Global problems

international water privatisation

David Hall shows how water privatisation has undermined services to the poor in many countries and details mounting international opposition to it.

The privatisation of water services has continued to grow in the past year, though not as fast as the multinationals and the World Bank would like it to. This article looks at key issues that have arisen in South Africa and worldwide. They include the contradictions between commercialising and extending water services; the exploitation of contracts by private water monopolies to increase their profits; the environmental threat posed by 'take or pay' contracts; and the conditions set by the World Bank and similar institutions.

The article then considers successful campaigns against water privatisation worldwide. I conclude by highlighting the importance of developing alternatives.

Commercialisation or service to the poor?

The main difficulty with privatising and commercialising water services is that it becomes very difficult to provide services to the poor. If users have to be charged for the cost of the water they use – the principle of 'full cost recovery' – the poor will not be supplied. In South Africa, the most shocking result of the full cost recovery approach has been outbreaks of cholera.

In other countries, the World Bank, Britain's Department for International Development and other institutions argue for the private sector's key role in supplying the poor. But in Latin America the private sector has had problems doing this, even where contracts call for it.

In Cordoba, Argentina, where Suez-Lyonnaise runs the water concession, the contract apparently specified that 97% of the city should be connected. It also specified that residents, rather than the company, were responsible for domestic connections and a new secondary network. This placed an expensive burden on low-income residents in long-established neighbourhoods that were not yet connected to the network. In addition, the poorest 5% of the city's people, who live in informal settlements known as 'villas', are still without connections. The company claims the contract made no mention of connections and payment for residents of the villas.

In Cartagena, Columbia, a joint venture of the municipality and Aguas de Barcelona, a company owned by Suez, runs the contract. The municipality put privatisation ahead of other priorities, and the contract failed to address the needs of the poor. The workforce was made redundant and forced to reapply for jobs; police and soldiers occupied worksites to contain union opposition; and the tender and award of the concession was shrouded in mystery. The municipality now has no professional capacity in water and sanitation, and is at the company's mercy in negotiations. The result is that many of the poor are invisible to the contractor, which claimed that more than 90% of residents were connected by 1999. A World Bank report the same year stated that 'nearly one-third of the population, mostly in poor neighbourhoods, is without running water and basic sanitation services'. The company has grossly under-estimated the target population, ignoring residents who live outside the legally defined municipal area.

A concession contract awarded in 1997 to a Suez-Lyonnaise subsidiary in La Paz, Bolivia included explicit targets for extending connections to poor households. However, the contract did not give adequate financial incentives to the company to make extensions in some areas. It has been suggested that the service to poor people should be determined by ability to pay.

In Buenos Aires, the water supply and, to a lesser extent, the sanitation network, have been significantly extended since a Suez-led private company, Aguas Argentinas, took them over. But the company is investing little of its own money, as the expansion is effectively financed by a 'solidarity' surcharge on the community. The company threatened to abandon the contract when it found that commercial charges on the poor for connections were not viable. The legality of these charges was challenged and further negotiations have made the contract even more secure for the company.

Some simple conclusions may be drawn. There is a contradiction between the commercial interests of private companies and extension of water supplies to the poor. Companies leave the poor without water rather than suffer losses, and any solution has to be based on solidarity charges.

Prices, control and exploitation

Supporters of privatisation believe the contract is the central feature of any concession, and that the company carries out its side of the bargain in return for reasonable agreed rewards. This is not what happens in reality. Privatisation is the starting point for companies to increase their income through constant renegotiation and special pleading.

The Dolphin Coast water privatisation is an example from South Africa. In April 2001, Siza Water, controlled by the French multinational SAUR, refused to pay the scheduled R3,6-million lease payment due to the municipality of KwaDukuza. Siza demanded that prices were immediately increased by 15% to restore profitability. Siza argued that there had been a shortfall in its revenues of about R12-million a year because housing development and, therefore, the demand for water had fallen short of projections.

It is remarkable how often the forecasts on which contracts are based turn out to be over-optimistic, requiring 'an unforeseen' price rise. Two more extreme examples can be found in one of the oldest, and one of the most recent concessions in Europe.

The city of Valencia in Spain is to tender for a new water concession next year, when the existing concession, held by Aguas de Valencia (Avsa), a subsidiary of the French multinational SAUR, ends after 100 years. Nine months ago, Avsa told the council that it had failed to contribute to workers' pensions under a forgotten

Cartoon: Vuyo Mlilwana

agreement signed in 1962. As a result, Avsa is owed about R110-million, which will have to be repaid by raising tariffs. Six months ago the city council was told that if another company lands the new contract, Avsa would claim more than R430-million to compensate for loss of future profits. Avsa's advisers are international consultants and auditors PricewaterhouseCoopers.

The capital of Estonia, Tallinn, privatised its water company in January this year. It is now controlled by International Water, which was expelled from Cochabamba, Bolivia, in April last year. Tallinn Water was an efficient municipal company that recorded a small profit last year of about R8-million. The new owners, however, decided to pay themselves a dividend of about R60-million, forcing Tallinn Water to borrow money to pay them. International Water justified this by claiming Tallinn Water was over-capitalised. On average, 47% of the capital of European water companies is borrowed or external and 53% is shareholders' capital. In Tallinn Water, the ratio strongly favoured the shareholders' capital, and payment of dividends was a good way of changing it.

The next surprise for Tallinn was a demand by the company that the council pay an extra R20-million each year for surface water drainage, a service previously covered by the water tariffs.

The conclusions are simple. The signing of a private water contract creates an opportunity for multinationals to use a stream of profit-enhancing devices. Water supply becomes a vehicle for negotiating higher profits.

'Take or pay' water contracts

There is increasing use of 'take or pay' contracts, and the cornering of water supplies for exploitation in times of shortage. The contracts resemble power-purchase agreements and wholesale trading markets, under which private power stations have caused problems for public authorities in places such as

Maharashtra, India, and California in the United States. Such agreements pose the risk of damaging the economy and the environment by wasting water resources.

The Lesotho Highlands Water Project is a local example. The project's viability depends on contracts to supply water to South Africa, yet the cost of moving the water has never been properly evaluated against demand-management alternatives, environmental costs or the social costs to poor consumers.

Vivendi won a 'build, operate, transfer' concession for a water supply project in Chengdu, China last year which imposed a 20-year obligation on the public authority to buy a set volume of water from the company, whether it was needed or not.

In 1999, Enron's water subsidiary Azurix bought into a huge bulk water 'bank' in California, with a capacity of 400 000 acre-feet and maximum extraction of 100 000 acre-feet a year. Azurix said it planned to sell bulk water to various public and private sector customers in central and southern California under 20- to 30-year lease agreements at a fixed price. It would keep the remaining 20% of the storage capacity for trading and optimisation. Trading, the company said, would be maximised during dry and drought years when demand far exceeded supply.

In the same year, Azurix set up a trading venture, Water2Water, to transact the transfer

Table 1: Cases where privatisation was successfully opposed

Country	City	Year	Type
Poland	Lodz	1994	Privatisation prevented
Honduras	Honduras	1995	Privatisation prevented
Hungary	Debrecen	1995	Privatisation prevented
Sweden	Malmo	1995	Privatisation prevented
Argentina	Tucuman	1996	Termination and reversion to public
Germany	Munich	1998	Privatisation prevented
Brazil	Rio	1999	Privatisation prevented
Canada	Montreal	1999	Privatisation prevented
Panama		1999	Privatisation prevented
Trinidad		1999	Termination and reversion to public
Bolivia	Cochabamba	2000	Termination and reversion to public
Brazil	Limeira	2000	Incomplete termination
Germany	Potsdam	2000	Termination and reversion to public
Hungary	Szeged	2000	Incomplete termination
Mauritius		2000	Privatisation prevented
Thailand		2000	Termination and reversion to public
USA	Birmingham	2000	Termination and reversion to public
Argentina	BA Province	2001	Incomplete termination
France	Grenoble	2001	Termination and reversion to public
Brazil		current	Continuing campaign
Ghana		current	Continuing campaign
Indonesia	Jakarta	current	Continuing campaign
South Africa		current	Continuing campaign
Uruguay		current	Continuing campaign

of water and the purchase and sale of water storage and water quality credits. Azurix said it expected the first subscribers to be in the western United States.

In effect, the company plans to use long-term guaranteed contracts with public authorities, and exploitation of markets through trading. Azurix's parent, Enron, was one of the power companies that made huge profits from California's electricity market when prices soared as a result of the recent energy crisis there.

Global opposition

There has been widespread opposition to water privatisation in all parts of the world. The table on p 40 lists major cases where privatisation was successfully opposed.

A number of campaigns are still in progress, and the fact that they are alive is a form of success. Brazil was close to privatising the water supplies of many major cities in 1999, for example.

Many other campaigns have failed, including the campaign in the United Kingdom against Margaret Thatcher's privatisation plans in the 1980s. In other cases, privatisation proposals were halted or rejected.

Continuing campaign

These campaigns have involved a range of allies and tactics. The groups involved have included trade unionists, environmentalists, consumer groups, community groups, farmers, sometimes managers, political parties, individual politicians and non-governmental organisations (NGOs).

Cases need individual analysis, and it is difficult to draw general lessons. Opposition to a 'private build, operate, transfer' project in an affluent corner of Europe or North America may not be a model for attempts to reverse privatisation in a developing country. At the same time, insurrectionary movements in Latin America may not be easy to transplant to the suburbs of European cities. But there are some lessons to be learnt.

Trade unions for water workers have played a leading role in nearly all the successful campaigns (such as in Lodz, Debrecen, Trinidad and Cochabamba), as well as ongoing campaigns such as those in Brazil, South Africa, Indonesia and Uruguay. They have been crucial in mobilising other groups and political organisations. By contrast, in Chile, where the water workers' union was at best neutral, water was privatised in most cities in 1999. This was despite considerable potential for widespread political opposition. A presidential election took place that year, and all four major candidates issued a joint statement saying they opposed the privatisation of water services.

Environmentalists played a key role in halting privatisation plans in Montreal, Canada, where a broad alliance was built with environmental water campaigns across the province of Quebec. In Grenoble, France, a 'green' party played the spearhead role in a successful campaign to end privatisation.

Public sector alternatives

The development of a viable alternative has been central to many of the campaigns. This was true in Lodz and Debrecen, and was central to the action in Honduras, where the restructuring of the water company was negotiated as a way of mobilising public opposition to threatened privatisation.

In Cochabamba, Bolivia, where IWL's private water concession was terminated in April last year after a mass uprising, the struggle for an alternative continues. Facing government's insistence on another private concession, the Coordinadora de Defensa del Agua y de la Vida (Campaign for Water and Life) is fighting to re-establish a public sector water undertaking, which is democratically controlled and economically viable.

One obstacle to public sector options is the Development Banks' insistence on privatisation as a condition for loans. This is happening in Ghana, where the World Bank has made loans conditional on privatisation, and in Europe, where the European Bank of Reconstruction and Development has offered money to councils such as that of Timisoara, Romania, if it privatises to a specific company. International Monetary Fund (IMF) loan agreements in 12 out of 40 countries include conditions imposing water privatisation or full cost recovery.

International action

Trade unions and environmentalists have spearheaded international campaigns against privatisation. Public Services International has given its affiliates increasing backing in local campaigns against privatisation, with research support and publicity. International Rivers Network also coordinates publicity and support for campaigns against dams.

Coordinated action at international events is also beginning, the most visible example being the World Water Forum at The Hague in March last year. A small number of unionists and NGOs made a considerable impact on the outcomes of the conference.

The next United Nations summit on the environment, in Johannesburg next year, will be a crucial focus for opposition to privatisation. Trade unions, community groups and NGOs from across the world will demand an end to water privatisation as a condition for loans by the World Bank and other institutions, state their support for the principles of cross-subsidisation and solidarity, and underscore their rejection of the idea of full cost recovery from users. The multinationals, on the other hand, will seek to use the event to promote themselves as 'the only option' in the water field. ★

David Hall is director of the Public Services International Research Unit (PSIRU), based at the University of Greenwich, London.

Table 2: Internationally active water companies, 2001

Multinational group	Home	Water division	Other names
Suez	France	Ondeo	Lyonnaise des Eaux, Aguas de Barcelon, Northumbrian Water, Degremont, WSSA
Vivendi	France	Vivendi Water	Generale des Eaux, OTV, FCC, Proactiva, US Filter
Bouygues	France	SAUR	Aguas de Valencia
RWE	Germany	Thames Water	Berlin Wasser
Enron	USA	Azurix	Wessex Water
Bechtel, Montedison	USA, Italy	International Water	United Utilities, IWL
Biwater, Nuon	UK, Netherlands	Cascal	Biwater
Anglian Water	UK	Anglian Water	
Dragados	Spain	Urbaser	
Acea	Italy	Acea	

Source: PSIRU database