment venture by two Korean companies, SK Engineering and Construction (SK E&C) and Korea Western Power (KOWEPO), Thailand's Ratchaburi Electricity Generating Holding (RATCH), and Lao Holding State Enterprise (LHSE) of the Lao government. Construction of the dam is carried out by SK E&C. Ninety percent of the generated electricity will be exported to Thailand.
- *3. See: *Vientiane Times*. "Hydro company denies responsibility for Xaysomboun flash flood" (September 13th, 2017).
- *4. Mekong Watch confirmed the situation by phone with a local resident living in the prefectural capital of Attapeu Province on the evening of July 24th, the day after the dam collapse. This resident heard about the situation from his acquaintance who lives in the disaster area by phone. According to his acquaintance, his village was instantly flooded and many people washed away. An untold number of people had their family members immediately swept away in front of their eyes.
- *5. See: *Joong Ang Ilbo*. "Dam collapse in Laos - 11cm subsidence 4 days before the accident" (in Japanese) <http://japanese.joins.com/article/483/243483.html> (Last viewed on July 30th, 2018). In the coverage by idsala.com, photographs of a letter from one of the companies to Lao government agencies are posted. See: <https://www.idsala.com/2018/07/5000.html> (Last viewed on July 28th, 2018).
- *6. Accessed online: <https://www.krungsri.com/bank/en/Other/AboutUs/Overview.html> (Last viewed on July 30th, 2018).
- *7. Accessed online: <https://www.krungsri.com/bank/en/Other/AboutUs/ExecutiveOfficers.html> (Last viewed on July 30th, 2018).
- *8. See: "All shares held by Japan's GPIF" (as of end of fiscal 2017) <http://www.gpif.go.jp/operation/state/index.html> (Last viewed on July 28th, 2018).
- *9. See, for example, the assertion that "Business enterprises should respect human rights. This means that companies should avoid infringing on the human rights of others and should address human rights impacts with which they are involved" (A. Foundational Principles 11), and "Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes" (B).

Operational Principles, Remediation 22), II The corporate responsibility to respect human rights. *UN Guiding Principles on Business and Human Rights*. Accessed online:

https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf (Last viewed on July 30th, 2018).

- *10. The GPIF's *ESG Investment* standards (<http://www.gpif.go.jp/operation/esg.html#a>) state that "in order for investors to acquire stable returns over a long term, it is important that the value of individual companies of investment increase sustainably. Since capital markets cannot avoid the influence of environmental and social problems in the long term, when pursuing long-term investment returns, it is indispensable that these problems are minimized and the society as a whole becomes sustainable." *ESG Investment*. <http://www.gpif.go.jp/operation/esg.html#a> (Last viewed on July 30th, 2018, in Japanese, translation by Mekong Watch).
- *11. According to the *Mekong Eye*, the Lao government agencies have not updated information since 2015. See: *Mekong Eye*. Accessed online: <https://www.mekongeye.com/2017/07/12/laos-expects-to-have-100-hydropower-plants-by-2020/> (Last viewed on July 28th, 2018).

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