The private sector in water in 2009

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1. Private limitations

1.1. The failed experiment

The experiment with water privatisation has failed. Since about 1990 privatisation has been actively promoted by the international institutions, donors, and private companies themselves as a way of delivering investment, efficiency and building effective water operators in developing countries. These expectations have not been delivered.

The evidence of this failure has been presented in detail in many papers, both from PSIRU and others. Most recently, the PPIAF, the World Bank agency which has actively promoted privatisation for over a decade, has published a report which acknowledges this failure (Public-Private Partnerships For Urban Water Utilities: A Review Of Experiences In Developing Countries.)

- There is no evidence of superior efficiency of the private sector in water (or in most other infrastructure sectors). A recent PPIAF paper claims that there may have been gains in labour productivity by reductions in employment, but could not find any evidence of lower prices or higher investment, and so: “the private operator may reap all the gains through profits, passing on none of the cost savings to consumers”.
- There have been major problems with corruption, affordability and performance on many contracts, including BOT contracts, in the creation, award and operation of contracts, and the need for major restructuring following the ending of failed private concessions.
- There is public and political resistance worldwide to water privatisation. This public and political opposition to water privatisation is so widespread that the city of Paris itself, in the homeland of the water multinationals, is re-municipalising its water service from January 2010.

Rather than repeat the well-known general evidence, it may be appropriate to examine the evidence in Turkey, the country hosting the World Water Forum in 2009.

1.2. Turkey and failed water privatisations

Turkey has first-hand experience of the problems of failed water privatisations, including in the city of Istanbul itself, where the 5th World Water Forum is being held. These three failures all concern very large contracts; they involve each of the three largest water companies: Veolia, Suez and Thames Water; and cover each of three major forms of privatisation – a concession, a lease ‘affermage contract, and a BOT.
1.2.1. Istanbul: the first failed water privatisation?

In 1882 the French water company Generale des Eaux (now Veolia) obtained a water supply concession in Istanbul, at that time still called Constantinople, and the capital of Ottoman empire. The concession was awarded under an early version of IMF conditions - west European countries, principally Britain and France, took control of the public finances of the Ottoman empire in 1881, in order to repay debts to foreign investors, and this committee used its power to give concessions to western companies: “Monopolies were granted to foreign companies to control the tobacco industry, and to operate railways, tramways, ports, gas, electricity and waterworks.” The Turkish republic was created in 1920s, and the foreign financial control committee was dismantled. The democratic authorities of the new state decided that the concession was failing in terms of coverage, investment and technology, and in the 1930s the concession of Generale des Eaux was terminated, and the water services of Istanbul were taken into public ownership. This decision reflected not only the economic, social and technical failure of the contract, but also the new-found confidence of an independent and democratic state. 7

1.2.2. Corruption, excessive pricing and the Yuvacik Dam

The Yuvacik Dam near Izmit in Turkey was built by the English water company Thames Water under a build-operate-transfer (BOT) concession contract. The contract, signed in 1996, stated that the water would be purchased over 15 years at a price set in the contract. This price was so high that both industrial users and neighbouring municipalities refused to buy water from the plant, but the purchase of water was guaranteed by the Turkish Government, which has thus paid far more than it should have done for water which is unaffordable for its intended customers. The Turkish Court of Accounts, the national public audit body, recommended in November 2003, that nine former ministers and the former mayor of Izmit should be investigated for corruption. In 2005 Thames Water initiated international arbitration against Turkey on the grounds that the Treasury was not paying the guaranteed amount in full. The project has been summarised in a World Bank report as: “plagued by inadequate project preparation, the inappropriate granting of Treasury guarantees, and lack of competition in bidding. It has resulted in huge payments by Treasury for water that is not used.” These problems are typical of infrastructure BOT contacts signed in Turkey: a study by the Inspectors of the State Supervision Agency discovered irregularities in almost all such contracts, and estimated that the return on shareholders’ capital on many projects was around 320% per year. 8

1.2.3. Antalya: the failed affermage contract

The privatisation in Antalya was imposed by the World Bank as a condition for a $100m. loan. The contract was awarded in 1996 to a Suez subsidiary. The privatisation was not supported by the city council but imposed by the World Bank; the Bank also specified that the private operator should only employ 50% of the existing staff, as a result of which the existing staff preferred to transfer to other municipal jobs. Non-revenue water was actually much higher at the end of the concession, at 63%, than it was at the start (46%). Suez demanded that water prices should be more than doubled, and that sewerage prices should be increased by over 10 times. When the municipality refused, the Suez subsidiary declared itself bankrupt and abandoned the contract in 2002. The service was taken over by the municipal water company, and prices decreased slightly in the subsequent years. 9

2. Water multinationals and the economic crisis

The water multinationals began retreating from in 2003, with much encouragement from local people. They remain committed to maximising profitable market opportunities, however, and remain highly influential in policy circles. Both Suez and Veolia have suffered from the crisis and recession. Veolia especially has problems with net debt of €17bn, eight times its annual earnings. Rather than expanding, Veolia now plans to sell €3 billion worth of assets in 2009, while investment plans have been cut by 45%; Suez has cut investment plans by 25%. Between March 2008 and March 2009 Veolia shares fell by 70%, compared with an overall drop of 46% for the Paris stock exchange as a whole (comparable data for Suez Environnement is not available). 10 Suez states that it plans to raise money by issuing a bond some time in 2009, but the interest rates it will have to pay are very high: in February 2009 companies were having to pay investors over 4% per annum more than government bonds. 11

Both companies face the prospect of losing their water distribution contracts for the city of Paris, which is remunicipalising the service from the 1st January 2010. Veolia also faces losing some or all of its water contract in the Ile-de-France region around Paris, worth €370m. per year. Although the regional authority voted against remunicipalisation in December 2008, the contract will be re-tendered and possibly in smaller packages. Suez, on the other hand, supports retendering in smaller packages. 12 This is an unusual disagreement between the two groups, who have formed many joint ventures in French cities to ensure they share the business without having to compete against each other. The competition commission ruled in 2002 that these were anti-competitive, and after 7 years the
two companies have responded by agreeing between themselves who will have which city – Suez keeps the city of Lille, for example, while Veolia gets Marseille. 13

The profitability of waste management, the other sector in which both Suez and Veolia operate, has been hit by the collapse of the market for recycled ‘secondary’ materials, and by some major industrial companies closing factories where Suez have contracts. Veolia’s transport business, Connex, is also experiencing problems, with the loss of the Stockholm metro contract.14

Despite attempts to privatise water worldwide, the major French water companies all now depend on the French government as their dominant shareholder. Suez Environnement became an independent company in July 2008 when the energy division of Suez was merged with the former state-owned Gaz de France to form GdF-Suez. But the French state now owns 36% of GdF-Suez, and GdF-Suez in turn still holds 35% of Suez Environnement, and so the state is indirectly much the largest shareholder, and de facto has a controlling stake. Veolia is 10% owned by by the Caisse des Depots et Consignements (CDC), an investment agency of the French state; while the third company, SAUR, which now operates only in France, is 47% owned by the CDC.15 These holdings are part of a deliberate cross-party strategy to use state ownership to prevent foreign takeovers of strategic French companies like Suez and Veolia: ‘a militant state capitalism to keep the decision-making centres of the big private companies in France, starting with infrastructure, property and healthcare’.16

The economic crisis affects not just individual companies, all forms of public-private partnerships (PPPs) which include investment financed by a private company. This is because banks and investors will not lend money to private companies, for fear of them defaulting, even in the richest countries. The IFC, the private sector financing arm of the World Bank, thinks the problem is even greater in developing countries, because international investors are even less willing to lend to PPPs there. The IFC estimates that $110 billion worth of proposed PPPs may be delayed or cancelled, and that $70 billion of existing PPPs are at risk because of increased costs of financing these projects for the private sector.17

The only internationally active British water company, Biwater-Cascal, has had better financial results in the last year, but faces numerous other problems. The Panamanian government has told the company that it wants to terminate its contract prematurely;18 it has been revealed that Biwater paid nearly £100,000 in school fees at a prestigious English boarding school for the children of the president of Ghana, Jerry Rawlings, between 200 and 2003 (in 2008 Biwater was awarded a €45 million contract for a water supply expansion scheme at Tamale, in northern Ghana); that a lake in Guatemala continues to suffer from severe pollution because Biwater abandoned a contract to build 3 wastewater treatment plants.21

3. The myth of the southern/local companies

The PPIAF has reluctantly been obliged to abandon its promotion of multinational companies as the panacea for water problems. But even in this ‘mea culpa’ paper, it is attempting to purvey an even less convincing myth, namely that new private sector investors and operators are springing up in developing countries (or ‘emerging markets’, as the PPIAF calls them). Another PPIAF paper in 2008 also presents the phenomenon of this new breed of investors and the OECD has devoted large amounts of expensive conference time to discussing these new saviours. But the evidence is desperately weak and ludicrously exaggerated: the PPIAF ‘mea culpa’ paper claims that “It would be hard to overestimate the importance of this new trend”, but the paper itself proceeds to do exactly that. 24

Their list of ‘local’ companies does not bear much examination:
- it includes a number of companies which no longer own or operate the water services listed
- It includes one 100% public sector company, a company which has only invested in water in the UK, and a company which is a subsidiary of Veolia
- Some companies are historical oddities which cannot be imitated
- a surprising number are owned by companies based in tax havens thousands of miles from the contracts
- many of the examples are residual stakes in former privatisations where the multinationals have withdrawn
- many of the contracts continue to create problems of affordability and under performance. Local investment is weak, but local opposition is very strong.

In Chile, the PPIAF lists three different local companies as holding a total of 6 water concessions. But the Chilean group Fernandez Hurtado sold its majority stake in a water concession (Esval) in 2007, to the Ontario Teachers Pension Plan, which is a pension fund of Canadian public sector employees, not a private southern investor. A year later, the Solari group also sold its concessions (Essat, Essar, Esmag) to an infrastructure fund run by Santander, a large Spanish multinational bank.25
The other Chilean interest on the PPIAF list is the Essan concession, in Antofagasta, in the northern mining area of Chile. The PPIAF wrongly describes it as owned by the ‘Luksic Group’. The concession is held by Antofagasta plc, one of the oldest companies listed on the London stock exchange, which originated as a 19th century British railway venture in Chile and Bolivia, and is now overwhelmingly a copper mining group, for whom the water concession in Antofagasta represents only 2.5% of their total sales; it is running it because it happens to be in an area where the company has most of its mining operations, and the company has shown no interest in operating any other water service. It is 70% owned and controlled by the Luksic family - not the ‘Luksic group’ - which is estimated to be the 140th richest in the whole world, who own these shares through trusts which are registered in the European tax haven of Leichtenstein. The Daily Telegraph observed that “the family paid little heed to criticism that they fell short of corporate governance standards normally expected of FTSE companies». It is not clear which aspects of this company are thought to provide a model.

Puncak Niaga is mentioned as a Malaysian company with contracts in Kuala Lumpur and Selangor state. This is not likely to last, however: its operation in Selangor state will be taken back into the public sector very soon (as of March 2009) – the national government and the state government disagree only about who should renationalise it!

Another Malaysian company, Salcon, is a Malaysian engineering company, and the great majority of its activity is involved in traditional engineering work, including a number of treatment plant BOT contracts, rather than water distribution service operations. It has one general concession in China, at Linyi. Its latest move has been to withdraw rather than expand, by selling its stake in one of its Chinese subsidiaries, Chenggong Salcon Water.

The list also includes the Moroccan company ONEP, which is not a private company, it is the 100% state-owned national water company of Morocco. The Malaysian company YTL, also on the list, is an energy company which has only one investment in water, Wessex Water in the UK; it has never expressed any interest in investing in water activities in developing countries. A similar approach is taken by Cheung Kong Infrastructure of Hong Kong (not mentioned on the PPIAF list), which, like YTL, owns an English water company – Cambridge Water – but has invested in no other water operations. It is not clear that investing Asian money in English water companies has any relevance for development of water services in the south.

Another company on the PPIAF list, Tata, is another historical oddity which is not a replicable model. The Tata group is the second largest private corporation in India and one of the largest multinationals in the world – Tata Steel ranks 315 on the Fortune top 500 companies. It covers many sectors in addition to steel, including engineering, IT, energy, and services – but water is not mentioned by the group even as one element of its services activities. Tata operates water supply services in only one place, Jamshedpur, which is a company town, or ‘Tata township’ as the company calls it, built by Tata at the start of the 20th century as a site for its factories and workers. Tata has effectively owned the whole town of Jamshedpur, including the water and electricity company, JUSCO, since 1907. There is no effective regulation or political accountability, and slum inhabitants are reported to be charged 10,000 rupees for a household connection. This very untypical water company is now seeking a private management contract in the city of Myroscope, Karnataka, where it is being bitterly opposed. Its only international activity has come as a result of the ADB choosing the company as a ‘partner’ for the National Water Supply and Drainage Board of Sri Lanka.

The South African company WSSA is also a surprising model to choose. It was a joint venture between Suez and a South African partner, which was awarded four private water contracts by the apartheid regime in the early 1990s. The track record gives no reason to treat the company as any kind of model: “The contract in Nkonkobe (formerly Fort Beaufort) was terminated by a court ruling in 2001 that the contract was invalid. ... The contract at Stutterheim, signed in 1993 ... allowed the company to ‘cherry-pick’ the profitable white and coloured areas, which already received dependable water supplies, while much of the official Stutterheim township (Mlungisi) remained unserved and the unofficial neighbouring townships (Cenyu, Kubusie, Cenyulands) almost entirely outside the network.”

The new owners of the Jakarta water companies (originally privatised, without competitive tendering, by the dictatorship of Suharto, whose family and friends were given a share of the profits by Suez and Thames Water) are also unusual. One, Astra International, is a subsidiary of Jardine Matheson, the British 19th century multinational at the centre of the opium trade forced onto China, now relocated in the British tax haven of Bermuda. The company was caricatured by the British Conservative prime minister Benjamin Disraeli as “McDruggy from Canton, with a million of opium in each pocket, denouncing corruption and bellowing free trade”; a more recent commentator has suggested in 2005 that Astra is now providing for Jardines “the sort of profit margins Jardine Matheson made in China’s opium days.” The owner of the other Jakarta company is Acuatico, an investment fund set up in Singapore by two companies of obscure parentage from another tax haven, the British Virgin Isles, which was originally rejected as an unsuitable bidder for the Jakarta water. Neither can be described as ‘local’ investors.
One of the successors to the Manila multinational concessions is similar – the owner of Maynilad Water is a joint venture between DMCI, a Philippine construction company, and MPIC, which is 96% owned by First Pacific Company Ltd (based in the tax haven of Bermuda), whose stake in DMCI-MPIC is 50% backed by Ashmore, a UK-based investment fund managing $23 billion. 40 The owners of the other, Manila Water, include the Philippine Ayala Group (the main shareholder), and also the UK company United Utilities, the Japanese multinational Mitsubishi, and the World Bank itself through the IFC.- the main driver of the original privatisations in 1998. 41 These may be seen as welcome (and rare) foreign direct investments, but it is unconvinving to suggest that Manila Water represents a new breed of autonomous, southern, local investors. The company has a declared policy of expanding internationally, but so far has gained only three (or possibly four) contracts outside the Manila concession; a highly controversial and non-competitive bulk water supply contract with MWSS in Bulucan, awarded without competition; another in the Philippines for a specific tourist development, not for extending services to residents; and one in Vietnam, a 5-year consultancy and technical assistance contract on leakage.42

The other cases on the list are the various private companies which have collected stakes in the former multinational subsidiaries in Argentina, Brazil, Colombia. The largest of these, Latinaguas, shows the limitations of local companies: it has been warned, criticised and or fined for underinvestment or poor customer service in 2 of its 3 concessions, and supported by public subsidies in the third; and it has expanded internationally only in a joint venture in a small town in Peru. The process of restructuring the water services of Latin America in the aftermath of the multinational exits is a large one, involving a complex set of public and private interplay. But these private companies – mostly local construction companies taken on as partners by the multinationals – are not credible sources of investment finance, nor are they remotely comparable to the public sector operators of the region as a pool of expertise.43


The World Economic Forum (WEF), held at Davos, Switzerland every year, is the main platform for business interests discussions of the world economy. The WEF has created a Global Agenda Council on Water Security, chaired by Margaret Catley-Carlson, who is also the patron of the Global Water Partnership (GWP), of which she was the president for many years. 44 At the January 2009 WEF meeting a paper on water 45 was produced, in partnership with a group of people from drinks, food, chemicals, mining, and agribusiness multinationals - Coca-Cola, PepsiCo, Nestlé, SABMiller, RioTinto, Dow Chemical, Syngenta, Hindustan Construction Company, the International Federation of Agricultural Producers. 46 There was only one NGO representative, from WWF – an organisation which has received $23.75m. from Coca-Cola since 2007. 47

These companies are all big consumers of water. Business as a whole consumes nearly three times as much water, globally, as households: Coca-Cola alone uses 300 billion cubic metres of water per year. 48 For these companies, water is a valuable input to their products, which they will try and get as cheaply as possible, even at the expense of other water users, such as households and farmers: Coca-cola warns its shareholders that increasing demand for water means that the company “may incur increasing production costs or face capacity constraints which could adversely affect our profitability or net operating revenues in the long run.”49

A number of these companies have also shown that they are prepared to prioritise their profits at the expense of people in developing countries.

- Nestle has persisted in selling milk powder for babies in developing countries, where the profitable substance may be mixed with unsafe water by the millions who still lack a public water supply. The result is lethal: “in areas with unsafe water a bottle-fed child is up to 25 times more likely to die as a result of diarrhoea”.50 Nestle continues to promote its powder “in a systematic and institutionalised way” despite repeated calls from the medical profession and worldwide campaigners to stop.51

- Coca-cola has shown that it is prepared to compete with local people for water resources by abstracting water from aquifers in various countries, including India and El Salvador, in such quantities that local farmers have complained of falling water levels, and elected councils and courts have withdrawn their licenses.52

- Both Nestle and Coca-Cola have attempted to suppress trade union organisation in their subsidiaries in developing countries. 53

- Dow Chemical owns the company whose toxic chemical leaks killed over 20,000 people in Bhopal, India, and continues to contaminate the groundwater. Dow continues to deny liability for the leak, refuses to offer compensation, and says the environmental cleanup must be paid for by the public authorities, despite continuing campaigns in India and across the world, including by Amnesty International. 54
Chart A. **Users of water (world)**

<table>
<thead>
<tr>
<th>Use</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>70%</td>
</tr>
<tr>
<td>Industry</td>
<td>22%</td>
</tr>
<tr>
<td>Domestic</td>
<td>8%</td>
</tr>
</tbody>
</table>


Chart B. **Water consumption by multinationals 2004**

<table>
<thead>
<tr>
<th>Company</th>
<th>Annual Water Consumption (million m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>283.0</td>
</tr>
<tr>
<td>Nestle</td>
<td>175.0</td>
</tr>
<tr>
<td>Unilever</td>
<td>70.8</td>
</tr>
<tr>
<td>Kraft Food</td>
<td>68.9</td>
</tr>
<tr>
<td>Heineken</td>
<td>57.3</td>
</tr>
<tr>
<td>Danone</td>
<td>34.9</td>
</tr>
<tr>
<td>Diageo</td>
<td>25.9</td>
</tr>
<tr>
<td>Kirin</td>
<td>20.8</td>
</tr>
<tr>
<td>Asahi Brew</td>
<td>16.5</td>
</tr>
<tr>
<td>Cadbury</td>
<td>12.9</td>
</tr>
<tr>
<td>Carlsburg</td>
<td>2.8</td>
</tr>
<tr>
<td>Sextant</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Coca-Cola

The WEF report also describes private investors buying water sources to re-sell at a profit as ‘innovative investments’. It offers two examples of this ‘innovation’:

- The oil billionaire T. Boone Pickens bought thousands of acres of land over the Ogallala Aquifer in a semi-arid part of Texas, and now (2009) expects to sell the water rights for $75m to the public water authority in the nearby, fast-growing town of Lubbock.55
- A Canadian hedge fund, Sextant Capital Management, bought the rights to glaciers in Iceland. The plan is to bottle and sell the melting glacier waters. Sextant has recorded great profits and extracted large management fees, claiming that the value of the glaciers had appreciated by over 900%. Unfortunately, the Ontario Securities Commission (OSC) is now prosecuting Sextant for inflating the values of its holdings, and its
assets have been frozen by court order. The OSC “found no independent valuation to substantiate the claim that these icefields are now worth close to 10 times what Sextant paid for them.”. 56

Enron did this, too. In 1999, Enron’s water division started developing a ‘water bank’ at Madera, in California, planning to sell most of the water to public and private customers under long-term contracts, but: “the remaining 20 percent of the storage capacity will be retained by Azurix for the purpose of trading and optimisation. Trading will be maximized during dry and drought years when demand far exceeds supply.” 57 The private venture was ferociously opposed by local people, and the project collapsed. The bank is now being revived as a public water storage project, subject to demands for local democratic oversight to prevent water from being sold to maximise profit. 58

5. Conclusion

The failure of water privatisation is well-established. Turkey itself has witnessed the problems first hand. The water multinationals no longer have the wish or ability to invest in any but the most securely profitable activities in developing countries. The so-called ‘local’ companies are not a credible source of investment finance nor of expertise. The multinational consumers of water, or the opportunistic investors in water resources, should be seen as problems rather than solutions.

There is no rational basis for giving these organisations such a prominent role at a conference that should be focussed on developmental needs. The forum should focus on the need to support and develop public finance and public sector operations, rather than continue to focus on the interests of these companies.

Notes

4. See ‘Sewerage Works’ and ‘Pipe Dreams’
9. FT.com Markets data 08/03/2009
10. FT February 25 2009 Bonds at risk of an 'ugly bubble' By David Oakley
11. Agence France-Presse 6 mars 2009 Veolia opposé au découpage du marché de l'eau d'Ile-de-France
12. Les Echos 13 février 2009 Eau : Suez et Veolia divorcent à l'amiable dans une dizaine de métropoles
14. Data from orbis database, 08/03/2009
17. FT (Fair Disclosure) Wire February 10, 2009 Q3 2009 CASCAL N.V. Earnings Conference Call - Final
18. Central Somerset Gazette September 18, 2008 Firm paid school fees for African president
19. BBC Monitoring Africa – Political Supplied by BBC Worldwide Monitoring November 29, 2008 Ghanaian president commmissions water supply project in north
20. Agence France Presse –Feb 1, 2009 Paradiasiaco Lago de Atitlán de Guatemala sucumbe por contaminación de heces

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