



# **Why water is a public service : exposing the myths of privatization**

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## **1. Introduction<sup>1</sup>**

The spectre of water privatisation is once again haunting the people of Europe. From the 1980s to the 2000s, water privatisation was promoted by multinationals, right-wing politicians, and international institutions, including the European Commission. This was successfully resisted by popular campaigns, which halted and even reversed water privatisation in almost every country in Europe, and in many other countries around the world.

But the threat has now returned.

The main initiative comes from the privatisations services as part of the conditions for financial support from the EU, the European Central Bank (ECB) and the International Monetary Fund (IMF) – the ‘troika’. The conditions for Greece include the privatisation of many public sector bodies, including the full privatisation of the water services of Athens and Thessaloniki. The troika also expects Portugal to sell much of the public sector, and Aguas de Portugal is being considered for privatisation. The European Commission and the ECB asked Italy to plan for water privatisation and liberalisation even after a national referendum voted overwhelmingly against it.

More generally, the new central EU economic policies create more pressure for liberalisation and privatisation of all public services, by imposing even stricter limits on public finances.

In the “neighbourhood” countries outside of the EU, water privatisation is still promoted by the European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC) – the private sector support division of the World Bank - despite the failures that have already happened under this policy.

EPSU is therefore publishing this booklet setting out the reasons for rejecting water privatisation, in a number of languages. It has been prepared by the PSIRU at the University of Greenwich, based on empirical evidence, with references. It is intended not only to support campaigns against water privatisation, but also as a reminder why the public sector is a much better way of providing water services.

The UN in 2010 declared water and sanitation as human right. It obliges governments to provide their citizens with accessible, affordable, safe and clean water and sanitation. The European public services unions will launch a “European Citizens’ Initiative” to promote the implementation of this human right and oppose the liberalisation of water services at EU level.

Jan Willem Goudriaan  
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## 2. Public ownership is normal<sup>2</sup>

Privatisation of water systems is unusual. Since the 19<sup>th</sup> century, nearly all countries have run water services in the public sector, because private companies were not willing to invest enough in a public service, and they charged too much because it is a monopoly service. So privatisation of water remains very unusual. Water services are owned and run by the public sector in over 90% of the largest 400 cities in the world (those with populations over 1million). In small towns and rural areas the proportion is even lower.

In Europe, the only countries where a majority of water services are privatised are the UK, France, Spain and the Czech republic. In other European countries water is run by the public sector in all areas, or in a large majority of places. In Germany, water services are run by the public sector nearly everywhere except Berlin (and there have been major problems with the private water service in Berlin, see below). The Netherlands passed a law in 2004 which makes it illegal for anyone except a public sector organisation to operate water services. In Italy in 2011 a referendum rejected a law to facilitate water privatisation (see below).

Outside Europe, there is very little privatisation. In the USA, about 85% of water services are owned and run by the public sector; in Japan, 100%. In developing countries, the World Bank and the IMF and multinational companies tried to make countries privatise their water services, but only a few cities remain privatised. In the past, water was privatised in some colonies, or in countries in financial difficulties where the bondholders took control of government finances, for example in Turkey and Morocco in the late 19<sup>th</sup> century, but these earlier privatisations were usually ended following independence.

## 3. Widespread termination of water privatisation<sup>3</sup>

In recent years there has been a trend away from privatisation, in Europe and globally, because the private companies were performing badly, investing too little, and charging too much.

In France, the home of the largest multinational water companies, many cities have now rejected privatisation. In 2010 the city of Paris decided to re-municipalise its water services, which had been run for 25 years by the two largest French companies Suez and Veolia. The price of water in Paris has now been reduced. The city of Grenoble and Cherbourg have also re-municipalised their water services. Other towns and cities are now discussing the same option, including Bordeaux.

In Hungary, the city of Pecs also re-municipalised its water services in 2010, terminating the contract of a subsidiary of Suez; the town of Kaposvar also remunicipalised its water service. In the previous decade, water privatisations were terminated by the city of Potsdam in Germany; by a number of cities in the USA including Atlanta, Milwaukee, Gary, and Laredo; by the city of Hamilton in Canada; by Antalya in Turkey; and by cities in many other countries, including Ukraine, Kazakhstan, Georgia, Uzbekistan, Canada, Brazil, Argentina, Uruguay, South Africa, Tanzania, Malaysia.

## 4. Efficiency and performance<sup>4</sup>

Supporters of privatisation claim that private companies are more efficient than the public sector, and many people believe this. But the empirical evidence shows this is not true. There have been many studies comparing the efficiency of public sector and private water companies in various countries, and a comprehensive review by academics in 2008 concluded that “most studies found no significant differences in costs or efficiency between public and private”. A detailed study in the UK - the biggest water privatisation - showed that, 11 years after privatisation, the private water companies had actually become less efficient than the public sector had been, despite having access to better technology.

The World Bank and the IMF know this, too. An IMF policy paper in 2004 said that “the empirical evidence is mixed” on the relative efficiency of the private sector. A global review of empirical evidence of water and energy utilities by the World Bank in 2005 concluded that there was: “no statistically significant difference in efficiency scores between public and private providers”.

Private companies perform no better on technical and economic issues. The lowest leakage rates in Europe are in the Netherlands and Germany, where the systems are nearly all run by public companies. Veolia, one of the two largest water multinationals, deliberately allowed raw sewerage into the river in Brussels as a way of putting pressure on the city to pay more for operating the treatment plant. In Chile, Suez has had to pay \$5million compensation to people for the foul smells from its sewerage treatment plant.

There are extra costs linked to privatisation, too, such as the costs of tendering, the costs of monitoring, and the costs of dealing with the failures and problems that arise from privatisation.

## **5. Investment <sup>5</sup>**

Private companies have never invested much in public water systems. In all countries in Europe and north America, the public sector has paid for the networks. Even in France, where the private companies survived from the 19<sup>th</sup> century, they did not invest in extending the systems – the municipalities had to make all the investments themselves.

Even today, even in Europe, nearly all countries rely on public sector funding for investment in water services. In France in 2009, an authoritative report stated that: “funding for water services is still overwhelmingly public, and private funding accounts for only 12% of the investment”. In Hungary, for example, even in cities where water is privatised, the investments are paid for by the central government. The EU ‘cohesion funds’ have also been an important source of money for investment in water services in many countries in central and southern Europe. But privatisation threatens this, because EU rules do not allow the cohesion funds to be used to subsidise private companies.

When private companies do invest, they expect to be guaranteed a huge profit. In England, the private company Thames Water wants to build an expensive new central sewer for London, but it wants to make a profit of over £100million per year above what it costs the company.

The public sector is also responsible for nearly all the investment in water in developing countries. Even in Africa and India, between 65% and 90% of investment is made by the public sector, with the rest financed by government aid: the private sector invests almost nothing.

## **6. Prices <sup>6</sup>**

Private companies charge higher prices than public sector companies. A study in France in 2004 compared the prices charged by all the private and public water operations. After taking account of other differences, such as the density of population, it concluded that the price of private water was over 16% higher than public sector water. In the UK, water prices rose by 40% more than other prices in the 17 years after privatisation, although operating costs had not changed. All the increase in prices was a result of higher profits.

All over the world municipalities have a constant battle to stop private water companies claiming too much money. In Tallinn, Estonia, the city council, the national government, the ombudsman and the competition authority have all condemned the excessive prices being charged by the private company which bought control of the water services in 2000. In Australia, the city of Adelaide has just reclaimed \$14million of excessive charges by its

private water company in the last decade. In Chile, a private company owned by a Canadian pension fund was fined \$2million for overcharging.

A recent paper from the World Bank group 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”.<sup>7</sup>

## **7. Competition and cartels<sup>8</sup>**

Water privatisation does not bring any of the supposed benefits of competition. It is always a monopoly service, so companies do not compete against each other for customers. And in reality, companies usually avoid competing against each other for the contracts in the first place.

None of the private water operators in the UK have ever had to face competitive tendering for their valuable licences. In the great majority of cases in France and Spain, and many cases in Italy and central Europe, the original privatisation was also never subject to any competitive tendering.

In both France and Italy competition authorities have condemned the private companies for uncompetitive behaviour. In France, Suez and Veolia were ordered to break up a series of ‘joint ventures’ which they had formed in order to share contracts rather than compete against each other.

In 2012, the EU announced it was launching a formal investigation into the 3 major French water companies, Suez, Veolia and SAUR for alleged collusion in France. The EU has already fined Suez €8million for breaking a seal fixed by investigators.

## **8. Public opposition<sup>9</sup>**

There is widespread public resistance to water privatisation, worldwide. In the last 20 years, popular campaigns have stopped or reversed privatisation in many towns and cities across Europe. Whenever it has been subjected to a vote in a referendum it has been repeatedly, massively rejected.

In June 2011 the Italian people voted overwhelmingly in a referendum against a proposed law which would have liberalised and privatised water.

In 2003 a successful campaign led to the European Parliament rejecting the Commission’s proposals to make liberalisation of water services compulsory throughout Europe.

Even in the UK, after 17 years of water privatisation, a clear majority favour a return to public ownership in England, according to the results of a BBC opinion poll in 2006. In Scotland and Northern Ireland the service remains public because of widespread public opposition.

## **9. Corruption and fraud<sup>10</sup>**

Water privatisation is strongly associated with corruption and fraud. Companies have an incentive to pay bribes to secure such profitable long-term deals.

Courts in France, Italy and the USA have convicted executives and public officials for bribes paid by Suez and Veolia subsidiaries. Both groups “have come under scrutiny in a host of criminal and civil cases, with accusations that include bribery of public officials, illegal political contributions, kickbacks, price fixing, operating cartels and fraudulent accounting.” According to a 1997 report by the Cour des Comptes, France’s national audit body, the

system of privatisation on which Suez and Veolia built their national dominance was systematically flawed: "The lack of supervision and control of delegated public services, aggravated by the lack of transparency of this form of management, has led to abuses"

In the UK, Severn Trent Water were convicted of serious fraud because they had provided false information to the regulator which had allowed them to overcharge customers by a total of £42million in one year. Other water companies confessed to similar actions.

### **10. Unaccountable<sup>11</sup>**

Private water companies prefer to do business in secret, so that they can persuade politicians to give them generous contracts without public knowledge. For this reason, most private water contracts are secret documents, so public accountability is impossible.

In 1999 the city of Berlin privatised its water service to help pay off some of its debts, despite strong public opposition. It sold 49.9% of the company to a consortium of a French multinational (Veolia) and a German multinational (RWE), who demanded a written guarantee of a large profit. The city council agreed, but the contract was kept a secret from the people of Berlin. By 2011, prices had risen by over a third above inflation, and campaigners forced a referendum in which a huge majority demanded that the contract should be made public. In January 2012 the German competition office said that the contract breaks German competition law, and the company must cut prices by 19%. The EU Commission is also considering if it is a breach of EU law against illegal state aid to private companies.

People think regulators help protect the public, but regulators also negotiate in secret with the companies, so they are easily captured. The UK regulator OFWAT has repeatedly failed to stop the private companies from making higher profits by under-spending, failed to detect frauds committed by the companies, and has given the companies the right to 25 years notice to end their licences – which effectively guarantees them eternal monopolies.

### **11. Illusory fiscal gains<sup>12</sup>**

The official reason for privatising water and other public services is supposed to be to get money, with which governments can pay off their debts. But in reality governments get paid much less than the real value of privatised companies, especially if the buyers know they are being forced to sell, at any price. If companies do pay a large sum, it is usually because they are allowed to charge higher prices.

In France it used to be common for the private firms to pay millions of Euros to get a water concession. The companies then added the cost of this 'entry fee' to the water bills, so this apparent windfall for the municipality was all paid for by consumers. As a result, the French parliament introduced a new law in 1993, the 'loi Sapin', which makes it illegal for a private company to buy a water concession from a municipality.

In the UK the government of Mrs Thatcher sold the water companies for GBP £5.2 billion. But the government wrote off the debt of the companies, which was GBP £5.0 billion, and also gave them a cash subsidy of GBP £1.5 billion, so it actually lost money. In the following years it lost even more, because it lost the dividends from the profits, and also gave the companies tax relief.

Privatisations are a bad way of raising money. After all the privatisations made by the Thatcher governments in the UK over 17 years, the level of government debt was almost the same as at the start. But investment by the public sector fell, and the private sector did not compensate, so the whole economy had fewer real assets. So the biggest privatisation ever did not reduce government debt nor did it lead to private investments.

## 12. Conclusion: the public sector and the right to water <sup>13</sup>

This booklet has summarised the bitter experience of the damaging effects of privatisation on prices, investment, performance, accountability and collusion.

The clear alternative is a public sector water service, which has been preferred by the great majority of countries for the great majority of the last 150 years. Public sector provision of water provides more direct accountability to the public and elected municipalities; is not compromised by commercial secrecy and tactics to boost profits; operates at least as efficiently, with lower transaction costs, less risk of corruption, and more investment in the system; and charges lower prices. Privatisation benefits no-one except the private companies.

On 28 July 2010, through Resolution 64/292 , the United Nations General Assembly recognized the human right to water and sanitation and acknowledged that clean drinking water and sanitation are key factors to the accomplishment of all human rights. The motion was supported by 122 states, and opposed by none, with 41 abstaining - including 17 European countries. The UN are now promoting the human right to water by asking all governments to allocate maximum available resources to achieve access for all.

Public services unions and their allies are campaigning to collect one million signatures in support of the implementation of the human right to water and sanitation. The goal of this European Citizens' Initiative is threefold: to ensure the UN rights and guarantee access for all in the EU; to make the European Commission adopt a rights-based approach and refrain from liberalising water services; and to make universal/global access to water and sanitation part of EU development policy and increase EU efforts and investments to achieve this.

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