

## Water Privatization

**Definition:** The privatization of water services, although more rarely it refers to privatization of water resources themselves. Because water services are seen as such a key public service, proposals for privatization of them often evoke stronger opposition than for other sectors.

**Incidents:** Listed below are few examples of recent water privatization with relative dates and a short synopsis.

**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. 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.

**Manila, Philippines:** In December 2002, after five years of controversy, Maynilad Water (co-owned by Suez and a wealthy Filipino family) decided to terminate their water contract in Manila. The contract was ended when 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, pulled out. Maynilad claimed that the city had not met its obligations and brought the dispute to the International Chamber of Commerce. The case is scheduled for hearing in May 2003. Maynilad is seeking US\$303 million in compensation from the government. In addition, MWSS, the city's current water provider, 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 the year 2000 the city erupted in what would later be known as the Cochabamba Water Wars over the privatization of the municipal water supply, which was sold to International Waters Limited (IWL) at the insistence of the World Bank. After a four day general strike in mid-January the citizens of Cochabamba pressed for a resolution and organized a march on February 4th, but the Bolivian president, Hugo Banzer, once again used violent repression eventually resulting in six deaths with over 175 injured. After the initiation of martial law and the death of a 17 year old child the government caved to the protestors and their demands. IWL sued in 2001, but the case was dropped in 2006 for a token settlement and the cessation of protests.

**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 system was initially purposed in 1997, but the South African Municipal Workers Union challenged the bid and stalled the process for over two years. In 1998 a

compromise was reached that paired Biwater with a black empowerment group forming GNUC, the argument behind this was that a new private joint venture would attract much needed private finances. In July 2000 two thirds of the amount asked for by Biwater was obtained through the public lending institution Development Bank of South Africa. GNUC has been criticized heavily for not increasing access to water but for greatly increasing rates, nearly every service fee has been tripled. While increasing rate GNUC has also begun to turn on the water only intermittently, but still charges the people for water.

**United Kingdom:** The “British Model”, as it is known, refers to privatizing both the assets (water and sanitation networks, treatment plants and so on) and the operation of the assets. This model is currently being used largely in England and Wales, while in Scotland as well as Northern Ireland the systems still remain public. This method has been employed in 1988 by the Thatcher government and in essence created ten private regional water monopolies. In the first nine years the price rose 46% (adjusted for inflation) while in 1994 alone over 18,000 households were disconnected due to non-payment. Amongst numerous allegations of serious environmental transgressions a new Water Industry Act was passed that forbid disconnections for non-payment and the use of pre-pay meters. The system is still privatized.

**France:** As opposed to the British model the French model does not privatize the assets they remain publicly owned. To some people, France is a model of water privatization. However, the current system seems beneficial primarily to politicians, water companies, and their employees. Politicians at all levels of government are guaranteed to have opportunities to subsidize the system; water companies enjoy limited competition and lucrative contracts; while employees cannot be easily laid off, even when a new company takes over. Consumers and the environment appear to get lost in the shuffle. This being said, the idea of privatizing water and sewerage services by contracting out has spread all over the world and has given many countries significant financial and environmental benefits.

**Atlanta, Georgia:** 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. United Water vastly underestimated how much it would cost to run the water system and overestimated how it could save the city, which had been the reason for the privatization in the first place. After numerous mis-billings and failures the city hired independent inspectors to evaluate the problem. They concluded that United Water had not improved the water system, increased rates to cover losses, fired over half of their employees, and sought reimbursement for funds that were never spent.

**Jakarta, Indonesia:** The water systems in Indonesia were privatized while a corrupt dictator, Suharto, held power. In the early 1990s World bank officials had been speaking to the dictator already pushing for privatization and closed the deal when two large multinational corporations, that partnered with locally owned Suharto controlled firms, were awarded contracts that made them responsible for water utilities for the next 25 years. The two newly formed companies that were just fronts for Suez and Thames were charged with increasing the overall infrastructure and the benchmark for how much of the population had access to water was set at 70%. Both companies initially wished to be paid in dollars however they eventually caved and agreed to be paid in rupiah. Thanks to a pre-arranged agreement with PAM Jaya, the municipal water supplier, the two companies were paid for water provided; this provided the companies the ability to generate how much they were owed without a clear cut policy for oversight and insulated them from non-payments. However, after the 1998 Asian financial crisis and the fall of the Suharto dictatorship in the aftermath the records of both companies were examined and revealed that 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.

## ***Profile***

A U.S. based Energy Corporation dedicated to worldwide access to energy and efficiently run energy systems. Due to poor public water management, [a city] is deciding to sell us its water assets (water, sanitation network, and treatment plants) and the operation of these assets. This means that we will be in charge of delivering water to the people, in an efficient and cost effective manner.

## ***Reasons to privatize***

**Investment** – Privatization will increase foreign investment in [city] which will stimulate the local economy.

It will provide hundreds of jobs to local residents. With more efficient water systems, local industries will be able to access cheaper water thus providing more goods to compete on the global market.

**Efficiency** – Privatization will provide water treatment and sanitation facilities thus granting access to cleaner water for all of the public, and reducing pollution. We will build piping systems which will prevent sewage runoff and waste water, thus reducing water-related diseases. In areas where water has been privatized, child mortality fell by five to seven percent<sup>1</sup>. Our piping systems will increase access to water supply. We will install water meters to allow individual regulations of personal water usage. “...water consumption usually drops 18-25% after a water meter is installed.”<sup>2</sup> We will also provide technical expertise so as to manage and distribute water more efficiently than the public sector has. “Public water systems tend to be overstaffed often with 10 to 20 employees per 1000 connections, compared with 2 to 3 employees per 1000 connections required for efficient operations.”<sup>3</sup>

**Pollution control and Environment** – (Again) By providing water treatment and sanitation centers, cleaner water will be distributed to the public while water wastes can be properly dealt with. It is in our best business interests to regulate water contamination because we need to provide safe drinking water to all [who pay] to ensure our company’s future.

**Profit** – There are great opportunities to make profit in water. In 2001 Suez’s water revenue was \$8.84 billion and RWE was \$2.8 billion<sup>4</sup>.

## ***3 Possible arguments against privatization***

**World’s Water Scarcity** – see attachment

**Raising Water Price** – see attachment

**Water Morals** – see attachment

1.[http://faculty.haas.berkeley.edu/gertler/working\\_papers/Water%20for%20Life%20June30.pdf](http://faculty.haas.berkeley.edu/gertler/working_papers/Water%20for%20Life%20June30.pdf)

2.<http://academic.evergreen.edu/g/grossmaz/LIVERMAJ/>

3.<http://www.imf.org/external/pubs/ft/fandd/1997/03/pdf/haarmeye.pdf>

4.<http://www.ratical.org/co-globalize/GlbH20grab.pdf>

## Related Water Privatization Links

1. [http://en.wikipedia.org/wiki/Water\\_privatization](http://en.wikipedia.org/wiki/Water_privatization)

2. <http://rru.worldbank.org/Discussions/Topics/Topic9.aspx>

3. [http://www.cato.org/pub\\_display.php?pub\\_id=4462](http://www.cato.org/pub_display.php?pub_id=4462)

4. [http://www.hamiltonspectator.com/NASApp/cs/ContentServer?pagename=hamilton/Layout/Article\\_Type1&c=Article&cid=1172877013024&call\\_pageid=1020420665036&col=1112188062581](http://www.hamiltonspectator.com/NASApp/cs/ContentServer?pagename=hamilton/Layout/Article_Type1&c=Article&cid=1172877013024&call_pageid=1020420665036&col=1112188062581)

5. <http://academic.evergreen.edu/g/grossmaz/LIVERMAJ/>

6. <http://www.imf.org/external/pubs/ft/fandd/1997/03/pdf/haarmeye.pdf>

7. <http://www.ratical.org/co-globalize/GlbH20grab.pdf>

8. [http://faculty.haas.berkeley.edu/gertler/working\\_papers/Water%20for%20Life%20June30.pdf](http://faculty.haas.berkeley.edu/gertler/working_papers/Water%20for%20Life%20June30.pdf)
9. [http://www.unser-wasser.de/pdf/water\\_wars\\_vandana\\_shiva.pdf](http://www.unser-wasser.de/pdf/water_wars_vandana_shiva.pdf)

## **Welcome to the affluent group!**

You are all prominent people within society here, you might own a business, work as a C.E.O for a company or own large portions of land. No matter what the reason is, you've got money (hurray!) and have a lot at stake with this water privatization. There are advantages and disadvantages to having water privatized and you need to know if you want to keep it that way or not. Privatization has increased production costs for most manufactured goods and local foods too. The benefit received from privatization is now you can get all the water you can afford and more! There is going to be an attempt to end the privatization and you need to find out if it is beneficial for this to happen or not.

### **Pros-**

1. With privatization you can get all the water you can afford to pay for, no worrying about regulation limits or over usage
2. As a large company you are more likely to get complaints handled quicker.

### **Cons-**

1. Prices are higher since the government isn't subsidizing the water or maintenance
2. You can be denied water access

Think of who you are and what you do. What how is water integral in your life or livelihood.

## **Middle Class**

### **Pro's and Con's to Water Privatization**

As a member of the middle class, you make enough money to be able to pay the fees of water privatization. It is up to you to decide for yourself if you for or against water privatization. A few possible Pro's and Con's may be...

#### **Pro's**

By switching to a privatized water system, the tax payers will save money by no longer having to pay for the repairs to the system. It is believed that a privatized water system will be more efficient.

Privatized water will guarantee an improved water quality

#### **Con's**

By privatizing water it strips the local communities of their voice on how water companies work. The privatization of water can lead to loss of jobs. It has been common for massive layoffs to occur shortly after water has been privatized. Privatization is very hard to reverse, for proving a breach of contract is a difficult and costly ordeal.

The cost for water is often likely to change, and as time goes on also increase. Which should this happen could make it hard for the lower middle class population to pay for water.

Do you think...

The increase in cost is worth the claimed improved quality?

The corporation will work with the people's best interest in mind?

The corporation will work with the local communities interest in mind?

## Lower Class Citizens

You are a lower class citizen in a city that is in economic despair. To help stimulate the economy the city government has decided to privatize their water system. Not only will this rejuvenate the economy but the current public water system is sub-par in terms of water quality and diseases from water are evident in your community.

Shortly after the privatization of the water system you notice that prices for water usage have gone up. The new price for water is about 2-3 times what it used to be, forcing you and your family to not only curb your water usage but half of your monthly income goes to pay for the water you are receiving.

You are required to feed your new born child Coca Cola because it is cheaper than water. Outraged by this you turn to those in your community for support against privatized water. In response to your organizing the city council has decided to hold a council meeting on whether to continue with privatized water or to revert back to the public water system.

Discuss in your group the pros and cons to water privatization.



## Water Facts

- Producing a typical lunch--hamburger, french fries, and a soft drink--uses 1500 gallons of water. This includes the water needed to raise the potatoes, the grain for the bun and the grain needed to feed the cattle, and the production of the soda.
- In 2000, out of 40 IMF loans distributed through the International Finance Corporation, 12 had requirements of partial or full privatization of water supplies. On average, a human uses 70 gallons of water per day. This includes water intake, cooking, cleaning, bathing, etc.
- The average American drinks 24 gallons of bottled water per year; this is ten times more than in 1980. The FDA stated that there were "major gaps in bottled water regulation and that bottled water is not necessarily safer than tap water".
- Freshwater accounts for only 2.4% of the world's water, and only about 13 percent of freshwater is in liquid form, and nearly all of it is groundwater in underground aquifers.
- In some cases, water bottling companies are pumping groundwater, and selling the water at prices higher than oil.
- Huge multinational companies such as Coke and Pepsi currently make billions of dollars on water they simply take from the ground, throw a label on, and sell at competitive prices.
- 2.3 eight-ounce servings of the total 6.1 servings of water that are consumed daily are bottled water in the U.S.
- Over half of Americans drink bottled water, spending 240-10,000 times more than tap water.
- Americans alone paid \$7.7 billion for bottled water in 2002.
- It is projected that bottled water consumption will reach 50 billion liters by 2008. It is estimated that over one billion people, or about one-sixth of the world's population, does not have access to fresh water.
- If present consumption patterns continue, two out of every three persons on Earth will live in water-stressed conditions by the year 2025.
- At least 1 billion people must walk three hours or more to obtain drinking water. Nearly 2% of U.S. homes have no running water. In Mexico, 15% of the population must haul or carry water.
- By 2050, per capita water supply is predicted to fall, leaving anywhere from 2 billion to 7 billion people with water scarcity. One drip of water a second can waste 2,000 gallons a year.
- 75% of Americans are chronically dehydrated. This likely applies to an even higher percentage of entire world population.
- 97% of the world's water is salty or otherwise undrinkable, 2% is stored in glaciers and the ice caps, and the remaining 1% is left for humanity's needs.

- To ensure our basic needs, we all need 20 to 50 liters of water free from harmful contaminants each and every day.
- A typical 5 minute shower uses 25-55 gallons of water.
- A person could survive a month without food but only a week without water.
- Humans take in over 16,000 gallons of water during their lifetimes, with an average 2.5 quarts per day.