

Access to Water: an essential service or a profitable commodity?

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Introduction

Ensuring affordable access to safe water requires regulation to deal with complex social and environmental issues.

Access to safe water is essential for human life. The United Nations defines affordable access to safe water and sanitation services as one of the key indicators of progress towards reducing poverty.

The United Nations Millennium Development Goals, endorsed by Australia and other members of the UN in 2000, aim to reduce by 50% the proportion of people in the world who do not have access to safe drinking water and sanitation. This would mean that 1.6 billion people need to be connected to a safe water supply, and 2.1 billion to sanitation. Eighty per cent of those needing connections are in the regions of Sub-Saharan Africa, South Asia and East Asia and the Pacific¹

More broadly, water is essential to all other life, and all ecological systems. Especially since industrialization, water has often been used without regard to environmental impacts. In the face of global warming, conservation of water resources becomes even more urgent.

For these reasons, water services have generally been regulated by government to meet health and environmental goals, and to ensure affordable access, and often provided by government. Ninety –five percent of water services globally are still publicly provided².

There have been moves to use pricing of water to encourage conservation and discourage waste, especially in agriculture and industry, and also by households. But usually this occurs within a wider regulatory framework that recognizes that access to water must remain affordable for all, including those on low incomes.

Global Private Water Companies

The 1980s saw the privatization of both the management and assets of public water services in Britain. Subsequent privatizations have more often involved contracting out of management services while governments maintain ownership of the assets. However, contracts for both management and infrastructure are usually for 15-20 years, are secret or “commercial in confidence,” and often have guaranteed rates of return or levels of

¹ UN Millennium Project, 2005, *Health, Dignity and Development, What will it take?* Task force on Water and Sanitation, Earthscan,

² World Development Movement, 2006, *Pipe Dreams, the failure of the Private sector to invest in water services in developing countries*, p. 8, found at www.wdm.org.uk

business for the company. These contracts reduced government policy options and lay them open to legal action and damages for breach of contract if changed conditions like drought require changes to government policy.

Global water companies formed from the British privatized companies and from private French water companies developed plans for global expansion from the 1990s. The four largest are Thames Water, the French companies Suez and Veolia (formerly Vivendi), and SUAR, formerly a French-British consortium, part of which Macquarie Bank bought in 2003.³ There are other, less specialized companies from the US and elsewhere that have diversified into the water business, like Bechtel and the notorious Haliburton, the company with the close connections to the US Vice President that has many contracts in Iraq.

In 2000, Forbes Magazine claimed in a feature article about the global water industry that these companies saw water as “the oil of the twenty-first century.” From the early 1990s, global water companies lobbied governments directly for privatization, in both industrialised and developing countries. They also influenced the policies of the World Bank and the International Monetary fund to make privatization of water services a condition of aid or loans to developing countries. And they pressured the World Trade Organisation to include water services in trade agreements, applying commercial trade rules that would reduce the ability of governments to regulate water services and open them to private investors, sometimes giving investors the right to sue governments on the grounds that regulatory frameworks harmed their investments.

Global Companies fail to invest in Developing Country Infrastructure

The global water companies claimed that private investment was needed to achieve the Millenium Development Goals mentioned earlier, of providing water services to billions of people in the poorest developing nations.

But this claim has been debunked by comprehensive research in 2006 from the aid organization the World Development Movement, which examined the investment record of private water companies in developing countries for the 15 years to 1996. The study found a basic conflict between the need for private companies to maximize profits, and the fact that investment in water services for the people who most need them does not deliver the required levels of profitability, unless the cost is subsidized by governments.

The study found that between 1991 and 2006, there was no private investment in water services in South Asia, one of the main target areas, and that in Sub-Saharan Africa, only three million out of 1.3 billion people gained access to water through private projects. Eighty per cent of the major water privatization projects in Africa had been terminated or

³ Asia Pulse, October 2, 2003 “Macquarie Bank acquires UK Water Utility”

were the subject of major disputes between governments and the companies over prices and investment levels⁴.

In Latin America, where more private water investment occurred from the 1990s, there has been a withdrawal of many companies after predicted profit levels were not achieved. Suez announced in 2003 that it would withdraw its investments unless the return on capital was at least 13%, and by 2007 it had withdrawn from all its Latin American operations⁵.

There were also popular revolts against high prices charged by private operators in Argentina, Bolivia, Ecuador and Uruguay, resulting in the termination of contracts and the return of the services to public ownership. The most famous of these was in Cochabamba, Bolivia, where domestic water prices increased by up to 150% after privatization in 1999. There were widespread demonstrations against the price rises which were repressed violently by the military, leaving one dead and several wounded. The contract with the company was terminated in 2000⁶.

In Argentina, the government followed the IMF recommendations and privatised 71% of urban water services by 1999. Many of these were already in dispute with governments about failed investment commitments and price rises before the Argentinean financial crisis of 2001-2, when Argentina withdrew from the IMF program. After the crisis and devaluation of the currency, the Suez-owned Aguas Argentinas company which had the contract for Buenos Aires water services, wanted steep price rises, but the Argentinean Government, responding to demands of social movements, argued that water had to remain affordable and used price regulation to freeze prices. The company failed to reach agreement with the government about price levels, and terminated the contract, which was taken over by a public water company. Similar processes occurred in several other urban water systems in Argentina. In Ecuador and Venezuela, there were also strong social movements against price rises, contracts were terminated and public companies resumed responsibility for water services.

Three of the largest global companies, Suez, Veolia (previously known as Vivendi) and SAUR then attempted to use the World Bank trade and investment arbitration tribunal to sue the Argentinean and Bolivian Governments for millions of dollars of compensation, alleging that price regulation was a violation of their contracts. This tribunal is made up of trade and investment legal experts and the complaints are considered in the framework of trade law, considering whether the company suffered harm to its investments, with no

⁴ World Development Movement, 2006, *Pipe Dreams, the failure of the Private sector to invest in water services in developing countries*, pp. 51-2, found at www.wdm.org.uk

⁵ Emanuele Lobina and David Hall, 2007 "Water Privatisation and restructuring in Latin America," PSIRU, Business School, University of Greenwich, p4 .

⁶ Emanuele Lobina and David Hall, 2007 "Water Privatisation and restructuring in Latin America," PSIRU, Business School, University of Greenwich, p28

consideration of the social and environmental context. Most of these cases are still ongoing, and confirmed the strong public opinion against privatization.⁷

Given these experiences, it is hardly surprising that, at the World Water Forum in March, 2006, Argentina, Bolivia, Brazil, Uruguay and Venezuela joined together in a declaration against privatization of water and to call for the exclusion of drinking water and basic sanitation from all trade negotiations and trade tribunals. The declaration reads in part “We declare our profound concern regarding the possible negative impacts that international instruments -- such as the free trade and investment agreements -- can have on water resources, and reaffirm the sovereign right of every country to regulate water and all its uses and services”⁸.

Even the World Bank itself, formerly a strong proponent of privatization, concluded recently that ‘recent decreases in private sector interest in infrastructure show that the reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision’ and that “expectation of private sector participation in the financing of infrastructure needs was unrealistic”⁹

The World Development Movement concludes that the evidence of failure of private investment in water systems shows that the World Bank and other aid donors should stop promoting privatization and instead use aid funds to support best practice models of public water utilities, which will be more successful in extending safe and affordable water access to the world’s poorest communities.¹⁰

Water Privatisation in Australia

Despite privatisation failures and strong public opposition against water privatisation, pro-privatisation commentators in Australia were still claiming in 2006 that “investors are salivating at the prospect of water privatization” and that “Water privatization is a big, thorny political issue, but that doesn’t mean it won’t happen.”¹¹

How much privatisation of water services has actually occurred in Australia? In Australia, water is a state and local government responsibility. Strong public opinion against water privatization has meant that most governments have shied away from

⁷ Emanuele Lobina and David Hall, 2007, “Water Privatisation and restructuring in Latin America,” PSIRU, Business School, University of Greenwich, p.p.13-14.

⁸ Declaration by Argentina, Bolivia, Brazil, Uruguay and Venezuela Mexico City, March 22, 2006

⁹ quoted from world Bank documents in World Development Movement, 2006, *Pipe Drums, the failure of the Private sector to invest in water services in developing countries*, p. 49, found at www.wdm.org.uk

¹⁰ World Development Movement, 2006, *Pipe Drums, the failure of the Private sector to invest in water services in developing countries*, pp. 54-52, found at www.wdm.org.uk

¹¹ Selwyn Johnston, 2006, “Privatising Australia’s water” February 9, found at www.onlineopinion.com.au/view.asp?article=4136

privatizing existing systems, but they have let long term (15-25 year) contracts for new services like treatment plants and, more recently, desalination plants to global water companies. I'll return to this point later.

Only one state government has privatized the management of a whole urban water system: the South Australian Liberal Government, which advertised a 15-year contract in 1995. Note that the government retained responsibility for the rural water system, which is much less profitable and even more politically sensitive.

There was a strong community campaign against privatization, and public opinion polls showed majority opposition to it, which was strengthened by scandals in the tendering process and by the company's performance. Water privatisation was a key issue in the subsequent election, when the government lost its majority, only surviving with the support of an independent¹².

The tender for the Adelaide system was won by United Water, a joint venture between Vivendi (now Veolia) and Thames Water, with five per cent held by local engineering firm Kinhill Pty Ltd. The bidding process became the subject of political scandal, when it was revealed that United Water had submitted its documents more than four hours after the deadline and after the other bids were opened and distributed. A subsequent inquiry by the Auditor General found that this was an improper procedure, but absolved the government of responsibility on a technicality, and the contract proceeded.

There was no public information about the details of the contract. United Water reduced the workforce for the Adelaide water system by forty per cent¹³.

Fifteen months into the contract, in 1997, Adelaide was engulfed in a powerful sewage smell, dubbed "the big pong," which lasted for three months. The company was unable to solve the problem. The increasingly embarrassed government had to hire an independent investigator, an ex-public water employee, who found that the cause was equipment failure and inadequate monitoring, which allowed raw sewage to be flushed directly into settling lagoons. He concluded that the failures were a result of over-zealous cost savings by the company, "an illustration of what can happen when things like monitoring and maintenance are cut to the bone." There was no public information released about the costs to taxpayers of this failure, investigation and repairs, or whether United Water was penalized under its contract conditions, which remained confidential.¹⁴

In addition to this major system failure, and despite government promises to the contrary, household water rates rose sharply. Between 1993 and 2000, prices for the first 136

¹² Christopher Shiel, 2000, *Water's fall: running the risks with economic rationalism*, Pluto Press

¹³ Patricia Ranald and Bronwyn Black, 2000, "Privatising water in the driest State" *Labour and Industry*, Vol11, No.2, December.

¹⁴William Birnbauer (2003) "Tapping Australia's Water", *The Age*, May 7.

kilolitres of water jumped by 59 per cent. Over the same period, inflation was 11 per cent¹⁵.

United Water was initially promoted as the beginnings of an Australian-led consortium that would bring further employment to South Australia. But this proved to be a false promise. Kinhill remained a minority holding that was then sold to the US global company Haliburton. United Water is now a consortium of Thames Water, Veolia and Haliburton. It has contracts to operate water treatment plants in Ballarat and the Victorian Central Highlands. Veolia also has separate contracts for water treatment plants in NSW, Victoria and Queensland, and is involved in joint venture contracts for water desalination plants in Sydney and the Gold Coast¹⁶.

Another example of water service failure by different private companies occurred in Sydney. Australian Water Services - a company consisting of Suez and Lend Lease - won the tender to build and operate the \$285 million Prospect water treatment plant, treating 85 per cent of Sydney's water.

For two months in 1998, high levels of two microscopic protozoans, cryptosporidium and giardia, were found in the water at several Sydney locations and in the Prospect filtration plant, resulting in public health alerts. More than three million residents of Sydney had to boil their drinking water to kill the parasites. An independent inquiry commissioned by the Government questioned Australian Water Services' operational practices, and critics accused the company of cost-cutting.

Both claims were denied by the company, which told the government inquiry that it had always met the stringent water standards demanded in its contract. The private company and the public Sydney Water Corporation blamed each other for the contamination problems. Both also tried to prevent the release of contractual information during the inquiry, claiming it was commercial-in-confidence,

Suez has since changed the name of its subsidiary Australian Water Services to Degremont, which is part of the joint venture that won the contract for the Perth desalination plant which began operations in 2006.

Peter McClellan QC, who conducted the inquiry, concluded

"Public need will generally require the provision of the highest reasonable quality of service. This may be inconsistent with the profit motive and other commercial considerations, which properly direct the actions of the private corporation".

"The inevitable question is whether some essential government services should remain within the ownership and control of government with direct ministerial responsibility. If

¹⁵ William Birnbauer, (2003) "Tapping Australia's Water", *The Age*, May 7.

¹⁶ United Water website www.uwi.com.au and Sydney Water, 2007, "Contract signed for Sydney's desalination project" Media Release, July 19, found at www.sydneywater.com.au/WhoWeAre/MediaCentre/MediaView.cfm?id=386

ownership is to devolve in whole or in part to the private sector, significant issues remain to be addressed."¹⁷

Unfortunately, governments have not asked these questions or learnt the lessons from major failures by private companies. The latest round of contracts for desalination plants in Perth to a consortium including Suez, and in Sydney and Gold Coast to consortia including Veolia, the same companies involved in those failures, show the influence that these companies wield over governments, both in choice of technology and who gets the contracts. Desalination is energy intensive, expensive, and impacts on the marine environment, but seems to be favoured by governments over other solutions like recycling, and governments have again entered into long term secret contracts with escalating costs for consumers. The cost of the Sydney desalination plant has reportedly risen from \$1.75 billion to \$2 billion, with operating costs at \$55 million per year. Sydney Water has predicted that average household bills will rise by at least 15% in the short term to cover the costs. Even more alarming, are media reports that the Prospect Water treatment consortium involving Suez has indicated that it is concerned that it may lose business as a result of the desalination plant, since there will be less water for it to process.. It appears that the company believes it may have grounds for compensation from the government, since the contract apparently guaranteed a certain level of business¹⁸. So we have one contract with a global company with a questionable history that will cost taxpayers \$2 billion plus \$55 million in operating costs per year, and this could enable another global company with an equally questionable history to claim compensation from taxpayers .

In the context of global warming and drought, it is essential that the environment movement and other social movements inform ourselves about moves to privatization and mobilize against them, if we want governments to retain the ability to regulate to safeguard the environment and to ensure that water is affordable and accessible to all.

¹⁷ William Birnbauer (2003) "Tapping Australia's Water" , *The Age*, May 7.

¹⁸ Robins, Brian, 2007, "In the pipeline: a \$2bn desalination bill" *Sydney Morning Herald*, November 12, p.1.

Appendix

Global water companies in Australia (not comprehensive)

Veolia (formerly Vivendi)

- \$234 million, 25-year contract for Sydney's Illawarra and Woronora treatment plants.
- \$84 million contract with Coliban Water for water services in Bendigo, Castlemaine and Kyneton.
- \$10 million contract to build and operate a waste water treatment plant at Kyneton.
- 15-year water treatment plant contract in Noosa
- contracts for Gold Coast and Sydney desalination plants 2006-7

United Water (Veolia, Thames and Haliburton):

- 15-year contract to operate Adelaide's six water treatment plants, four waste water treatment plants, 130 storage tanks, 300 pumping stations plus 15,000 kilometres of pipes.
- 25-year contract to treat and distribute drinking water in Ballarat and nearby towns.
- 20-year contract to manage maintain and operate water treatment plants in the Victorian Central Highlands

Suez:

- Suez and global property and finance giant Lend Lease formed Australian Water Services in 1991:
- \$285 million Prospect filtration plant treating 85 per cent of Sydney's water.
- Wastewater treatment plant in Noosa.
- Part of consortium for the \$90 million Cronulla Sewage Treatment plant upgrade in Sydney
- Suez (name changed to Degremont) a partner in the Perth desalination plant 2006.