THE WATER DOSSIER

In the business of supply

Three French companies are among the world's leading water management groups, after some 60 years developing skills in deals and financial engineering while supplying water within France itself. But the world is beginning to refuse and reject their interventions.

by Marc Laimé

THE state still runs 95% of the world's water and sanitation services. But the industry's big players (of the four largest global groups, three are French, *see The 'three sisters'*) want to consolidate their grip on markets that are being privatisated. Millions of people worldwide oppose these decisions, and so vocally that the company Veolia has put together a statement to answer its detractors in the anti-globalisation movement. This is an unprecedented step (1).

Chile, England and Wales have privatised water management entirely, and France will be the next pioneer of private enterprise participation; 80% of people in France get their supply from a private company, 90% in big cities. French municipalities were able to delegate the management of water services from the mid-19th century. But the astonishing growth of the three major water companies - the "three sisters": Veolia, Ondeo-Suez and Saur - began after the second world war. The demand for infrastructure exploded with rapid population growth, industrialisation and intense urbanisation. Water resources seemed limitless and easy to tap. At that time no one was worried about pollution or environmental preservation.

Municipal councils, which then provided up to 70% of water and sanitation services, a prerogative dating back to 1789, were sometimes poorly managed and in debt. They were bound by regulations that did not allow them to create reserves for investment, despite the urgent need. In 1954 private companies, which supplied 31.6% of the French population, hurried to fill the gap, a task made easy by their technical knowledge and skills, which they were quick to develop - especially in what would later be known as financial engineering.

Whether water companies are state run or private sector, basic funding is always public, since consumers pay. What big private companies were able to do was to optimise financing, for their own benefit and for the authorities with which they signed contracts. Financial expertise became at least as important as industrial control of water management. Local authorities signed a Faustian pact with the major companies.

In France, from the 1950s, companies signing contracts with municipal authorities often paid entry rights of millions, even tens of millions, of dollars. These amounts were not allotted directly to the water and sanitation budget, which was independent, but went into the council's general budget to be used for anything but water. They made it possible to maintain low local tax rates and/or build municipal facilities such as stadiums or swimming pools. Since companies don't have philanthropic aims, consumers unwittingly paid for this gift to the municipality: water bills replaced local taxes. It's easy to imagine the political profit to elected officials (2). The practice was finally banned in 1995.

Such practices were the basis of French-style management and opened the way to such abuses as opaqueness, overcharging and monopolies. Two of the major companies still co-own subsidiaries that have contracts in a dozen large French cities, even though a commission on fair trading called for their end in 2002. It is almost impossible for a municipality to know how many of a private firm's employees are really assigned to a contract or to assess actual head office expenses, which are not properly accounted for on the bill. Hundreds of municipalities have to try to determine what exactly is being paid for by maintenance payments, which in theory are allocated to the upgrading and repair of the water system. Billions of euros are at stake.

Pervasive mismanagement

Such mismanagement, identified by every official inquiry over the past decade, constitutes a form of structural corruption far more pervasive than the cases of individual political-financial graft exposed early in the 1990s, when companies secretly financed political parties. This mismanagement shows a blatant lack of supervision over an essential public service. Elected local officials, and politicians, are overwhelmingly responsible for this (3).

The creation of a quasi monopoly by the three sisters is not privatisation in the strict sense. But 15,000 local French water authorities, which are under municipal management, are faced with the exponential growth of the big firms' knowledge in technical matters - exploitation of water resources, research, administration, management, finances and client relations. An isolated local authority, without the necessary technical and human resources, is faced with an oligopoly -an unequal balance of power. The imbalance worsened in the 1980s, when several factors combined to increase recourse to these multinationals: the rigour of new European norms, requiring greater specialisation, the decline of state-sponsored research in the water industry, and increasing budget deficits. Markets took off; and the wealth of private-sector firms kept pace.

Their grip on the industry, established during the past decade, expanded to reach almost all the public utility services that municipal authorities are expected to provide - water and sanitation, energy, heating, waste, transport, food services, health, parking lots, funeral contractors, and later mobile phone provision with SFR (Bouygues) and Cegetel (Vivendi). The city authorities of Lyon (la Courly) contracted the supply of drinking water to a subsidiary co-owned by Générale des Eaux-Veolia (90%) and by a subsidiary of Ondeo-Suez (10%). Some sanitation services are managed by other divisions of Générale des Eaux (the French subsidiary specialising in water, which retained its name in 1998, when the parent company was renamed Vivendi), via Dégremont (50%), and of Suez, via OTV (50%). Urban heating and cooling go through a Générale des Eaux-Veolia subsidiary, Dalkia. A host of other subsidiaries of CGE and Lyonnaise manage up to 50% of waste collection.

A new image

In the 1980s these groups also invested in the media: Bouygues in TF1, Vivendi in Canal Plus and Lyonnaise in M6. These investments provided a strike force. The companies made a virtue of mobility between state and private sectors. Annie Hidalgo, No 2 in human resource management at the Générale des Eaux between 1995-97, became first deputy to the mayor of Paris, Bertrand Delanoë, in 2001. François Colin, former Socialist party head in Lille and a member of Martine Aubry's cabinet, served as director of social affairs at Vivendi Universal (VU, formerly the Générale des Eaux) from 1998 to 2003. The spokesman on corporations and the economy for Lionel Jospin's campaign headquarters in 2002, Eric Besson, who is Socialist deputy for the Drôme, was head of the Fondation Vivendi between 1998 and 2002. The former technical adviser to Charles Hernu at the ministry of defence, Jean-François Dubos, became secretary general of VU in 1997. Alain Marsaud, head of economic forecasting at VU from 1997, was member of parliament for Haute-Vienne for the governing UMP party (Union pour un mouvement populaire), as well as the communications and media giant's commercial representative for Mauritius (4). Jean-Pierre Denis, the boss at Dalkia, Vivendi Environnement's energy branch, left his post as deputy secretary general at the Elysée in 1998, but continued to advise Jacques Chirac.

Suez was hardly slacking. Its director-general, Yves Thibault de Silguy, is a former European commissioner. In 2000 Mathias Hautefort, former technical adviser on energy to Christian Pierret, who had been Socialist secretary of state for industry, joined the group. In July 2004 Jospin's pollster at Matignon, political scientist Gerard Le Gall, left academia for the Suez group.

The right/left, public/private dichotomies no longer make sense. The big players in water, trained in France's most prestigious engineerineeg and administrative corps - mining, bridges and roads; the national school for rural engineering in water and forestry; the ministry of finance; and the higher civil service school - have monopolised positions of power. One of Suez's chief executives, third or fourth in the hierarchy in France, teaches at the Ecole nationale des ponts et chaussées (bridges and roads), from which 120 future engineers graduate every year. He is also head of communications at the water distribution workers' union, created by Suez, Vivendi and Saur. He has served in a ministerial cabinet under a leftwing government. His counterpart at Veolia, who drew up the firm's response to its anti-globalisation detractors, is also an elected Socialist party official. It is easy to see why France's political and economic elites are in no hurry to challenge such influential companies.

These multinationals are wooed for their huge advertising power. They also employ specialised agencies such as Image 7 and DGM Conseil Strategic, public relations firms with powerful reputations that quietly steer extreme lobbying campaigns targeting the government and the media (5).

In 2004 Veolia targeted 23,000 primary school headteachers in France, sending them issues of a newspaper *Mon Quotidien* (for a 9- to 13-year-old audience) with an illustration of Victor, the company mascot, who explained that protecting the environment means protecting health. The same illustration went into *Quotidien du médecin*, a publication sent to 22,000 general practitioners. The Générale des Eaux distributed an updated version of its 1995 teaching kit to thousands of primary school classes, with 15 science and technology experiments and projects in art, history, geography, civic education and French.

For the past 10 years Suez has been a sponsor of the international geography festival at Saint-Dié, France's most important event in the field, created by Christian Pierret. Hundreds of teachers attend every year as part of their training, and Suez floods them with information about water.

A new mantra

As the French market reaches saturation and political finance scandals followed one after another, the three sisters began to look beyond France. Early in the 1980s the CEO of Suez-Lyonnaise, Jérôme Monod, who is now Chirac's adviser at the Elysée, made overtures to the World Bank president, James Wolfensohn. In a few years a powerful international influence network was in place: its aim was to promote French-style water management under the aegis of a state/private sector partnership. A dozen institutions were created, including the World Council on Water, and began the easy task of lobbying international financial institutions.

Since then there has been a new free-market mantra on water: that only a partnership between the state and the private sector can save the planet. The recommendations of the Camdessus panel (6), formulated shortly before the Kyoto summit of March 2003, illustrate this. The panel called for the mobilisation of state funds and the creation of new structures to guarantee the security of private investments against exchange rate risks, so as to avoid a repeat of the crash in Argentina (where Suez is said to have lost almost $800m), and against any political or social event that could threaten a company's estimated profits at the end of its contract.

Although these groups have demonstrated reliable operational capacities, they are benefiting from international public financing while imposing heavy tariffs on people. Sooner or later people fight back, and management methods have become the target (7). In February 2002 Vivendi had to withdraw hastily from the Comoros, where it had been responsible for the electricity grid since 1997. Although international financial institutions had initially provided almost $16m in funding, the quality of service to consumers declined quickly. Vivendi walked out.

In January 2003 the US city of Atlanta, Georgia, and United Water (Suez) announced the end of a concession contract signed in January 1999 for 20 years. Barely 15 days later (7 February 2003), Suez/Ondeo announced that it was pulling out of Manila in the Philippines, because the local authorities had refused to increase tariffs.

That Suez/Ondeo contract, granted in 1997 for 25 years, affected 6 million people and was the biggest privatisation project in the world. It had been hailed as a model for the reform of public utilities and the best way to extend such services to the poor. The World Bank and the International Monetary Fund had stipulated that water be privatised, given the difficulties the state had in supplying users. The results were disastrous: the price of water went up 500% in five years, and by 2003 it took 10% of household expenditure. The population connected to the grid did not increase as planned. A gastro-enteritis and cholera epidemic broke out in November 2003 in Manila's Tondo neighbourhood, which was under the consortium's management. Seven people died and 700 took ill.

On 18 February 2003 the governor of the Brazilian state of Parana issued a decree removing Vivendi Environnement and its local partners from water and sanitation management. On 24 June 2003 Suez announced that it was giving up a water sewage treatment plant contract with the Canadian city of Halifax, worth $341m over 30 years. According to a statement issued by the group, Suez had concluded that meeting the specifications would cost an extra $20m.

Problems for the apostles of free enterprise

Since then, the situation has declined further. Suez and its subsidiary Aguas Argentinas are still renegotiating a colossal contract in Buenos Aires, which President Nestor Kirchner has been threatening to denounce for several years. Suez wants to increase its service charges by an amount the Argentinian authorities cannot accept. In January 2005 Argentina imposed fines of $690,000 on Suez and Electricité de France for failing to honour their obligations over investments and quality of service. Dominique de Villepin, then France's foreign minister, had already been obliged to intervene unofficially in May 2004, when he reminded his Argentinian friends of "all the expenses borne by French firms in these difficult times" (8). He was alluding to the March 2004 renegotiation of an accord signed with the IMF, and to the support France had given.

Suez has also spent years setting up water tariffs in Soweto at the request of the South African government. The population has mobilised against this initiative, refusing to pay for access to water, which South Africa made a constitutional right.

Despite the international community's reiterated commitments, money pledged for water is scarce. A number of analysts blame the economic euphoria of the late 1990s for the major water corporations' race to global growth, much like the dotcom bubble. Several initiatives in countries with monetary crises, such as Argentina, were catastrophic and led the major companies to pull out of projects they considered too risky. This is a problem for apostles of free enterprise, whose raison d'etre is a willingness to take risks.

The existing market is now being restructured. New players are entering, among them, an irony of history, several state-owned corporations already present in the field, such as Germany's powerful Stadtwerke and Italy's state firms. There are also building and public-works companies and conglomerates emerging, in southeast Asia, Germany and Spain. The mission of the main private companies, to control the chain from production to distribution, is being challenged. From now on, the private sector will intervene only for specific projects, and offer limited services. Many international engineering firms (American, German, Japanese, British) are also competing with the French companies (9).

The boom market in bottled water also challenges the configuration of the market. The unchallenged power of the three sisters is not as absolute as it once seemed. Even in France, their golden age may be ending (10): several municipal authorities have begun to demand more transparency in response to consumer pressure.

But old habits die hard. “For the past few years,” says a Veolia manager, “the countries of the former eastern bloc have become an El Dorado. Infrastructure exists, even if it has to be upgraded. In terms of clientele, 100 million people will have more or less attained European living standards in 10 to 15 years. Our counterparts, for the most part, are former apparatchiks, who are eager to taste the fruits of liberalism. And let’s not forget European financing, which can be mobilised easily. We have a few good years ahead of us.”

In Africa, joint ventures have recently been set up by Veolia in Gabon, Niger and Morocco, with solvency guaranteed by international funding. Beyond that, it is wait and see.