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Case studies:

Buenos Aires, Argentina

Atlanta, Georgia, USA

Manila, The Philippines

Cochabamba, Bolivia

Jakarta, Indonesia

Nelspruit, South Africa

The United Kingdom



Water Privatization Fiascos:

Broken Promises and Social Turmoil

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Water for All program.



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Water Privatization Fiascos: Broken Promises and Social Turmoil

A New Social Experiment?

The role of multinational corporations in providing water and sanitation services is relatively new. In fact, one could say water “privatization” is a global social experiment. Historically, water has been viewed as a public good, not a market commodity. Over the last 200 years, most water utilities have been publicly owned and managed. And, the vast majority of people around the world receive water and sanitation services from publicly owned and operated facilities. Most countries have only recently begun to consider privatization of their water utilities. Only 5% of the world’s water services are run by private companies. Water and sanitation services have been publicly run because private companies were not interested in owning or managing water utilities. There was little or no profit to be made. But, with the specter of growing freshwater scarcity and the prediction that water will be the *oil* of the 21st century, major global corporations have been moving into the “water market.”

Promises made. The multinational water corporations, their government allies, the IMF, the World Bank and the regional development banks have claimed that water privatization (or public/private partnerships) is the answer. They claim that bringing the private sector into water and sanitation service provision will ensure access to the more than a billion people worldwide who lack clean and affordable water, and the 2.4 billion who lack sanitation services. The water corporations and their allies argue that the private sector is more efficient, cost-effective and competitive. And, the private sector can bring needed financing. ***The cases presented below show that very few of these claims are borne out in practice.***

Water privatization fiascos. In recent years several showcase water privatizations have suffered major losses. Cases in ***Buenos Aires, Manila, Atlanta*** and ***Cochabamba*** are presented below. Conflict-ridden water privatizations in ***Indonesia, South Africa***, and the ***United Kingdom*** are also analyzed. What has now become clear is that the major multinational water corporations have no intention of making a significant contribution to the capital needed to ensure access to clean and affordable water. The rhetoric of private sector financing is a myth. There is no commitment to universal access to clean and affordable water unless significant profit can be guaranteed. These profit ratios have not been quickly nor easily forthcoming in the developing world. Now the water corporations are demanding new loans, guarantees, and currency exchange insurance from governments and the international financial institutions (IFIs). And, in some cases, if they don’t get it, they are pulling out.

The claim that the multinational water corporations will save government money by providing more efficient and cost-effective operation, maintenance and rehabilitation of water and sanitation services is also not borne out in practice. Instead, the cases presented below show ***increases in consumer water rates, public health crises, weak regulation, lack of investment in water infrastructure, jobs and trade unions threatened, pollution and other environmental catastrophes, secret deals and social turmoil.***

Public water utilities in many countries have been unable to provide universal access to water and sanitation services. Two decades of IMF and World Bank structural adjustment programs that cut government budgets, including government subsidies to water utilities, have worsened the problem. While it is laudable that, in recent years, there has been new-

found attention to the fact that millions go without access to clean and affordable water, this new global awareness should not provide profit-making business opportunities for multinational corporations. Civil society activists are clear that the solutions will not come from the global water corporations, but rather from grassroots democratic initiatives and increased government accountability to the demands of citizens and civil society organizations, including environmental groups, women's groups, religious organizations, trade unions, farmers' organizations, students and many others.

Recent Contract Turmoil: Buenos Aires, Atlanta, Manila and Cochabamba

Buenos Aires, Argentina

The Buenos Aires privatization deal, consummated in 1993, had been widely lauded by the World Bank, the Argentine government and the water industry, as an international success story. But, the success story turned sour after the contractual clause that permitted Suez to link water prices to the U.S. dollar, and ensured hefty profits, was overruled by the Argentine government's emergency decree.

During the first eight years of the contract, weak regulatory practices and contract re-negotiations that eliminated corporate risk enabled the Suez subsidiary, Aguas Argentinas S.A., to earn a 19% profit rate on its average net worth.ⁱ However, by 2002 Suez had to write off \$500 million in losses because of the Buenos Aires concession.ⁱⁱ What did the soaring profits, sudden crash, and subsequent contract re-negotiation mean for the residents of Buenos Aires?

IMF and World Bank structural adjustment programs have long been squeezing social services and public infrastructure in Argentina. The privatization of water became an added burden on the general popu-

lation. According to Fernando de la Rúa, one of many presidents that have come and gone during the Argentine crisis (speaking in March 1999 when he was Mayor of Buenos Aires): "Water rates, which Aguas Argentinas said would be reduced by 27% have actually risen 20%. These price increases, and the cost of service extension, have been borne disproportionately by the urban poor. Non-payment for water and sanitation are as high as 30 percent, and service cut-offs are common with women and children bearing the brunt with health and safety consequences."ⁱⁱⁱ

Union resistance to the privatization deal was crushed by giving the workers 10% ownership in the private company. This deal "purchased" the union's consent to the 50% staff reduction policy that Aguas Argentinas carried out later. The weak regulatory agency, ETOSS, subordinate to both presidential and corporate power, permitted constant contract modifications and non-compliance with performance objectives. These resulted in successive increases in consumer water rates, modifications to the financing program for the expansion of service, currency exchange risk insurance for the company, and the indexation of consumer water rates to the devaluation of the peso exchange rate. For example, Aguas Argentinas reneged on its contractual obligations to build a new sewage treatment plant. As a result over 95% of the city's sewerage is dumped directly into the Rio del Plata river.

As Suez tries to recoup its losses, the government, and the nation's taxpayers, will be left to clean up the mess. Using an increasingly feared tactic of multinational corporations, Suez will bring claims against the Argentine government using the World Bank's International Centre for the Settlement of Investment Disputes (ICSID). The exact amount of Suez's claims against the Argentine government are "secret" but they are demanding compensation for losses relating to water concessions in Buenos Aires, Santa Fe, and Cordoba.

Atlanta, Georgia, USA

In January 2003, after ongoing contention between the city of Atlanta and United Water, city officials decided to terminate the largest water privatization contract in the USA. In 1998, the city of Atlanta signed a 20-year, \$428 million contract with United Water, a subsidiary of the French corporate conglomerate, Suez. The industry held great expectations that Atlanta would serve as the “model” for other communities and open the door for private water companies to do business in other major U.S. cities. Instead, the fiasco in Atlanta serves as a model for what to avoid.

United Water vastly overstated the amount of money that it could save the city and vastly underestimated the amount of work needed to maintain and operate the system. Almost immediately after signing the contract, United Water started hitting up the city for more money, and tried to add \$80 million to the contract. The city refused. United Water came back with charges of \$80 million for additional expenditures. Atlanta’s Water Commissioner refused to approve the payments, but in a bizarre twist, letters authorizing the payments showed up with the signature of former Mayor Bill Campbell. Campbell denied he had ever signed the documents. The city attorney ruled the authorizations invalid, and United Water eventually backed away from pressing the claim.

United Water was also improperly billing the city for work it didn’t do. The company billed an extra \$37.6 million for additional service authorizations, capital repair and maintenance costs, and the city paid nearly \$16 million of those costs. Pay was withheld for the rest because the work either wasn’t complete or hadn’t even been started. Routine maintenance was billed as “capital repairs” and much-needed infrastructure rehabilitation was neglected.

Desperate to cut costs, United Water more than halved the number of employees, from more than

700 to just over 300. Still the much-vaunted savings from privatization didn’t materialize, and the promise that a consumer rate hike could be averted through savings turned out to be empty. Sewer bill rates went up every year that United Water had the contract – rising, on average, about 12% annually. Chris New, the Deputy Water Commissioner in Atlanta said, “My biggest concern is a lot of people have lost confidence in the water itself. Over the past year, we’ve had so many boil water advisories and discolored water around the system.”^{iv}

Very soon trust in the company eroded to the point that the city spent \$1 million to hire inspectors to verify United Water’s reports. City officials concluded it was time to end the relationship. Now Atlanta faces the daunting task of taking back its water system and performing the needed upgrades that were neglected during United Water’s tenure.

Manila, Philippines

In December 2002, after five years of controversy, Maynilad Water (co-owned by Suez and a wealthy Filipino family) threatened to terminate their water contract in Manila. Maynilad was unable to pressure the regulator to approve its requested rate increase. Approval had been granted for six previous rate increases and countless other contractual obligations had been re-negotiated away since the contract was signed. Debt-ridden and unable to raise more capital, Maynilad Water’s credit-worthiness was at stake. The company’s operating expenses were more than 40 percent higher than projected, although major investment and performance targets were never met. In the aftermath of the Asian financial crisis, the company repeatedly demanded coverage of its foreign exchange losses. While a good many of Maynilad’s demands were granted, eventually the regulator said “no” and Maynilad Water, assessing their rates of return to be inadequate, began threatening to pull out.

The 25-year lease agreements in Manila were the biggest water privatizations in the world when they took place in 1997. The Metropolitan Waterworks and Sewerage System (MWSS) granted the rights to operate and expand water and sewerage service to Manila Water (co-owned by Bechtel and the Ayala family) and Maynilad Water (co-owned by Ondeo/Suez and the Lopez family). Government elites and the World Bank have been determined to tout the privatization as a success story. After five years, the two companies claimed that more than 2 million more people were connected to the water system. Government regulators dispute that number.^v Civil society groups have criticized the non-democratic and non-transparent nature of the privatization process, the rate hikes (which include an adjustment tied to exchange rate losses), the unmet promises of rehabilitation and expansion of water services (especially to the urban poor), and weak regulatory and oversight practices.

Advised by the International Finance Corporation (IFC), the private sector lending arm of the World Bank, Manila sought to privatize MWSS in the mid 1990's. When Suez entered Manila in 1997 it was with a promise to lower rates and expand the infrastructure for the 7.5 million households the concession covered. The promise was to provide water for 4.96 pesos. While the government claimed this price was guaranteed until 2007, in reality the contract had several mechanisms permitting "extraordinary price adjustments." Other promises included 100% infrastructure coverage by 2007, US\$7.5 billion new investments over 25 years. Unaccounted water would fall to 32% in 2007 and the city would save US\$4 billion over 25 years.^{vi}

Only a year into the contract, Maynilad asked for the first rate increase. In 2001, the price rose to 6.58 pesos with subsequent hikes to 10.79 pesos, 11.39 pesos and 15.46 pesos. In a Christmas press release, the Asian Labor Network stated the following:

The additional cost of water will ensure a bountiful New Year to Maynilad and Manila Water. But, an ordinary Filipino family will now have to forego an additional 87 to 147 pesos a month. In effect, Maynilad and Manila Water with the full blessing of MWSS have deprived the Filipino family of three full meals or three kilos of rice. The ordinary vendor will now have to surrender one full day of income to pay for the cost of water. To poor families who can only afford instant noodles the water increase might mean they cannot eat for two days.^{vii}

Shortly before Maynilad took control MWSS retired almost 2,000 workers to lower costs and 6 months into the contract 750 workers were laid off. The Lopez family, whose business empire extends to the major media, ensured that propaganda favored Maynilad.

But, Maynilad continued to seek contract re-negotiations, including continual rate increases, postponement of its obligations to meet investment targets beginning in the fifth year and postponement of targets to decrease unaccounted for water. Technically, this should have caused Maynilad to forfeit its performance bond, but the company used legal action in local courts to block the government's access to the performance bond. Probably the most controversial contract re-negotiation involved the pass through to consumers of foreign exchange losses. This ensured that Suez could continue to use its major foreign corporate suppliers and consultants (rather than local sources) while billing consumers to cover for the effects of peso devaluation.^{viii}

Maynilad threatened to cancel the contract when the regulatory commission rejected an additional rate increase to 27 pesos. If Maynilad decided to exit, control of the waterworks reverted to MWSS. Maynilad claimed that the city had not met its obligations and brought the dispute to the International Chamber of Commerce. Maynilad is seeking US\$303 million in compensation from the government. In addition, MWSS will now have to take on \$530 million in loan payments to creditors. The residents of Manila will pay the costs of these additional debts.

Cochabamba, Bolivia

In April 2000, after seven days of civil disobedience and angry protest in the streets, the president of Bolivia was forced to terminate the water privatization contract granted to Aguas del Tunari, subsidiary of the giant Bechtel corporation. The Bolivian government had granted a 40-year contract to Aguas del Tunari in 1999. But the terms were so draconian that within months the entire region rose up and drove them out.

Water rates increased immediately - by 100 to 200 percent in some cases. Small farmers and the self-employed were especially hard hit. In a country where the minimum wage is less than \$100 per month, many families were paying water bills of \$20 or higher.^{ix} Unable to survive under the burden of the new water prices, the citizenry began a campaign to drive out the private water company. In January 2000, a four-day general strike over the water price hikes, organized by a coalition of community, labor and human rights leaders, left the city at a total standstill. The strike culminated with a mass march to the city's central plaza where protest leaders and city officials were negotiating. It soon became clear that the negotiations were moving nowhere. In February, the Bolivian government sent a thousand army and police officers from outside Cochabamba, declared the protest marches banned and illegal, and imposed a military takeover of the city. During the ensuing protests, strikes, and marches 175 people were injured, two youths blinded, and one killed. Finally government officials promised a full rate rollback and a review of the water company contract. But, the movement leaders held fast to their demand to have the contract terminated. Protests continued and in April the government finally agreed to terminate the contract.

The privatization of water was the latest scheme in a long series of World Bank-backed proposals to sell Bolivian public enterprises to foreign private investors - including the airline, the train system,

and the electric utility. Cash-strapped and indebted countries like Bolivia rarely reject IMF and World Bank advice, because they don't want to risk being denied future loans and international aid.

Privatization deals, while making fast cash for the government - money usually used to pay debts to the IMF, World Bank and other foreign creditors - are generally a bad deal for the public and rife with secrecy and corruption. In this case, Bechtel and the British-led consortium of investors put up less than \$20,000 of up-front capital for a water system worth millions. Consumers suffered rate increases, while the company was expected to earn an annual income of \$58 million.

The Bolivian water privatization fiasco holds another warning for governments considering similar schemes. Bechtel is determined to make the government of Bolivia pay for canceling the water contract. In 2001, Bechtel filed suit against the Bolivian government, demanding \$25 million in compensation for lost future profits resulting from the cancellation of the company's contract. Unfortunately the laws of international trade and investment, becoming more stringent and widespread with WTO and GATS negotiations, are rigged to place corporate needs and profits above sovereignty and democracy. If the World Bank arbitration court decides to take \$25 million from one of the poorest and most indebted countries in the Western hemisphere and award it to the corporate coffers of Bechtel, it may be a warning signal to governments around the world to beware of signing such contracts in the future.

More Water Privatization Controversy: Indonesia, the United Kingdom and South Africa

Jakarta, Indonesia

Water privatization in Indonesia is a story of how the interests of global water corporations, corrupt dictatorships and World Bank loans pushing privatization worked together to rob the public resources and assets of Indonesian citizens. Today, most of the poor in Jakarta remain without piped water services. In the early 1990s when the World Bank agreed to provide a \$92 million loan for water infrastructure, Bank officials were already advising the Suharto government to privatize. With key multilateral (World Bank) and bilateral (Japan) loans in place, the major corporate conglomerates Suez and Thames, began making moves to takeover the public water system.

Under Suharto's dictatorship, doing business in Indonesia meant partnering with a local firm. And, most major business corporations were controlled by the Suharto family. Thames formed an alliance with the Sigit Group, controlled by Suharto's eldest son, Sugit Harjojudanto. Suez worked with a Suharto business crony, Anthony Salim, CEO of one of Indonesia's largest companies, the Salim Group. There was no open and transparent bidding process, although the World Bank and the Asian Development Bank claims they promote "good governance" and transparent privatization transactions.

Instead, in 1997, after protracted private negotiations, the contracts were simply awarded to the two new entities. Thames' partnership with Sigit Group was called PT Kekar Pola Airindo and the Suez partnership with Salim Group became PT Garuda Dipta Semesta. The fact that national law and local regulation prohibited foreign investment in drinking water delivery and precluded private sector involvement in community drinking water supply was, apparently, irrelevant.^x

The new 25-year contracts with PAM Jaya, the municipal water supplier, were expected to be lucrative for both the international and local partners. One prediction set Thames pre-tax profits at \$25 million by the tenth year of the contract.^{xi} The new companies immediately moved into posh new offices in Jakarta's business district rather than using the older office space where PAM Jaya had operated. The salaries paid to the foreign executives, who lived in the wealthiest neighborhoods, were much higher than those paid to PAM Jaya officials causing much resentment among the employees. The contracts required the new companies to not only manage the system, but in the first five years to expand the existing pipeline, invest \$318 million, add 1.5 million customers, service 70 percent of the population, increase water supply, and reduce "unaccounted-for" water.^{xii} PAM Jaya agreed to force businesses and private homes to shut down private wells and buy their water from the companies. (In 1997, about 70 percent of water used in Jakarta came from private wells.)

Payment to the companies was not linked to revenue collected, but rather each company was paid a fee by PAM Jaya based on water supplied. In this way, the companies de-linked their profits from the risks and problems of cost recovery. Initially, the companies demanded to be paid in dollars, since they borrowed in dollars, but when the governor of Jakarta threatened to resign over the issue, Thames and Suez agreed to accept rupiah. However, they insisted that payments in local currency be pegged to the US dollar to protect them against currency devaluation. There was no formal regulatory or oversight mechanism. PAM Jaya had no right to see financial reports of the companies and there was no clear sanction for non-compliance with performance targets.

In 1998, the Asian financial crisis and the downfall of Suharto changed the political landscape. Fearful of protest in the streets, major company executives from Suez and Thames fled to the safety of Singapore. Faced with an immediate water crisis,

Jakarta's new governor ordered PAM Jaya to fill the vacuum and take back the operation. After intensive lobbying, including intervention by French and British diplomatic officials, and a statement from the British Embassy that "breaching of the contract would weaken confidence in Indonesia as a place to invest," the agreement was made to let Suez and Thames return, but the contract would need to be re-negotiated.^{xiii} Since Suharto had fled, and the former president's family and business partners were targets of public anger, Thames and Suez agreed to buy-out the local shares of their business operations in order to remove the tarnish of the Suharto family connections.

Once the companies were back in charge, there was substantial foot-dragging on the contract re-negotiation. The financial crisis brought dramatic devaluation of the rupiah, which meant that revenues from customers fell while the payments to the private companies (pegged to the dollar) forced PAM Jaya into ever-deeper debt. Given the tense political situation in Indonesia, consumer rate increases were repeatedly delayed. Eventually an agreement was reached which provided for the establishment of a regulatory body and enabled PAM Jaya to have access to company financial records.

As might be imagined, investment and expansion targets were never met, but there was also no reliable mechanism for verification of company reports. Suez claimed it had increased connections 50%, falling short of the 70% target. Investment was about \$200 million short of the target. Water services in Jakarta's rich, middle-class and industrial areas improved. However, most poor communities remain without piped water due to unaffordable connection charges, informal tenure arrangements, and lack of incentives for PAM Jaya or the companies to service these areas. Customers must still boil their water to ensure its safety for drinking.

According to PAM Jaya engineer Feri Watna, "the companies...just came in and robbed everything that we had. We already had the distribution networks, all those pipes, the water installations, the consumers and everything else."^{xiv}

Nelspruit, South Africa

In 1999, the British water multinational, Biwater, was awarded a 30-year water concession in Nelspruit, South Africa. Ever since, the community has complained of rising prices and poor service.

The privatization of water in Nelspruit was initially proposed in 1997, but the South African Municipal Workers Union (SAMWU) challenged the bid and stalled the process for almost two years. In 1998, a compromise was reached. The South African government, led by the African National Congress (ANC), promised to assess the possibility of a public alternative. But, this never happened. Instead the concession was awarded to the Greater Nelspruit Utility Company (GNUC)—a joint venture between Biwater and a black empowerment group, Sivukile.

The ANC argued that the new private concession would be able to attract much-needed sources of private finance. The ANC wanted to depend less on international loans in a period of currency fluctuations. South African municipalities have a limited ability to make large infrastructure investments and are thereby indirectly encouraged to look for private sector solutions. But Biwater had great difficulty in raising the money and has depended on finance from the public sector. In July 2000, nearly two-thirds of the total finance (R195m) for the project was finally obtained in the form of a R125 million loan from the state-owned Development Bank of South Africa (DBSA).^{xv}

GNUC has been criticized for not increasing access to water. But while access hasn't been greatly increased, rates have. The concession has nearly tripled service fees and been quick to cut off service for those who can't afford to pay. The price hikes,

and persistent complaints that Biwater is failing to provide service to poor areas, have prompted consumers to boycott paying their skyrocketing water bills.^{xvi} Biwater officials claim that expanded access is being hampered by a lack of revenues and a credit crunch. As a Biwater senior manager explained, “What is the point of pumping money in while we are not sure of cost recovery?”^{xvii}

Even in those areas where water service is available, it is often provided only intermittently and sporadically. The metering system charges people for water even when the water isn’t there, however, with the result that customers have to pay for up to 90 minutes of “air time” while they wait for water to come out of the tap once it’s been turned on.^{xviii} In some townships, Biwater was switching water on only for three hours a day or less—and for a good portion of that time, taps were on but no water came out. “Yet during this period, household meters run, so it seems that people are being charged for air,” SAMWU observed.^{xix} Other problems identified included:

- * People cannot use their toilets at night because the water is switched off.
- * When communities report broken water pipes, it takes Biwater more than four days to repair them.
- * Water bills are grossly inflated and inaccurate.
- * White areas in Nelspruit are getting much cheaper water than the townships.
- * There has been an increase in disconnections. Disconnections are being performed illegally with no notices to households prior to disconnection.
- * Communities are not getting the 6000 litres of free water they are entitled to under national law.^{xx}

United Kingdom

In what was arguably the most massive privatization deal in recent history, in 1988 the Thatcher government transformed its 10 regional water authorities (RWAs) into private profit-making ventures. The RWAs were sold as 25-year concessions by issuing

shares on the stock market, creating private monopolies in 10 regions of the United Kingdom – only Scotland and Northern Ireland were excluded.

These new private monopolies were granted a range of government subsidies, at the expense of taxpayers and consumers, to boost corporate profitability.

* The Thatcher government wrote off all the debt of the water companies before privatization (about US\$8 billion).

* The government granted the private companies what they called a “green dowry” of US\$2.6 billion.

* The government offered the companies for sale at a substantial discount – about 22% of the stock market value (measured as the difference between the issue price of the water companies’ shares and the share price after the first week of trading).

* The companies were given special exemption from paying taxes on their profits.

There was soon a sharp public outcry as consumer water prices rose. On average, prices rose by over 50% in the first 4 years. The first 9 years produced price increases of 46% in real terms (adjusted for inflation).^{xxi} The public was further outraged when information was released about director’s pay and the profits of the 10 water companies. The real value of the fees, salaries and bonuses paid to the director’s increased between 50% and 200% in most of the water companies. The profits of the 10 water companies rose 147% between 1990 and 1997.^{xxii} Profit margins in the UK are typically three or even four times as great as the margins of water companies in France, Spain, Sweden or Hungary. This could explain why most of the 10 UK companies were quickly purchased (after the 5-year “protection” period) by the big corporate water multinationals – including Suez, Vivendi and RWE.

As might be expected, the rise in customer water prices was followed by an increased rate of household disconnections for non-payment. The disconnection

rate tripled in the first five years, with 18,636 households disconnected in 1994.^{xxiii} Again, there was a broad public outcry arguing that cutting off people's water endangered public health. A 1994 study showed rates of dysentery rising in most major urban areas. When disconnections for non-payment became more controversial, the water companies started using "pre-payment meters" for customers unable to pay their bills. These meters only supplied water when customers had paid money charged on a plastic card. When the account was empty, the meter cut-off water supply. The companies called these "self-disconnections." By 1996 over 16,000 pre-payment meters had been installed. Public outrage grew until Parliament passed a new public water law called the Water Industry Act of 1999 that forbid disconnections for non-payment and the use of pre-payment meters.

There have been serious transgressions in the environmental performance of the UK companies, such as lack of basic conservation measures, sewer back-flow, waterway pollution, and poor drinking water quality. In 1998, the major water companies in the UK were ranked as the second, third, and fourth-worst polluters. The UK's Environmental Agency regularly prosecutes the water companies for pollution offenses. The ten water companies were prosecuted a total of 260 times between 1989 and 1997.^{xxiv} Paying the fines was simpler than making the needed investment in rehabilitation of infrastructure and treatment plants. Since 1998, the situation has improved somewhat and the water companies have been prosecuted for a total of 22 water pollution offenses. Lack of attention to maintaining the water and sewerage system has contributed to wastage from leaks and poor drinking water quality. The Drinking Water Inspectorate (DWI) identified lack of compliance on key parameters (excessive amounts of nitrite, iron,

lead, PAH and other pesticides) in more than 20% of water zones.^{xxv}

The 10 UK water companies have little incentive to make capital investments to rehabilitate and improve the water and sewer infrastructure. In fact, capital expenditure starting accelerating before privatization and peaked in 1991-92 and then began to fall in the post-privatization period. It appears to be common practice for the companies to budget large capital expenditure needs (which are then used to calculate the allowed price rises). But, rather than making the budgeted infrastructure improvements, the companies use the shortfall in expenditure to boost profits. For example, Southern Water submitted plans for a series of new sewage treatment plants that were never built. Yorkshire Water "saved" on its capital expenditure budget by getting a promise from government to re-define coastal waters as sea waters instead of estuary waters - permitting the company to dump raw sewage instead of expanding treatment plants.^{xxvi}

Perhaps the assessment of the British newspaper, *The Daily Mail*, sums it up best.

...(T)he water industry has become the biggest rip-off in Britain. Water bills, both to households and industry, have soared. And the directors and shareholders of Britain's top ten water companies have been able to use their position as monopoly suppliers to pull off the greatest act of licensed robbery in our history. (July 11, 1994)

NOTES

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