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Strict environmental and resettlement standards for dam projects – applicable only to the OECD countries?

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Strict environmental and resettlement standards for dam projects – applicable only to the OECD countries?

Bonn, 22 November 2010. The report published by the World Commission on Dams ten years ago “Dams and Development – A New Framework for Decision-Making” promised to bring an end to the protracted debate on the pros and cons of dams. Gone were the days, it seemed, when they were praised to the skies by some as the new temples (Nehru) and the modern pyramids (Nasser), while their opponents saw them as everything that could in any way go wrong with modernisation, whether capitalist or communist.

No end to the debate

But even today passions become inflamed. Although the technical design of the Belo Monte storage hydro power station in Brazil has been altered several times and calls for less resettlement and although the environmental authority has laid down strict environmental requirements for its construction, environmentalists and small farmers and Indian tribes living in the region have announced that they will resist violently. Another well-known case is the Ilisu dam in the south-east of Turkey, from which two international financial consortia withdrew because of the Turkish government’s failure to satisfy all the environmental and resettlement requirements. Recently it has been dam projects in which Chinese banks and firms are involved that have come in for particular criticism because of lax environmental standards.

Infrastructure for development

Brazil, China, India and Turkey favour hydropower in their energy mix and their strategies for adjustment to climate change. But it is the African countries that have most to gain from hydropower. They are tapping only about 7 per cent of their technical potential (compared with 33 per cent in South America, 69 per cent in North America and 75 per cent in Europe). As a fifth of African households are not electrified and more than 30 countries in the African continent suffer from frequent power cuts, the African Ministerial Conference on Hydropower, the Ministerial Conference on Water for Agriculture and Energy in Africa and the African Union’s Africa Hydropower 2020 Initiative agree that hydropower has a key role to play in

Africa’s development, if only because of the limited reserves and rising prices of fossil energy sources throughout the world.

China in the Top Ten

Chinese construction companies have now taken the lead in the international construction business, even where dams are concerned. The few German construction firms operating worldwide are lagging well behind the 54 mostly state-owned Chinese construction enterprises, which have a combined turnover of some US\$ 50.6 billion. While the Chinese overseas construction firms operate primarily in Africa and Asia (with market shares of about 50 and 30 per cent, respectively), the German companies concentrate on business through subsidiaries and holdings in the stable markets of the OECD countries. Of the Top Ten international construction companies, five are now Chinese. China has become the largest financier of dam projects in Africa and is catching up in Asia.

Unfair competition?

Representatives of the German construction industry attribute this to distortions of competition which, they claim, are due to the commitment of German firms to the OECD’s environmental standards, which Chinese companies can ignore. Every German company seeking a Hermes export credit guarantee must comply with the OECD standards. In other words, an environmental impact assessment must be submitted with the application to the Euler Hermes insurance company. This is not the case with the China Exim Bank or Sinosure. They base their environmental impact assessments on the host country’s environmental standards, which are far less stringent than the OECD’s.

However, studies in Ghana and Cambodia show that the OECD’s environmental standards are not the main cause of unequal conditions of competition: Chinese firms base their calculations on low wage costs and narrow profit margins; Chinese construction companies benefit from a fixed exchange rate; loans are repaid with raw materials – cocoa for the Bui dam in Ghana, for instance. In

Cambodia, however, Sinohydro has begun building a dam even though an environmental study has yet to be carried out. The Cambodian government has little control over the company, and environmental assessment procedures are explicitly kept weak so that investment permits can be issued quickly, especially in the energy sector. This suits Chinese companies, which do not take international standards as their guide. In this way, any rivals from the OECD countries are excluded from international competition from the outset.

What can the German government do?

The World Bank, the Asian Development Bank (ADB) and bilateral donors, including Germany, have changed course: they are financing dams again, but only if strict environmental and resettlement standards are observed. They have adopted some of the recommendations of the World Commission on Dams and revised their standards.

Dam projects that comply with international standards undoubtedly make projects more expensive – and China must therefore be brought on board in the interests of fair competition. Bilateral agree-

ments concluded by a country and an international company wanting to cover its risk with export credit guarantees are subject to the OECD standards and possibly the Equator Principles, a code of voluntary environmental standards applicable to international banks. The China Exim Bank and Sinosure are not committed to the OECD standards, since China is not a member of the OECD. Talks between the OECD and China will produce few results as long as China enjoys no more than observer status at the OECD. China sees itself as a global player concerned about its reputation. And the same is true of the firms and banks mentioned above. Sooner or later China will therefore have to adapt to international standards in its own interests.

To bring that time forward, the dialogue with China should be stepped up by the German government at a high political level. And this not primarily in the interests of the German construction industry, but because dam projects will have those adverse effects rightly denounced by their opponents unless environmental and resettlement standards are observed.



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