

Privatising and Corporatising Australia's Water

Melita Grant – AID/WATCH - October 2002.

Water issues are hot on the agenda at the moment in Australia. Headlines such as “*Cheap water comes at high cost*”, “*Efficient water use on the agenda*”, “*Tougher water laws on the way*”, “*Water so precious that every drop counts*” and “*Crops wilt as drought impact deepens*” are prolific in the Australian media.¹ It is a good time to take stock of the mismanagement of water on the earth's driest continent, and the proposed solutions being offered by social commentators, scientists, environmentalists, politicians and community members.

The media are daily reporting these various ‘solutions’ being suggested by Australians. From ‘turning the rivers inland’ to ‘increasing the price of water’ to ‘drought appeals’, there is little shortage of ideas as to what we could *technically* and *commercially* do to abate the grave water issues facing this country.

And yet, little attention is turned to the *source* of the problems, and the need to radically change the agricultural practices of Australia – a sector that uses 80% of the available fresh water.

Water Mismanagement in Australia

One only has to look at Australia's struggling river systems and subsequent ecological demise to know that water is the backbone of the environment. Rivers have been dammed up to 99% of their flow, and inappropriate agricultural practices are subsidised by governments while alternatives are invariably rejected on economic grounds.

To address water shortage and distribution issues, governments throughout the world are increasingly looking to control water in all its aspects (infrastructure, service, collection, operation) through trade agreements, development loans and social sector ‘restructuring’. Australia is no exception to this ideological fervour.

The Path to Privatisation

Australia has seen increasing levels of privatisation over the last two decades. The ‘hit list’ includes our national bank, airline, and most of the telephone company. Electricity and gas industries have been largely privatised in Victoria and South Australia. In the area of health cover, the current Coalition Government has actively encouraged people to take out private health cover using a variety of incentive, and disincentive, schemes.

¹ All these headlines appeared in Newspapers around Australia in the period from 25th Oct to 29th October 2002.

In dollar terms, Australia's privatisations have been second only to the UK with State and Commonwealth Government privatisations in the 1990's raising over \$95 billion in sales.²

Export led growth, free market rule, and privatisation have increasingly become standard policy decisions of the major political parties in Australia. There are a number of common assumptions in neo-liberal economic thought about the three core ways of managing and building water supply systems and infrastructure - public, private, and a combination of the two - corporatised.

Table 1. Common Assumptions about water supply systems - Public, Private, Corporatised.

Utility Type	Common Assumptions
<i>Public</i>	Highly bureaucratic, over-staffed, not innovative, economically inefficient, subject to political influence by government of the day - thus short term thinking and planning.
<i>Private</i>	Economically efficient, competitive, provide the capital for system upgrading, market driven, labour efficient, releases the government from the costs required to run the system.
<i>Corporatised</i>	Remains government owned, but is managed by the private sector and runs as a profitable entity. The government is able to hand over a substantial amount of risk and cost to the corporation managing the utility.

These assumptions can be seen in state and federal government decision making, and yet the track record of privatised water supply systems in Australia have shown these assumptions to be false.

Water Privatisation in Australia

Internationally, two French companies dominate the race to own the distribution and management of water around the world - Suez Lyonnaise des Eaux and Vivendi. Between them they control more than two-thirds of the global water market with infrastructure in over 100 countries, and see huge commercial potential in low-income countries. Both have already established themselves in Australia.

The *Business Review Weekly*, a prominent business magazine, commented in 1998 that:

In Australia, investment bankers are salivating at the prospect of water privatisation. Many have hired specialists from the public sector to prepare them for when the lobbying intensifies.³

² Walker, B and B (2000) **Privatisation: Sell Off or Sell Out . The Australian Experience.** Australian Broadcasting Corporation, Sydney. P. 17

³ Business Review Weekly 20th April 1998 in Walker, B and B (2000) **Privatisation: Sell Off or Sell Out . The Australian Experience.** Australian Broadcasting Corporation, Sydney. P.28.

The beginnings of the push for privatisation of public assets in Australia were during 1975-76.⁴ Yet, the real boom for the ideology came in the 1990's, with Australia having been greatly influenced by the Thatcherism of the 80's.

Australia's experiments with water privatisation schemes have had disastrous consequences. In South Australia, after the management of Adelaide's water supply was contracted out to United Water (a Vivendi Subsidiary), 40 per cent of the work force was made redundant, having long-term effects on water quality and the health and safety of workers. When Adelaide was shrouded in a cloud of poisonous hydrogen sulphide following failures in the sewerage treatment plant, the company no longer had the technical expertise to address the issue and the South Australian government had to step in and fix the problem. As Ranald and Black state in their article on Australia's first water privatisation scheme, 'It is likely that this reduction [of the labour force] contributed to the sewerage processing failure of 1997.'⁵

Another case in Australia outlines problems stemming from handing water services to the private sector. Sydney's water was corporatised in 1995, with Australian Water Services (a consortium of Suez Lyonnaise des Eaux and Lend Lease) being awarded the contract. In 1998 when Sydney's drinking water was contaminated with Giardia and Cryptosporidium, it was found that the management of the privately operated water treatment plant were aware of the outbreak days before the public were alerted. It was later revealed that the managing director of Sydney Water – Chris Pollett, had concealed the readings of the micro-organisms for days from the Minister and Chairman to whom he was accountable. As a result, as Fullerton writes:

What emerged.....was a picture of a managing director unable to stand up to his chairman's pressure and a chair more concerned about Sydney Water's corporate performance than Sydney water drinkers.⁶

Additionally, the tendering process for the Build Operate Own (BOO) scheme was mismanaged – with the government losing control and wearing the risks that were expected to have been passed onto the corporation.⁷ Similarly, in the Adelaide case, the tendering process was riddled by scandal and the bid from United Water was received after the cut off for submissions.

While Queensland water supply systems today remain one of the few delivered by local government, in 1997 the Government of the day was considering privatising three water pipelines in the centre of the state.⁸ The Queensland Commission of Audit proposed an end to public ownership of water assets and the government

⁴ Sheil in interview with Philip Adams about his book 'Water's Fall: Running the Risks with Economic Rationalism' web site:

http://www.asuservices.labor.net.au/asupeople/water/20001204_adams.html

⁵ Ranald, P, and Black, (date) *Privatising water in the driest state: the impacts on employees and industrial relations of the corporatisation and outsourcing of metropolitan water and sewerage services in South Australia*.

⁶ Fullerton, T., (2001) **Watershed**. ABC Books, Sydney. P. 16-28.

⁷ Ibid, p. 32.

⁸ Consumer's Guide to Drinking Water - January 2002. Html:

<http://www.waterquality.crc.org.au/consumers/toc.htm>. Last viewed October 30, 2002.

moved to implement this recommendation by hiring a legal team to help facilitate the process.⁹

The incremental approach of corporatising, and then moving to outright privatisation has been the norm in Australia. Only Adelaide has been fully privatised to date, and the scandal and failures that have occurred as a result, will have been a warning to the Australian public. Table 2. summarises the state of corporatisation and privatisation of water supply Systems in Australia.

Table 2. Who Owns the Water Supply Systems in Australia?

State	City	Details of Privatisation/Corporatisation¹⁰	Company
South Australia	Adelaide	Privatised management and operation of water and sewage in 1997. 15year contract.	United Water International Pty. Ltd. (Vivendi Water-Thames Water-KBR consortium)
Victoria	Melbourne	Three government-owned companies are the retailers, with one government-owned corporation as the wholesaler.	Melbourne Water Corporation
New South Wales	Sydney	Water Boards were corporatised in 1992.	Australian Water Services (Suez Lyonnaise des Eaux and Lend Lease)
Queensland		Local Government	_____
ACT	Canberra	Public-private multi-utility partnership	ActewAGL
WA	Perth	Government-owned corporation	_____
Northern Territory	Alice Springs and Darwin	Government-owned multi-utility (Power and Water Authority)	_____
Tasmania		Local Government	_____

In a radio interview between commentator Philip Adams and Author of ‘*Water’s Fall: Running the Risks with Economic Rationalism*’ Dr. Chris Sheil, Adams asked Sheil if “ there was ever self-doubt among the economic rationalists that they were embarking on the slippery slope?” in relation to water privatisation in Australia. Sheil replied “ I don't think there is any self-doubt at all. The only thing that restrains them from completely privatising water around the country is the various levels of opposition among the public.”

Culturally, Australia has not been very fond of the privatisation ethos. This is largely because of the fear of foreign companies ‘taking over’ and the nationalistic sentiment supporting ‘home grown’. During the period the Labor Prime Minister

⁹ Walker, B and B (2000) **Privatisation: Sell Off or Sell Out . The Australian Experience.** Australian Broadcasting Corporation, Sydney. P. 29.

¹⁰ Corporatisation denotes the process by which the utility remains government owned, but is restructured to run at a profit.

Paul Keating was in office, a national campaign was spawned to “Buy Australian”. Today, Australian personalities such as Dick Smith have started food companies that reflect these values and actively challenge the sale of “Aussie” companies to transnational corporations.¹¹ At the same time, right-wing conservative political figures such as the infamous Pauline Hanson have also spoken out loudly against foreign companies taking over Australian industries.

Yet, privatisation is creeping in by stealth, and so are mega-water transnational corporations in their various subsidiary-disguises.

Vivendi - Establishing a Strong Presence In Australia

Not only has Vivendi brought to Australia its first fully privatised water supply system, but it has picked up other lucrative contracts around the country. A press release issued by Vivendi in December 2001 is headlined ‘*Vivendi Environnement wins contract worth more than 84 million euros for design and construction of three wastewater treatment plants in Australia.*’ These plants are located 100 kilometers to the south of Sydney in the Illawarra region, and the plants will treat wastewater from 300,000 residents. Few people know of Vivendi in New South Wales (other than in terms of the recent collapse of its media arm), let alone the fact that they have been awarded such a substantial contract just out of Sydney.

The reputation of Vivendi is less than admirable: financially unstable; found to have engaged in corruption in many cases; and environmentally damaging. Civil Society Organisations around the world have documented the failures and environmental catastrophes that Vivendi and its subsidiaries have been responsible for.¹² Such information needs to be disseminated widely in Australia to enable people to make more informed decisions about who is going to manage, and own their water systems.

The comodification of water is a crucial step in the process leading to privatisation. In New South Wales, this has been facilitated by a number of water policy reforms, resulting in a lucrative water trading market.

Water Trading in Australia - ‘The Market will solve the problem’....

In June 1995, the Murray-Darling Cap was created which put a limit on the amount of water that could be taken out of the Murray-Darling river catchments at the 1993-94 level of usage. While this decision was seen to be in the interests of restoring environmental flows, it had the effect of handing water to the market to manage and distribute. As a result, water prices have risen threefold over the last five years and water users have begun trading water - resulting in those who are able to pay the most for it, having greater access.¹³ Other problems have also arisen such as those relating to “sleepers and dozers” licences. Essentially, this is an issue pertaining to water licences owned by people that are either unused, or partially used. Decreasing the quantity, while increasing the value of water has

¹¹ Dick Smith founded the flying Doctor Service and has since become an Australian ‘Icon’.

¹² See in particular: Public Citizen; Friends of the Earth International, and Corp Watch.

¹³ Caldwell, R., in Fullerton, T., (2001) **Watershed**. ABC Books, Sydney

resulted in these licences being sold at very high rates, while the amount of water taken from the environment has not decreased substantially.

Water trading assumes that water will move to areas of highest value, which prioritises economic efficiency as opposed to ecological needs. While the proponents of water trading view it as environmentally sensitive (ie those industries that are water intensive will be eclipsed by those that are low-rate water users), the opponents point to the fundamental inequalities of the market. Rarely is corporate power addressed as a factor in the water trading debate. Yet, agribusinesses are clearly better placed to compete in a water market that increases the value of water, while supplies simultaneously decline.

Additionally, many people bought into the water trading system when it was first implemented and purchased water licences, all now worth over a million dollars. Most of these “water barons” have large stakes in the cotton industry – the second highest water consumer in Australia.¹⁴

International trade agreements have only added further complexity to the issue, and have further threatened people’s basic right to clean, adequate water supplies.

GATS and Water

The privatisation of water management is set to be included in the General Agreement on Trade in Services (GATS) - a proposal by the World Trade Organisation. The proposal would further open up Australia's water services to private ownership. By doing so, it would restrict the government's role in the operation and pricing of water provision, and shut out democratic control of water management.

A leaked document from the European Commission (EC) in March 2002, outlined the requests from the EC and member states to Australia, clearly stating water (as an environmental service) be included in the GATS:

ENVIRONMENTAL SERVICES

EC Request to Australia

The EC requests Australia to commit the following sub sectors, and schedule existing commitments accordingly, based on the EC proposal for the classification of environmental services: **Water collection, purification and distribution services through mains, except steam and hot water.**

EC Request: *Extend sectoral coverage to include the above services, and take full commitments in that sub sector for mode 2 and 3.*

It is no coincidence that the majority of the world’s water transnationals are based in France and the UK:

¹⁴ Fullerton, T., (2001) **Watershed**. ABC Books, Sydney, p. 165

Table 3: Top Ten Transnational Water Corporations

Corporation	Country Base	Water Revenue	Total Revenues	Total Profits
Vivendi (98)	France	\$5.9 billion	\$29.74 billion	\$1.03 billion
Suez Lyonnaise des Eaux (98)	France	\$4.8 billion	\$29.39 billion	\$ 0.94 billion
Bouygues (Saur) (98)	France	\$2.2 billion	\$ 2.92 billion	\$ 0.21 billion
Enron (Azurix) (98)	USA		\$29.35 billion	\$ 0.79 billion
RWE Group (98)	Germany	\$.13 billion	\$40.4 billion	
Thames Water (99)	UK	\$2.13 billion	\$ 2.13 billion	\$0.23 billion
United Utilities (Bechtel) (99)	UK	\$1.37 billion	\$ 1.37 billion	\$0.29 billion
Severn Trent (99)	UK	\$0.57 billion	\$ 0.82 billion	\$0.18 billion
Anglian (99)	UK	\$0.45 billion	\$ 0.50 billion	\$0.23 billion
Kelda Group (99)	UK		\$ 0.40 billion	\$0.13 billion

Source: Blue Planet Project, Canada.

While privatisation slowly creeps into Australia, we are economically and ideologically supporting this model through aid and trade programs and policies using Australia's tax-payers dollars. Contributions to the ADB and World Bank are strengthening the 'private sector participation' model, while also underpinning structural adjustment loans and conditions that push for water privatisation.

Who makes the decisions?

At the recent *Dialogue on Mekong River Basin Development and Civil Society* meeting held in Brisbane, Australia in September 2002, Ms. Leith Bouilly, the Chair of the Murray-Darling Basin's Community Advisory Committee commented that 'participation may not be appropriate in many cases' as "isn't that what we elect governments for?".

Unfortunately, governments have been very poor stewards of water and watershed ecosystems. However, to assume that profit-focussed entities such as water transnational corporations will do a better job, is a dangerous assumption and one that has been contradicted throughout the world.

Cities with privatised water infrastructure, most of which are in low-income countries, have not experienced the improved supply, efficiency and safety promised by corporations and their financing partners. Rather, water is supplied to those who can afford it, and domestic needs invariably fall behind those of the industrial and agricultural sectors.

Proponents of privatisation support their ideology on 'user-pays' grounds, and frequently state that "if we don't put a price on water, no one will conserve it". This is a misleading and fundamentally flawed model of environmental protection. As corporations are dependent on increased consumption to generate profits, they are much more likely to invest in desalination, diversion or exporting water as opposed to conservation measures.

Australia has experienced the myths of privatisation – the supposed transfer of risks and the cost cutting nature of the venture. Governments have had to continue to underwrite the delivery and viability of the water supply systems and sewage treatment plants, as has been the case in privatised water systems around the world. The wall of 'commercial in confidence' has made it very hard for governments, let alone the public to access vital information about how water systems are managed.

Despite public scepticism, the Australian government is walking swiftly down the path of water privatisation, and is supporting trade agreements that will only facilitate this process. Although the two key cases of privatisation and corporatisation in Australia (Adelaide and Sydney) have been exposed as incompetent and corrupt, the ideology is strongly held on to by governments eager to reduce their spending while appearing to technologically expand.

The burgeoning movement around the world of citizens, trade unions, NGOs, and those who support publicly owned, accessible, and clean water supplies are challenging this path of corporate control of our basic needs – 'the commons'. Australian groups are joining this movement and challenging both governments in support of privatisation, and the institutions Australia contributes to which are enforcing it around the world. Nothing could be more basic, nor necessary.

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