



## Top 10 Reasons to Oppose Water Privatization

The World Bank has predicted that by the year 2025, two-thirds of the world's population will run short of fresh drinking water. Given such a grim future, it comes as little surprise that *Fortune* magazine recently defined water as "the oil of the 21<sup>st</sup> century."

The natural response to such a scenario would be to concentrate energy and resources on protecting existing supplies, enhancing conservation efforts, helping vulnerable populations, improving pollution control initiatives and raising public awareness about an impending crisis that could threaten the lives of hundreds of millions – perhaps *billions* – of people. Moreover, such a crisis could unleash an environmental cataclysm from which the planet could never recover.

Unfortunately, this is not the thinking of corporate executives and, increasingly, government officials throughout the world. Instead, more and more of them are proposing to transfer the control of this precious resource from the public sector to the private sector. Today, one cannot avoid

hearing the word "privatization" when the global water crisis is discussed.

Given the track record of corporations that have begun to privatize water systems, and given how privatization has wreaked economic, social and environmental havoc on other utility industries, there is no reason to believe that corporations will demonstrate more responsible stewardship practices if they gain control of drinking water systems.

It is no underestimation to say that the very survival of billions of people could rest on decisions being made today – behind closed doors, in most cases – in corporate boardrooms and government offices throughout the world. With each drop of water that falls into the hands of private interests, any sustainable solution to the global water crisis moves further and further from the public's grasp.

Here are 10 reasons – among many – why the privatization of drinking water supplies could spell doom for many of the world's 6 billion-plus people.

## **1) Privatization Leads to Rate Increases**

Rate hikes have been used in the United States and other countries as a way for private water companies to maximize profits. The bottom line for these companies is profit, which translates into higher prices and inferior service for consumers. The companies are under no obligation to provide water or service when water is defined as a marketable commodity rather than a human right. Thus, when consumers can no longer afford the price increases, water delivery is simply shut off.

Rates have increased in many U.S. communities where water has been privatized, disproportionately affecting low-income families and small business owners. In Pekin, Illinois rates increased 204 percent over the 18 years Illinois-American, a subsidiary of American Water Works Co., ran the water system, according to city manager Dick Heirstein.<sup>1</sup> While the water companies justify these increases as necessary to offset the costs of upgrading the infrastructure, profits and executive salaries continue to grow. In 2000 the American Water Works CEO's compensation exceeded \$2 million.<sup>2</sup>

In the decade following the 1989 privatization of England and Wales' water system, water companies there did not invest in infrastructure, claiming profitability would be compromised. Consumers, however, saw their rates increase by 102 percent (46 percent in real terms).<sup>3</sup> During that time the number of people who had their water shut off rose by 200 percent.<sup>4</sup>

These privatization-induced rate increases have been most devastating in the developing world, often forcing people to choose between food and water, and unleashing epidemics of water-borne diseases. In Nelspruit, South Africa, water rates increased by more than 400 percent between 1995 and 2000, resulting in a cholera epidemic when people were forced to drink from the river. The people demanded cancellation of the contract with the British company, Biwater.<sup>5</sup> The case remains unresolved and Biwater is still in operation.

Currently, a series of legal precedents are being established by trade agreements and contracts between water companies, governments and organizations such as the World Bank and World Trade Organization (WTO). These agreements cushion the business risks involved in privatization by passing the costs on to consumers. In the United States, for example, rate hikes are usually subjected to approval by the appropriate government authorities. But under rules either already on the books of the North American Free Trade Agreement (NAFTA) or currently being negotiated under the auspices of the General Agreement on Trades and Services (GATS), municipal governments could be prevented from protecting their citizenry from losing control of their water.

Rate arrangements between water companies and governments are a prime example of corporate welfare. This means the governments guarantee the companies will make a certain margin of profitability, thus minimizing their risk. Ironically, this practice is contrary to the very philosophy of free-marketeers, which is to end subsidies to public utilities and reduce the role of government in business operations.

## **2) Privatization Undermines Water Quality**

Because the profit motive drives the corporate agenda rather than serving the public interest, environmental standards are continually compromised. In the United States, the National Association of Water Companies (NAWC), representing the private water industry,

intensively lobbies both Congress and the Environmental Protection Agency (EPA) to prevent higher water quality standards from being adopted. NAWC continually requests that all federal regulations be based on sound cost-benefit analysis. What this means is that public health is compromised for the sake of higher profits.

A notable example comes from the small town of Walkerton in Ontario, Canada, where seven people died and 2,300 others became ill as a result of *E. coli* contamination in the drinking water.<sup>6</sup> A&L Laboratories, the private company contracted to test the water, knew that the water was contaminated. But under regulations intended to encourage privatization, the company was not required to alert government officials about a public health crisis in the making.<sup>7</sup>

Moreover, the contamination problem was revealed in a federal government study several years earlier, but the study was lost in the privatization frenzy. Eventually, the Drinking Water Surveillance Program, which tested for *E. coli*, was closed down altogether.<sup>8</sup> The rush to privatize blocked the initiative to require that water testing labs be fully accredited, a regulation that would have taken two years to implement. As it turned out, the private lab testing Walkerton's water at the time of the tragedy was not accredited.<sup>9</sup>

While privatizing water testing in 1996, the Canadian government ordered the Department of Environment to cut its budget by more than \$200 million within two years. As a result, more than 750 employees were laid off, and the ministry's role in monitoring water safety was diluted. A former government official acknowledged that Ontario authorities were aware that these budget cuts would endanger both public health and the environment, but this information was not made public.<sup>10</sup>

### **3) Companies are Accountable to Shareholders, not Consumers**

In many cases, the deals that water companies make with government agencies include exclusive access to distribution for 25 or 30 years, effectively sanctioning a monopoly. These private monopolies tend to undermine accountability and result in poor customer service. The company is under little pressure to respond to consumer concerns, especially when the product in question is necessary to the lives of consumers.

Puerto Ricans experienced the disastrous effects of a private water monopoly when, in 1995, Puerto Rico contracted the management of their water authority, PRASA, to the largest water multinational in the world, Vivendi, through a subsidiary now called *Compania de Aguas*.<sup>11</sup> Four years later, the Puerto Rico Comptroller's Office issued a scathing report on the many failures of the arrangement, ranging from problems with the repair and upkeep of aqueducts and sewers, to delinquency in submitting required financial reports. Consumer complaints and inquiries were regularly ignored, and there were accounts of citizens not receiving water, but being charged all the same.<sup>12</sup>

While the company was neglecting its duties, its finances also went down the tubes. Under private management, PRASA's deficit reached \$241 million, requiring the Government Development Bank (*Banco Gubernamental de Fomento*) to intervene and provide the agency with emergency funding, according to the Comptroller's report.<sup>13</sup>

### **4) Privatization Fosters Corruption**

The very structures of privatization encourage corruption. Checks and balances that could prevent corruption, such as accountability and transparency, are conspicuously

missing from the process. With water contracts being worked out behind closed doors, executives and government officials are free to make deals in their own, rather than in the public, interest. Executives of Vivendi, Suez Lyonnaise de Eaux, and other water companies, for instance, have been convicted for bribing government officials to obtain contracts.<sup>14</sup>

Bribery is commonplace during the bidding process, which is generally closed to the public. Despite calls to expose the bidding process to the light of day, water companies claim that doing so would damage their commercial interests. For the same reason, the water contracts themselves are not made available to the public – even though the public is subject to the terms of these contracts. Moreover, financial information is rarely disclosed, even when the company is obliged to do so. In the French city of Metz, for instance, a private water company failed to submit accounts to the city council for 20 years.<sup>15</sup> And, companies such as Bechtel and Biwater have even more leeway in keeping deals and operations secret because these companies are not publicly traded.

New Orleans experienced a privatization scandal in 2000 when Aqua Alliance Inc., the parent company of PSG, admitted giving more than \$70,000 in bribes to Catherine Maraldo, a member of the New Orleans Water and Sewage Board. In exchange, Maraldo recommended that the city renew its wastewater treatment contract with PSG. Maraldo and three former PSG executives were indicted on counts of conspiracy, mail fraud and interstate travel in aid of bribery.<sup>16</sup>

## **5) Privatization Reduces Local Control and Public Rights**

When water services are privatized, public control is transferred to a corporation, be it domestic, foreign or transnational. Once water rights have been signed over, very little can be done to ensure that the private company will work in the best interest of the community. Again, the prime directive of private water companies is to maximize profits, not protect consumers.

In the Ohio community of Huber Heights, Ohio Suburban Water, a subsidiary of American Water Works – the largest private water company in the U.S. – tried to maximize its profits and minimize its investment by serving customers outside Huber Heights using the city's infrastructure. Many city residents complained that people living in these outlying areas were benefiting from the water service but not paying taxes to support water projects, and they argued that these areas should be annexed so that the local government could collect taxes. Company executives ignored the residents' request and went ahead with their plans. Ultimately Huber Heights re-acquired its water system, but the contract continues to cause legal problems.

## **6) Private Financing Costs More Than Government Financing**

When water services are privatized, there is often a false perception that the financial burden has shifted from the public to the private sector. So the story goes, the company promises to repair, upgrade and maintain infrastructure, seemingly saving the taxpayers money. In reality, the public pays for these projects through their monthly bill payments. Tax-free public financing usually translates into lower-cost projects. Taxable private financing, however, invariably brings with it higher interest rates. As a result, the consumers – who are already paying executives' salaries and dividends to shareholders – are also forced to make these higher payments on company loans.

When the Swedish public water system was compared to its privately owned counterpart in England, the study revealed that the public system had lower operation and maintenance costs, and that customers paid less for their water. In England, both the operation costs and customer rates were more than double than those in Sweden.<sup>17</sup>

Throughout the U.S., towns and cities – many still using century-old pipes – are in desperate need of repairs and upgrades to their water and wastewater systems. The Water Infrastructure Network estimates that system improvements will cost \$23 billion annually over the next 20 years – \$11 billion more than what is currently being spent.<sup>18</sup> Increasingly, local governments are having trouble raising such large amounts of money without increased federal assistance, which has dwindled since the Reagan administration. Large utility corporations are taking advantage of this dilemma by offering to buy their water and wastewater systems, and perform the needed repairs. What the companies don't make clear, however, are the hidden costs involved in such schemes.

Public financing is a politically sensitive issue because of upward pressure on taxes. San Francisco Mayor Willie Brown recently said that a bond measure, necessary to replace the city's aging infrastructure, would amount to political suicide.<sup>19</sup> But the bottom line is that money for system improvements must be raised one way or another. If funds are not raised through taxes, then they will be raised through rate increases and other private methods that the public has little power to influence, due to a lack of information and lack of transparency. In the long run, public financing saves money.

## **7) Privatization Leads to Job Losses**

Privatization often leads to massive layoffs, at times putting service and water quality at risk due to understaffing. Layoffs are commonly used to reduce costs and increase profits. Such layoffs are not only devastating to workers, but also to consumers.

Following privatization in the England, for instance, the number of employees in water and wastewater in 10 major companies was reduced by almost 10,000 over a 10-year period. In most cases, the companies responded to demands for lower rates by laying off employees.<sup>20</sup>

In the Philippines, thousands of workers – half the original workforce – were laid off following the privatization of the Metropolitan Waterworks and Sewerage System. Some of these workers had put in more than 20 years of service with the company, and their families and retirement were put at risk by these cost-cutting measures.<sup>21</sup>

Privatization has caused American workers to be laid off as well. In Indianapolis, the water industry's self-proclaimed model city for privatization, nearly 200 workers were laid off between 1994 and 1998 following the privatization of the city's wastewater treatment system.<sup>22</sup>

## **8) Privatization is Difficult to Reverse**

Once a municipality signs over part or all of its water system to a private water company, withdrawing from the agreement borders on the impossible. If the company fails to live up to its end of the bargain, proving breach of contract is a difficult, complicated and costly proposition. Multinational trade agreements such as the GATS and NAFTA provide corporations with powerful legal recourse. A private company can use NAFTA's closed tribunals to challenge the reversal of privatization as being a NAFTA-forbidden action tantamount to an "expropriation."

Under GATS, once a service is privatized, the WTO's rules also give special protection for private investors. In deals brokered by the World Bank (which often makes water privatization a condition for a loan), companies are usually guaranteed a cash payment for expropriation if a government agency decides to bring water back under public control.

A recent case filed under NAFTA's Chapter 11 investment provisions provides a classic example of what can happen when water and water systems become commodified and privatized. Sun Belt Water Inc. of California sought to suck up tankers of bulk water from lakes in British Columbia and export it to California. In response to public pressure, Canadian government officials denied the request and proceeded to pass a law prohibiting such bulk water exports in the future. The company's challenge to this decision was unsuccessful in British Columbia's courts. However, as a foreign investor to which NAFTA grants new rights and privileges, Sun Belt took its case to NAFTA for arbitration, seeking \$10.5 billion in damages.<sup>23</sup> Analysts suggest that Canada does not have a strong case. In the event of its defeat, the country would either have to allow bulk export of its water or pay billions of dollars in damages to compensate Sun Belt for future expected profits the company would have gained if it had been allowed to sell the lake water. Under current NAFTA provisions water remains in the public domain, but once a decision to privatize has been made water must be treated as any other freely-traded service. If a municipality tries to reclaim its water, it will have to compete with financially potent, well-connected multinational giants.

Even within the United States, under the light of democracy, reversing the privatization of water resources is a difficult proposition. The City of Chattanooga, for instance, tried to buy back its water system from Tennessee-American – another subsidiary of American Water Works – in response to the company's exorbitant fire hydrant rates. During the course of the highly publicized battle, Tennessee-American paid lawyers and public-relations firms more than \$5 million. Unable to keep up with the company's campaign, the city ended its buyback efforts in September 2000. In an out-of-court settlement, the company agreed to reduce its fire hydrant rates from \$301 to \$50 a month over a two-year period, but it did not allow Chattanooga to reclaim its water system.<sup>24</sup>

## **9) Privatization Can Leave the Poor With No Access to Clean Water**

Contrary to public assertions, the role of the IMF and World Bank in water privatization schemes in the developing world actually results in a *reduction* of access to water for the poor. "Structural-adjustment" programs forced upon governments seeking loans often include water privatization as a condition for these loans. Impoverished, politically enfeebled countries are hardly in a position to refuse the conditions of the IMF and World Bank, as doing so would cause them to default on their debts. As a result, the IMF and World Bank are able to provide lucrative and virtually risk-free contracts for multinational corporations.

For instance, Bolivia's public water system was recently privatized as a condition for a World Bank loan. The private water company, Aguas del Tunari, immediately doubled water prices. For thousands of families, their water bills accounted for a fourth of their monthly budgets, while other families had their water turned off completely. Hundreds of thousands of Bolivians protested and were met by their government with violence. Bechtel, Aguas del Tunari's parent corporation, finally backed out but is threatening to sue Bolivia, South America's poorest country, for nearly \$40 million in losses under an "expropriation" clause.<sup>25</sup>

## 10) Privatization Would Open the Door to Bulk Water Exports

The World Bank has predicted that by the year 2025, two-thirds of the world's population will experience water shortages. Even today, large masses of people around the globe lack access to clean water. Population increases and the dwindling supply of clean fresh water creates a formula for disaster, providing multinational corporations with vast opportunities to reap hundreds of billions of dollars dealing in what *Fortune* magazine calls the “oil of the 21<sup>st</sup> century.”<sup>26</sup> It goes without saying that those who control this precious resource will exercise economic and political power at almost unimaginable degrees.

Fully aware of the bleak prognostications, corporations are in a mad dash to obtain access to fresh water that they can sell at huge profits. Global Water Corporation and Aquaroute Inc., for instance, are expanding their water holdings – both in the form of full ownership and easements (rights to limited use). Even now, companies that work directly with municipalities can request permission to export water outside of their home regions. An agreement between Cadiz Inc. and the Metropolitan Water District of California, for example, will allow the corporation to sell up to 30,000 acre-feet of water a year to third parties through publicly owned pipes.

Bulk water exports could have disastrous consequences. First, massive extraction of water from its sources upsets ecological balance, resulting in damage to natural habitats. So much water is sucked out of the Colorado River, for example, that the waterway no longer reaches the sea.<sup>27</sup> Neither does the Rio Grande, a river that has long established the border between the U.S. and Mexico. Failure to protect the Earth's fresh-water systems has already driven 20 percent of the planet's fresh-water fish into extinction or near-extinction.<sup>28</sup>

Disregarding sustainability concerns, Cadiz wants to extract water from California's Mojave Desert without even knowing how much water is available in the aquifer. The U.S. Geological Survey reports that the estimate by Cadiz and the Metropolitan Water District of California that 750 billion gallons of water can be extracted over 50 years is an exaggeration.<sup>29</sup> The Survey also criticized Cadiz's estimates of the likely recharge rates. Conservationists and hydrologists echo this criticism, claiming the area could support only 5,000 acre-feet a year – one-tenth of the 50,000 acre-feet projected by Cadiz.<sup>30</sup>

Such companies are embarking on a dangerous enterprise. The disruption of an aquifer's status or configuration often results in complex damage to the environment and socio-economic standards. These changes can be difficult to foresee, and once they occur, they are difficult or impossible to remedy. Groundwater is currently being extracted at unsustainable rates. For both economic and technical reasons, once aquifers are emptied or polluted, they are almost impossible to restore.<sup>31</sup>

## Conclusion

Water is one of the most basic human needs. Many nations and traditions, in fact, consider water a human *right*. If water rights are handed over to entities whose declared purpose is to maximize profits rather than to serve the public good, hundreds of millions – perhaps billions – of people will be elbowed out of their access to water. Multinational corporations are quick to argue that market forces would bring more efficiency to water systems. But the bottom line is that water resources – by their very public nature – require public oversight to ensure that people, not profits, come first.<sup>32</sup>

## Notes

- <sup>1</sup> E-mail from Dick Hierstein, 23 July 2001.
- <sup>2</sup> Filings with the U.S. Securities and Exchange Commission.
- <sup>3</sup> OFWAT Memorandum, 18 March 1998 from the House of Commons Research paper 98/117 December 1998. (OFWAT is the British agency that regulates water.) Cited in Lobina, Emmanuele. "UK Water Privatization: a Briefing." *Public Services International*. University of Greenwich. February 2001, p. 7.
- <sup>4</sup> Lobina, Emmanuele. "UK Water Privatization: a Briefing." *Public Services International*. University of Greenwich. February 2001.
- <sup>5</sup> Weeks, Anna. "World Water Privatization's Grim Toll." *The Herald* (Glasgow), 21 March 2001.
- <sup>6</sup> "Walkerton Inquiry." *Broadcast News*. The Canadian Press. 8 May 2001.
- <sup>7</sup> Gillis, Charlie. "Cabinet New About Health Risks." *National Post*. 27 June, 2001.
- <sup>8</sup> Blakeney, William. "Walkerton, A Risk Management Nightmare." *Canadian Underwriter*. 1 Sept., 2000.
- <sup>9</sup> "Walkerton Inquiry." *Broadcast News*, The Canadian Press. 8 May, 2001.
- <sup>10</sup> Gillis, Charlie. "Cabinet Knew About Risks." *National Post*. 27 June, 2001.
- <sup>11</sup> In 1995 Vivendi was called Generale des Eaux. It controlled the American company Air and Water Technologies, whose subsidiary, PSG, was awarded the Puerto Rico contract. In 1998 Generale des Eaux changed its name to Vivendi, the American water group was renamed Aqua Alliance, and the Puerto Rican subsidiary changed its name to Compania de Augas.
- <sup>12</sup> Ruiz, Carmelo. "Rights-Puerto Rico: Thirsty for water and justice." *Inter Press Service*, 15 Sept. 1999. Available at [www.westlaw.com](http://www.westlaw.com).
- <sup>13</sup> *Ibid*.
- <sup>14</sup> Hall, David. "Privatization, Multinationals and Corruption." *Public Services International*, University of Greenwich, July 1999.
- <sup>15</sup> "It Cannot be Business as Usual: Problems with the Private Models for Water." *Public Services International Research Unit*. University of Greenwich. <[www.psiu.org/reports/2000-03-W-Hmodel.doc](http://www.psiu.org/reports/2000-03-W-Hmodel.doc)>
- <sup>16</sup> "Firm Admits Buying Vote of ex-S&WB Member. Aqua Alliance To Pay Fine and Cooperate." *The Times-Picayune* (New Orleans). 23 June, 2000.
- <sup>17</sup> "Private Water Inefficiencies." *Public Service International Research Unit*. University of Greenwich. <[www.psiu.org/reports/2000-03-Hman.doc](http://www.psiu.org/reports/2000-03-Hman.doc)>
- <sup>18</sup> Water Infrastructure Network. "Water Infrastructure Now: Recommendations for clean and safe water in the 21st century." February 2001.
- <sup>19</sup> Lechuk, Ilene. "Willie Brown Plans for Water Delivery System. Bonds, taxes last choices on his list for funding repairs." *San Francisco Examiner*. 15 November, 2000.
- <sup>20</sup> Lobina, Emmanuele. "UK Water Privatization-a briefing." *Public Services International Research Unit*. University of Greenwich. February 2001.
- <sup>21</sup> Tenorio, Arnold. "The Social Cost of Privatization." *Business World* (Philippines). 15 June, 2001.
- <sup>22</sup> White River Environmental Partnership. *Summaries of Activities*. 1995, 1999.
- <sup>23</sup> Baglole, Joel. "Storm Brews Over Plan to Export Canadian Water to the U.S." *The Wall Street Journal*. 11 April, 2001
- <sup>24</sup> "TRA Accepts Chattanooga Water Settlement." *Associated Press Newswires*. 30 Sept. 2000.
- <sup>25</sup> Barlow, Maude. *Blue Gold*. International Forum on Globalization, San Francisco, 2001.
- <sup>26</sup> Tully, Shawn. "Water Water Everywhere." *Fortune*. 15 March, 2000.
- <sup>27</sup> Clyne, Michael. "Pipe Dreams." *Safya*. April 2001.
- <sup>28</sup> Bryant, Peter J. *Biodiversity and Conservation: A Hypertext Handbook* 2001. Available at [darwin.bio.uci.edu/~sustain/bio65/Titlepage.htm](http://darwin.bio.uci.edu/~sustain/bio65/Titlepage.htm).
- <sup>29</sup> Wisckol, Martin. "District Cautions in Deal with Private Water Supplier." *The Orange County Register*. 17 January, 2001.
- <sup>30</sup> Bowles, Jennifer. "Panel Tables Decision on Mojave Water Plan." *The Press-Enterprise* (Riverside, CA). 9 January, 2001.
- <sup>31</sup> Burke, Jacob J. *Ground Water and Society: Resources, Tensions, and Opportunities. Themes in Ground Water Management*. The United Nations. 2000.
- <sup>32</sup> *Ibid*.

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