



CAMPAIGNING TO KEEP
WATER AS A PUBLIC TRUST

Veolia vs. Veracity

Consumer group corrects company's "factual showdown"

Veolia Environnement's U.S. subsidiary, Veolia Water North America, has prepared and distributed literature entitled "PPP vs. Public Citizen: Sorting Fact From Fiction." The piece lifts scattered statements, or shreds of statements, from some of the consumer group's introductory materials on water privatization, and eagerly characterizes each statement as a "claim." Veolia's "response" follows. Apparently, the idea is that cleverly combined corporate spin and obfuscation will discredit Public Citizen's Water for All campaign, thus paving the way once and for all for every community in the United States to sign a long-term monopoly water and/or wastewater service contract with a huge conglomerate headquartered in Paris.

Public Citizen is pleased that Veolia executives have taken time to familiarize themselves with at least one or two items among the extensive research and materials compiled on Public Citizen's Water for All website, www.wateractivist.org. Public Citizen invites community leaders, water/wastewater professionals and citizens to visit the site themselves and learn more about the track records of private water corporations, their regulatory and legislative agenda, and the struggles with water corporations that have been faced by communities the world over. Interested parties are particularly invited to examine the recently updated corporate profile of the world's largest private water company: Veolia Environnement, (www.citizen.org/cmep/veolia)

Meantime, below are some of Veolia's assertions from "PPP vs Public Citizen," organized under the same headings as those used in the corporate piece, with Public Citizen's corrections.

CONTROL

Veolia: "In a partnership, a company does not own or control water."

Public Citizen: There are many forms of privatization, ranging from outright ownership of water, the pipes, pumps and other infrastructure to perhaps operating but a single component of a community's water system under a contract. Obviously, the more elements of the system encompassed in a lease, contract, etc., the more control over a community's water system the company will have.

RATES

Veolia: "Companies engaged in partnerships can't set rates and have documented cost savings of 10 to 30 percent."

Public Citizen: The companies have promised savings higher than that—45 percent in Atlanta, and nearly as much in New Orleans. Unfortunately, the promised savings fell far short in Atlanta, which was only one of the reasons the city ended the largest water contract in the country in 2003. Another reason: The company kept coming back to the city and claiming that the agreed-upon cost of operating the system wasn't high enough, and that the company needed more money.

In New Orleans, where Veolia was among the leading bidders for a huge privatization contract, bids were so riddled with uncertainties and omissions that public officials felt they couldn't credibly compare one bid against another, let alone determine the veracity of any savings promised by the companies. New Orleans abandoned the privatization process in April 2004.

So the savings can be a mirage.

The substantial costs communities are facing to improve, expand and repair water and wastewater systems nationwide, however, is very real. The Environmental Protection Agency estimates there is a gap of as much as \$500 billion between what will be spent on system upgrades and what needs to be spent over the next 20 years. The water corporations are very cognizant of this and believe...

*...that rates should be charged that represent the full cost of providing that service. While we have large investments that have to be made, we believe they still can be paid for through carefully designed rates that are affordable to the vast majority of customers, **although rates will be much higher than what is currently being charged.***

—Peter Cook, National Association of Water Companies, quoted in "The Wall Street Transcript," June 7, 2004

The water corporations don't deny higher rates. They promise higher rates. And that's one promise they'll assuredly try to keep.

WATER QUALITY

Veolia: Privatization [promotes] water quality.

Public Citizen: The opposite is true. Thames Water, now part of the RWE conglomerate that owns American Water Works, has frequently posted one of the worst environmental records of all the companies operating in England and Wales in recent years. Cost-cutting by United Water, the U.S. subsidiary of French conglomerate Suez, was blamed for system failure that allowed more than 100 million gallons of raw sewage into Milwaukee area waterways. And among the many reasons that Atlanta ended its long-term contract with United Water were the repeated boil-water orders that had to be issued to Atlanta citizens while United Water operated the system.

As for Veolia...the company acquired a wastewater contract in New Orleans in the 1990s under its old name, USFilter. It didn't take long for the company to earn notoriety for diverting raw sewage into the Mississippi River for two hours in 2001 after an electrical fire interrupted operations of a treatment plant in New Orleans. City Councilmember Jim Singleton said Sewerage and Water Board officials told him that USFilter was aware of the equipment problems for several weeks and knew they could cause serious damage, but took no action.

In fact, Veolia (then USFilter) failed repeatedly to comply with environmental regulations—even as the company was trying to convince New Orleans to grant it a water services contract. In 2002, the Black & Veatch

consulting and engineering firm was asked to conduct an independent audit of wastewater system operations. After cataloguing numerous environmental violations (29 discharge violations in 2001 alone), mechanical failures, clogged pipes and other problems, the audit concluded that “Observation of these plants’ activities, as well as the serious problems reported above, indicate a reduced concern for operations and maintenance by the contractor.”

ACCOUNTABILITY

Veolia: “Companies are accountable to consumers through direct service provision and through direct reporting structures to public agencies.”

Public Citizen: In a perfect world, Veolia is absolutely right. But in France, Veolia’s native land, the company has indeed established an impressive record of building relationships with public agencies and the officials who run them. Unfortunately, that record is not of accountability, but of bribery:

- *Strasbourg, France, 1991:* Andre Fougousse resigned as mayor of Ostwald and municipal councilor of Strasbourg after allegedly receiving paybacks from Vivendi, Saur and Suez. Mr. Fougousse claimed the payments were ‘normal’ and that other officials received similar cutbacks.¹
- *St. Denis, Isle de La Reunion, France, 1996:* Two senior Vivendi/General des Eaux executives were convicted of bribing the mayor of St. Denis in order to obtain a water contract after admitting in court in October 1996 that Vivendi had funded elected officials in order to obtain a water concession.²
- In 1996 Jean-Dominique Deschamps was fined \$27,000 in addition to an 18 month prison sentence after courts found him guilty bribing officials in as many as 70 cities throughout France. Mr Deschamps was then Vivendi’s deputy director general and sought to secure water contracts for the Vivendi conglomerate.³
- *Angouleme, France, 1996:* The former mayor of Angouleme, Jean-Michel Boucherone, admitted to accepting US\$55,000 from Vivendi affiliate Generale des Eaux in exchange for awarding a contract to the company. He was sentenced to two years in prison (plus two suspended years)⁴ and fined \$172,000.⁵

Officials with Veolia subsidiaries or affiliates have also been convicted in connection with bribes and kickbacks elsewhere, including the U.S., notably in Bridgeport, Conn, and New Orleans.

LOCAL CONTROL

Veolia: “Again, under public-private partnerships, the public partner owns the assets, controls the management of the assets and establishes user rates...contracts can be written so that municipal customers receive a guarantee that a facility is in the same or better condition (less normal wear and tear) at the end of

¹ “Vivendi’s Empire-building,” *Corporate Watch*, May 16, 2003 <http://www.corporatewatch.org.uk/news/vivendi.htm>

² April 1999 Decisions <http://canterbury.cyberplace.org.nz/community/CAFCA/cafca99/Apr99.html>

³ “Vivendi’s Empire-building,” *Corporate Watch*, May 16, 2003 <http://www.corporatewatch.org.uk/news/vivendi.htm>

⁴ David Hall, *Privatization, Multinationals and Corruption*, University of Greenwich, PSIRU, January 1999.

⁵ “Vivendi’s Empire-building,” *Corporate Watch*, May 16, 2003 <http://www.corporatewatch.org.uk/news/vivendi.htm>

the contract as when the partnership began...maintaining assets is in the best interest of the private contractor, since the company would like the contract renewed and its reputation intact.”

Public Citizen: Veolia Environnement operates in 84 countries and has seen dramatic change in corporate structure, ownership and mission in recent years. Formerly a subsidiary of the debt-choked, since-carved-up Vivendi Universal conglomerate, Veolia’s largest ownership interest currently is a consortium of French utility and financial institutions. Vivendi bought its way into the United States with the purchase of USFilter in 1999. Along with European competitors Suez and RWE, Veolia saw that about 85 percent of the water that comes from a tap in the U.S. is delivered by a publicly owned and operated system, and felt that there was a huge opportunity for privatization to make inroads in the metropolitan U.S. water “markets.” Those plans have been severely sidetracked, however, by the failures in Atlanta and New Orleans. Veolia has since divested former USFilter assets such as Culligan and USFilter’s equipment division, and the company is telling Wall Street that the best opportunities for U.S. growth are not in the municipal sector, but in industrial contracts. Meantime, the company is putting increasing emphasis on landing long-term monopoly contracts in China.

Faced with revenues that fell far short of what the company hoped, Veolia has attempted to rescind or been ousted from numerous contracts around the world, including deals in Argentina, Brazil, Puerto Rico and Malaysia—huge deals that dwarf the contracts Veolia has been attempting to secure in relatively small U.S. towns of late.

In 2003, Veolia sported more than \$38 billion in revenues. Less than 14 percent of those revenues were generated in North America. As the company explains to its shareholders, “We are not materially dependent on any particular customer.”⁶

EXPERIENCE

Veolia: “Employee groups cannot provide financial guarantees required of private firms. They cannot assume operations and performance liabilities and cannot finance the significant capital investments required by many projects. They do not have strong balance sheets nor do they have the same depth of expertise and knowledge.”

Public Citizen: First, publicly operated systems aren’t going to skip out on a contract, and Veolia’s assertion about financial guarantees is a red herring. Second, Veolia has made it very clear to its shareholders that it has no interest in exposing itself to financial risk through capital investments. That’s why Veolia focuses on privatizing services through long-term monopoly contracts rather than through outright ownership. And third:

- In 1996, the Phoenix Water Services Department and AFSCME Local 2384 formed the Participative Association of Labor and Management (PALM) to enhance efficiency, assure quality and keep rates low. The five-year goal was to save \$60 million. Instead, it saved \$77 million. Originally addressing water production and wastewater treatment plants, the next phase of PALM will extend the reengineering program to the department’s management services division. 1

⁶ Veolia Environnement Annual Report 2003, p. 16, <http://www.veoliaenvironnement-finance.com/documents/20F-2004.pdf>

- In the first two years after implementing its “Bid to Goal” program to enhance operational efficiency in 1998, the San Diego Metropolitan Wastewater Department saved \$37 million, nearly doubling the targeted savings amount.² The program, established in collaboration with the San Diego Municipal Employee Association and AFSCME Local 127, will easily meet the \$78 million projected savings over the six years covered in the initial memorandum of understanding. The city is now preparing to expand the Bid to Goal program to other departments and divisions in city government.³

- Amid talk of government failure and with private contractors looming, the Miami-Dade Water and Sewer Department established “POWER”—the Partnership Optimizing Water and Sewer’s Efficiency Reengineering Program. Between fiscal year 1997 and fiscal year 2001, operation and maintenance expenditures were reduced by \$52 million. As a result of the program, established in collaboration with AFSCME Local 121, employees received \$1,133 as a special recognition increase for verified savings of \$9.4 million in 2000 and \$519 for savings of \$4.32 million in 2001, while not raising water or sewer rates since 1998.⁴

- The King County (Washington) Wastewater Treatment Division saved \$2.8 million in 2001, the first year of its “Productivity Initiative”—despite skyrocketing electricity costs that hammered the west coast for much of the year. The Seattle area program has targeted savings of nearly \$70 million over ten years. Developed in partnership with SEIU Local 6; Teamsters, Local 117; and Washington State Council of County and City Employees, Council 2, the program targets most of the savings to reduce future rate increases. Employee incentives are key to the program’s success, and \$702,500 went to about 700 eligible employees who made the savings possible in 2001.⁵

PERFORMANCE

Veolia: “Contracts typically contain strict performance criteria for costs, quality, compliance and customer service.”

Public Citizen: Angleton, Texas, terminated a contract with Veolia for non-performance, and took the company to court, charging it breached its contract by failing to maintain adequate staffing levels, not submitting capital project reports and charging improper expenses to the maintenance and repair tab picked up by the city.⁷ Lynn, Mass., ended a wastewater overflow plant contract with Veolia because the company failed to stay adequately bonded for the project.⁸ While company officials lauded the continuing contracts with water and wastewater treatment plants in the community, the town recently rapped the company for cutting costs by refusing to properly treat wastewater with chemicals. As a result, the town was blanketed in a stench.⁹

Veolia has long rack record of failing to communicate effectively with New Orleans in connection with Veolia’s wastewater contract. On numerous occasions in recent years, staffers with the New Orleans Sewerage and Water Board made numerous, repeated and documented complaints about Veolia reducing staff to inadequate levels, neglecting preventive maintenance, failing to notify city officials of environmental

⁷ “Court date set for USFilter dispute,” *The (Brazoria County, Texas) Facts*, April 11, 2004, www.waterindustry.org/New%20Projects/usfilter-33.htm

⁸ “Initial vote slated in Lee on privatizing water system,” *Berkshire Eagle*, July 7, 2004.

⁹ “Lynn sewer stink could get worse with rising temperatures,” *Lynn Daily Item*, June 29, 2004.

violations, and other problems.¹⁰ When a city the size of New Orleans, with teams of professionals monitoring contract performance, can't get a straight answer from a company, it doesn't bode well for the small communities currently in Veolia's sights.

JOBS AND PAY

Veolia: The goal of most communities is to provide fellow citizens with the best service at an affordable cost, best delivered by combining the strengths of the public and private sectors.

Public Citizen. The goal of most companies is to make as much money as possible. If Veolia has a different goal, that would come as intriguing news to the company's shareholders.

The private water companies have an infamous record of browbeating, undercutting and eliminating employees. In less developed nations, where labor laws can be severely stacked in favor of employers, water companies have a history of muzzling organized labor. In Atlanta, the private contractor simply tried to maximize revenue by slashing the work force in half, contributing in no small part to the boil-water orders, maintenance backlogs and other problems that ultimately led to the dissolution of the contract.

And Veolia's record of treating labor might be best examined in Indianapolis, a city Veolia typically point to as a success story. Since Veolia landed the contract in 2002, non-union employees have seen their benefits slashed, and the company made an aggressive move to reduce personnel costs—and personnel—through buying out veteran employees.¹¹ Lawsuits have been filed complaining not only about the treatment of workers but also about the legality of the contract itself, and a coalition of Indianapolis citizens is aiming to nullify the contract and bring the system under public management.¹² The National Labor Relations Board has issued 16 complaints against the company, and workers last spring were on the verge of a strike. That was averted when the employees essentially agreed to a two-tier benefits plan under which existing employees would get a pension plan, and new employees wouldn't.¹³

If hundreds of employees in Indianapolis, many organized under a strong union, find themselves in a pitched battle with the company to preserve benefits and hold Veolia to its promises, can a relative handful of employees in a smaller town trust the multinational to keep its word?

A COMMODITY?

Veolia: Water is not a commodity. It is a collective good belonging to everyone.

Public Citizen: Hmm, with that statement, Veolia appears to be right. And because water is not a commodity, it should be managed in the long-term public interest, not for quarter-to-quarter revenues.

¹⁰ June 26, 2002, letter from John Huerkamp, New Orleans Sewerage and Water Board Chief of Operations to Kevin Servat, USFilter Operating Services; December 26, 2000 letter from Huerkamp to August Johnson, USFilter Operating Services; March 26, 2002 S&WB Interoffice Memorandum from Gordon Austin, chief of environmental affairs, to Ethel Williams, Finance Administration (these are but three of more than one hundred letters, memos and other pieces of correspondence provided Public Citizen by the S&WB detailing the troubled relationship between the company and the city.)

¹¹ "Utility critics say buyout drains talent," *Indianapolis Business Journal*, May 3, 2004.

¹² Lawsuits, motions and some of the other legal documents associated with the Indianapolis dispute are linked at www.watercompanysuit.com; "Judge considers city water control," *Indianapolis Star*, August 2, 2004.

¹³ "More troubled water: Problems plague Indy's water company," *Nuvo*, April 7, 2004.