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As Multinationals Run the Taps, Anger Rises Over Water for Profit

By JOHN TAGLIABUE

SAN ISIDRO DE LULES, Argentina — When Jorge Abdala's water bill jumped to 59 pesos a month from 24 a few years ago, he went looking for someone to blame. He soon found his villain: a French multinational company at the forefront of a global effort to privatize government-run water systems.

Mr. Abdala, a soft-spoken 54-year-old, scarcely seems the revolutionary. Scrambling for a living like most of his neighbors in this sprawling town tucked up under the Andes, he runs a meager catering business out of his kitchen.

But the protests Mr. Abdala organized here forced the company, now known as Vivendi Environnement, to abandon its long-term contract to overhaul and manage the waterworks of the Tucumán Province, where Mr. Abdala and roughly one million other Argentines live.

"Our main demand was, simply, 'Go home!'" he said, shifting to the edge of his seat in the living room of his simple one-story home. "We kept presenting facts showing that they were not making any investments, just raising the price of water. And any investments they made were with government money."

Vast numbers of people have also demonstrated in Bolivia, in Ecuador, in Panama, in South Africa and elsewhere in a vivid illustration of how highly charged the economics of water have become. At issue is this question: should water, a substance close to life itself, be a profit-making business?

The backlash in Tucumán continues today as the province struggles to find a new company to operate its aging water system. The reaction is still being felt by the big European concerns that dominate the world water business and the Western aid institutions that support privatization.

Already, corporations own or operate water systems across the globe that bring in about \$200 billion a year. Yet they serve only about 7 percent of the world's population, leaving a potentially vast market untapped. Protesters are determined to limit that market.

The protests have heartened the companies' critics, mainly environmentalists who oppose globalization, but also consumer groups and labor unions. They all object to private enterprise making a profit on water.

"Water is a resource essential to life," said Hannah Griffiths, of Friends of the Earth, an environmentalist group based in Britain. "Decisions about allocation and distribution should be democratic and based on everyone's fundamental right to a clean, healthy supply."

Not all agree. Some argue that unless water is treated as an increasingly precious commodity and priced to reflect its value — particularly for heavy users like farmers and factories — much of it will be wasted.

It also often takes more money than some governments are willing or able to spend to improve the systems that deliver fresh water to cities and towns around the world, especially to the poor.

But will allowing private enterprise to manage or own many of the world's water systems help overcome those problems? And will it expose the poor to impossibly high water bills?

The widespread inability of public utilities in the developing world to provide clean water is one of the strongest arguments in favor of privatization.

"As a general rule, they're heavily overstaffed, provide poor quality, are unwilling or unable to invest, with not enough money to serve everybody," said John Briscoe, senior water adviser at the World Bank in Washington, referring to public utilities.

But private enterprise appears to be no panacea. Here in Tucumán, Vivendi's critics say that the company recklessly pursued the contract in order to break into the market and that most of the problems it encountered were of its own making.

To Gilda Pedinoce de Valls, a former state's attorney in Tucumán, Vivendi failed to recognize how strongly people feel about tampering with the substance essential to sustaining what has long been a dusty region noted for its citrus fruit crop.

Water, she said, "is a gift from God."

Olivier Barbaroux, the president of Vivendi's water business, agreed — but only up to a point.

"Yes," Mr. Barbaroux said, "but he forgot to lay the pipes."

More Water, but No Sewers

When water filled the cellar under Basilio Sajnik's pizzeria in downtown Lomas de Zamora, a sprawling suburb of Buenos Aires, he, too, looked for a culprit.

Like Mr. Abdala, he found a leading French multinational. That company, Suez, along with Vivendi has led the push to privatize water management.

In 1992, Suez signed a 30-year contract to manage the water around Buenos Aires. Lomas, a sprawling low-slung city of 600,000 on the capital's southern edge, is home to many of the 2 million people that Suez provided with water for the first time.

But the company was slower to install sewers. Now the cellar under the three-family building that houses Mr. Sajnik's pizzeria is permanently flooded. A pump runs seven days a week.

"It's the third pump I've purchased, yet nobody pays me for the electricity" Mr. Sajnik, 58, said recently as he waded in dirty water almost to the top of his knee-high boots.

The water Suez brought to the neighborhood produced so much runoff that the water table rose, causing streams of sewage to trickle along curbs and flood cellars, even in the driest of seasons. In summer, the stench is overwhelming. So far there have been no outbreaks of sickness, but the threat to public health is constant.

"I could go to court, but it is too slow, and the powerful always win," Mr. Sajnik said. "They say it's nature, and what can you do about nature?"

Suez executives blame Argentina's financial crisis instead of nature. Jacques Petry, chief executive of Ondeo, the water division of Suez, explained in Paris that Suez's original investment plan foresaw the installation of sewers. But the collapse of the Argentine peso has frozen the work. Suez, he said, supports a program to provide 1,500 pumps to the area.

For the time being, said Jean Bernard Lemire, the new chief executive of Suez's Argentine affiliate, spending has been reduced to the essentials: paying wages, buying chemicals and energy, and basic maintenance.

He acknowledges that renegotiating the original contract, which has already been modified dozens of times, mocks the original agreement.

"Of course, our competitors can say, 'Under those conditions, we could have won the contracts, too,'" he said. But he added, "We cannot forecast on a 30-year basis; we have to be flexible."

Overall, Suez says it is proud of its accomplishments in Buenos Aires. It modernized treatment plants that were once on the verge of collapse, and efficiently runs a fleet of more than 1,000 repair trucks. Billings are now computerized. And except for the first eight months, when Suez lost \$23 million, it has been highly profitable.

Daniel Azpiazu, director of research at the Latin American School of Social Sciences in Buenos Aires, accuses Argentina's political leadership of cynically permitting the public utilities to deteriorate so that voters would embrace privatization.

In a 1992 survey, he said, 82 percent of Argentines questioned had favored privatization. In the haste to privatize, however, regulatory bodies and oversight authorities were rarely installed.

"In the early phase, a regulatory agency was not in place," said Abel Fatale, the engineer in charge of public services in the municipal government of Buenos Aires. "When it did start up, it was made in the image of the water company. The concrete result was that there was no control at all."

A Vast Market Gap to Fill

By 2025, as the world's population grows to eight billion, the United Nations expects the number of people suffering from an inadequate supply of clean water to grow to five billion from the current two billion.

The vast potential to make money by filling that gap has prompted several large multinationals like Vivendi and Suez to target what they see as a lucrative market for the future.

The case for privatization germinated decades ago after the World Bank unsuccessfully tried to fix the public water supply system in Manila. Despite five repair attempts over the years, water loss was as high as 64 percent.

"Fundamentally we realized that without a change in incentives — some very logical, sensible things — this was not working," said Mr. Briscoe, of the World Bank said.

Critics still say it is unrealistic to expect private companies, whose main responsibility is to their shareholders, to assume the financial risk of supplying water to portions of the world's population that may not be able to afford it in the first place.

But investors are betting that the business of water will boom in coming decades. "This is a \$200 billion market, growing at a 6 percent rate annually, in terms of population," said Hans Peter Portner, a fund manager at Banque Pictet in Geneva who handles the bank's Global Water Fund. He predicts that privatized water systems will expand to serve about 17 percent of the world's population by 2015, up from 7 percent now.

Compared with the Europeans, the American company with the biggest international business in the field, Bechtel, whose directors include former Secretary of State George P. Shultz, is a novice. Another American company, Azurix, a unit of Enron, collapsed before its parent did.

That leaves the field mostly to the French giants, Vivendi Environnement and Suez. Last year, almost half of Vivendi Environnement's \$26 billion of revenue came from water; roughly one quarter of Suez's \$38 billion in revenue was generated by the water division, Ondeo.

French dominance is now challenged by a third global player, Thames Water P.L.C. of Britain. Thames rose, after Margaret Thatcher privatized water services in Britain in 1989, by swallowing up smaller British competitors. In 1999, it agreed to a \$9.8 billion takeover bid from the big German utility RWE A.G.

All three European companies have spent lavishly expanding in the United States. This year, Thames acquired American Water Works, the American market leader, for \$7.6 billion. It was playing catch-up to Suez, which spent \$6 billion in 1999 to buy United Water Resources and Nalco, a maker of chemicals for water treatment. Earlier that year, Vivendi acquired the U.S. Filter Corporation for almost \$8 billion.

Contracts are pouring in. This year, both Suez and Vivendi signed long-term deals, some for up to 50 years, to manage municipal water systems in China, which faces huge water shortages. In Central Europe, cities like Warsaw and Budapest are struggling to upgrade their water systems to meet the standards of the European Union, which Poland and Hungary are expected to join within the next few years.

Industry executives recognize the need for oversight. "It's always a difficult decision to ask a private water company to manage such an essential service," said Gérard Mestrallet, the chief executive of Suez, in his Paris office. "It is your duty to demonstrate that the arrival of the private sector brings something concrete."

But in their hurry, the companies often underbid to get a foot in the door, with prices that fail to take account of the full cost of upgrading old and inefficient water systems. Contracts are therefore regularly renegotiated.

Renegotiation often means that parts of the contract, like obligations to provide sewers to go with water distribution, are cut or scaled back, sometimes causing environmental difficulties. The situation in Lomas de Zamora is a pungent illustration of the point.

Critics charge that it is all part of corporate strategy. If the project doesn't make money, the critics say, the companies cry for renegotiation, threatening to leave otherwise.

Moreover, there is an inherent contradiction in many of the efforts to privatize water systems, particularly those in developing countries.

Municipalities award those contracts in part to shift the investment risk to the private sector. Often, however, the private contractors commit little of their own capital, relying instead on the municipalities themselves, private lenders like banks, and international development organizations like the World Bank or regional development banks.

In South Africa, for example, 80 percent of the money for a recent water development project came from the Development Bank of South Africa. In Peru, 100 percent of the money for a similar project originated at the Interamerican Development Bank.

Given those flaws, opponents, many representing nongovernmental organizations that have become increasingly involved in development issues, contend that the role of private companies in delivering water supplies should be sharply limited, confined to simply building things like treatment plants for public entities.

"Water has to be a public good," said Mr. Azpiazu, of the School of Social Sciences. "It cannot be a predator business, in which you stay for a few years, make your money and leave."

In North America, most water remains publicly managed. Yet many municipal systems are old and inefficient, and competition to take them over is intense. Indianapolis, Atlanta and Milwaukee are among the city water services licensed for management and operation to the European giants. In March, Suez landed a 10 year, \$4 billion contract to manage the water system of Puerto Rico.

Company executives muse about the billions of dollars modernization of the old and dilapidated water works of great metropolises like New York might one day bring.

Uniting Against Vivendi

After Suez landed its lucrative 30-year contract to manage the water system in Buenos Aires, Vivendi decided to jump in. It bid aggressively for the similar contract in Tucumán Province, even after four other bidders dropped out.

After rates continued to rise, Mr. Abdala joined other consumer leaders from all over the province in calling for a payment strike. Vivendi's collection rate in Tucumán, which rose to 70 percent after it reorganized bill collecting, plummeted to 10 percent.

When Vivendi employees sought to shut off a nonpaying customer's water, Mr. Abdala and other protest organizers sent demonstrators who stood on manhole covers and blocked access to the water mains.

"We lived in a permanent state of mobilization," Mr. Abdala recalled.

In early 1996, after manganese deposits, always present in the local water, became so great that tap water ran the color of cola, popular anger translated into large-scale demonstrations against Vivendi. Local officials blamed the ineptitude of Vivendi's French engineers; Vivendi suspected sabotage.

By the summer of 1998, Vivendi was losing almost \$3 million a month in the province, and it unilaterally canceled the contract. One month later, Tucumán Province pulled out of the deal as well. Vivendi then sued Tucumán before a World Bank tribunal, but lost.

Now the province is starting from scratch. Water engineers sent from a neighboring province to run the system have cut jobs at the water utility, to 500 from 850. A regulatory agency is being established to prepare for a new contract later this year.

"We don't know what company will invest here," said José Cuneo Verges, a former government official who is working on the project. "Yet we want to show that Tucumán is ready."

That is why Mr. Abdala is still on the case.

"Whoever takes it over must have good ties to us," he said. "We want the participation of consumers."