



MANAGING WATER SERVICES: THE BATTLE BETWEEN PRIVATE AND PUBLIC SECTORS

Claudia Rosa Acevedo

Doutora em Administração de Empresas pela Fundação Getúlio Vargas - SP

Faculdades Metropolitanas Unidas, Brasil

claudiaraac@uol.com.br

José Luis Hermosilla

Doutor em Engenharia Mecânica pela Universidade de São Paulo

Centro Universitário Moura Lacerda, Brasil

hermosilla@linkway.com.br

ABSTRACT

The purpose of this study is to examine the commercialization of water and the arguments it is based on. More specifically this investigation seeks to answer the following questions: Are there economic interests behind this discourse? How is the market of water being structured? The method of research utilized was based on documents and bibliographies. The principal results of the survey were: 1) the process of commercialization of water is based on the following principles: the economic value of water b) the effectiveness of the marketing mechanism to optimize the distribution and efficient use of water; c) the superiority of private investment over the public investment as a motor of economic and social development; d) the necessity of liberalization of national markets; e) water as a necessity and not as a right; 2) specialists in the area believe that strong interests exist behind the commercialization of this asset, especially on the part of transnational companies and international financial institutions. 3) the results of these privatizations have been very negative for the societies where they have taken place.

Keywords: Commercialization of water; Power of the multinationals.

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INTRODUCTION

Statistical data has shown a shortage of water worldwide. Reports from United Nations, for example, indicate that seven million people will face water shortages in 60 countries this century. Other statistics announce that by the year 2100 all the earth's surface water will have been consumed (Bouguerra, 2003). Moreover, it is currently estimated that a shortage of drinking water will affect 3 billion individuals and the prediction is that within 25 years there will not be sufficient water for the basic necessities of the world population (Morelli, 2003).

To deal with the shortage of this asset, various entities have proposed its commercialization. In other words, it is been proposed to treat the water as a product whose price is regulated by the law of supply and demand. Among these institutions are the World Bank, the United Nations and the World Council of Water (Petrella, 2003a; Bouguerra, 2003).

Movements against the commercialization of water claim that the arguments in favor of it are part of a strong lobby coordinated by multinationals interested in the exploitation of this asset as a commodity (CavernousDipole, 2003). Various authors and social activists (for example, Petrella, 2003b; Bouguerra, 2003; Morelli, 2003) have spoken out about the ideological propaganda that these organizations have been spreading in favor of it.

Other studies have pointed out the pressure made by the World Bank, the International Monetary Fund (IMF) and the World Trade Organization (W.T.O) on the governments of 3rd World Countries to accelerate or initiate processes of privatization in relation to the exploitation of water, the opening of their markets and the suppression of local public monopolies (Poupeau, 2003; Korten, 1995; Clarke, 1997; Maris, 2003; Baudru; Maris, 2003; Barlow; Clarke, 2003).

The purpose of the present study is to examine the commercialization process of water and the arguments in favor of it. More specifically this investigation aims to answer the following questions: What are the arguments that support the strategy of commercialization of water? Are there economic interests behind these arguments? How is the commercialization of water being formed?

METHODOLOGY

The method of research utilized in this study was based on documents and bibliographies.

RESULTS

At the present time, the dominant model of development in the global economy is the economic globalization whose central philosophy is the international competitiveness based on privatization and liberalization of the economy. In accordance with this ideology, capital assets and

services should flow freely among nations. In this way commercial barriers, government intervention or regulation, should not exist (Barlow; Clarke, 2003; Mander, 2001; Greider, 1997).

The institutions which are the foundation of the new economic world order are the World Trade Organization (W.T.O), the International Monetary Fund (IMF) and the World Bank. Each of these institutions possesses extremely important functions in order to guarantee the workable new economic model (Barlow; Clarke, 2003; Petrella, 2002; Marchack, 1993).

The World Trade Organization (W.T.O) is in charge of dictating the rules of international trade and services with the aim of eliminating customs barriers between countries. The aim of the W.T.O. is to promote deregulation and privatization (Barlow and Clarke, 2003; Petrella, 2002; Marchack, 1993; Wallach and Sforza, 1999; Barker and Mander, 1999).

The World Bank and IMF represent the main sources of international financial funds. In this way as a basic condition for receiving or renegotiating loans and payment of debts, the political principle of these two financial institutions in the last 3 decades has been the imposition of privatization of public services and a reduction of government spending on basic infra-structure and essential services such as education, health, basic sanitation and social programs (Barlow and Clarke, 2003; Petrella, 2002).

However, the main actors in the new economic world order are the transnational companies, which using strong lobbies with the main international institutions such as W.T.O., I.M.F and World Bank, promote politics, laws and programs that provide security and legitimacy for their investments around the world (Korten, 1995; Clarke, 1997; Maris, 2003; Baudru and Maris, 2003; Barlow and Clarke, 2003; Petrella, 2002).

At the present time, there are ten large transnational companies working in the water industry. The two biggest companies in this sector are the French companies Vivendi Universal and Suez. Together these two companies control more than 70% of the water industry. Most of the conglomerates in the water industry operate in various key sectors of the economy, such as electricity, building constructing, gas and entertainment. Nevertheless, in the water sector their activities are related to the following: 1) water and sewage; 2) water treatment installations; 3) construction and engineering connected to water; 4) new technologies for water, such as desalination of sea water (Korten, 1995).

Multinationals interest in the water market is due to the fact that the supply of water for families and industry in the world nowadays is estimated to an amount of US\$ 400 billion dollars per year. Furthermore, projections for the future are of more than US\$ 1 trillion dollars per year. The potential growth of industry is very high since at the present time only 5% of the world population has access to basic water necessities (Morelli, 2003; Barlow; Clarke, 2003).

Another characteristic of globalization conducted by the transnational corporations is the privatization of natural resources and their consequent commercialization (Daly and Cobb, 1989; Barlow and Clarke, 2003). According to Petrella (2002) such phenomenon is part of a general tendency which is affecting all sectors of the economy. For the author, generalized privatization allows the corporations to assume control and direction of the distribution of resources and increased productivity at the local, national and global levels.

It is in this economic context that the commercialization of water has been occurring. Thus, to face this imminent shortage of water in the world, international institutions connected to water have proposed its commercialization (Bouguerra, 2003).

The arguments contained in the proposal for the commercialization of water are as follows:

1) Waste in the use and management of water results from the fact that up until now this resource has been considered a social asset whose prices in general have been very low, which encourages waste. In this way water should be considered as an economic asset, with prices established by the market reflecting present shortage. Thus, the market is the most efficient mechanism to optimize the distribution and use of water (Petrella, 2002; Petrella, 2003b).

2) The private sector represents efficiency, profitability, flexibility and equality. On the other hand, the public sector is characterized by bureaucracy, inefficiency, rigidity, corruption and corporatism. Thus the private sector is the best choice to run an asset in short supply (Petrella, 2002; Petrella, 2003b; Barlow and Clarke, 2003) therefore, privatizations should be stimulated.

3) Water is a necessity and not a right, because human rights only refer to civil rights. In the social and economic sphere there are only assets (Petrella, 2003b).

4) It is necessary to promote the liberalization of the markets. In order to have an ideal allocation of resources, markets should be completely available to investments (Petrella, 2003b).

The main proponents of this ideology (as well as the I.M.F., World Bank, W.T.O and United Organizations) are the following institutions: the Global Water Partnership (G.W.P), the World Water Council (W.W.C) and the World Commission on Water for the 21st century (W.C.W). These agencies were conceived during two conferences which took place in 1992: the International Conference on Water and the Environment and the United Nations Conference to the Environment and Development. Such agencies possess strong links with corporations related to water and international financial institutions (Barlow and Clarke, 2003).

Some examples of these ties are the following: the director of the Central Committee of the G.W.P, who also runs the W.C.W, is the vice-director of the World Bank. In the same way, in 2001 the recently elected president of the G.W.P was also nominated president of the International Scientific Council of the Multinational Suez-Lyonnaise, one of the two largest international

companies in the water market (Petrella, 2003a). Besides this, in 1999, an ex-director of this multinational was the vice-president of the W.W.C (Barlow and Clarke, 2003).

It should be pointed out that the World Bank, as well as collaborating with the privatization of the water supplies as mentioned, also participates in these processes with one more function. This institution is the main instrument of loans to investments for the water supply corporations (Barlow and Clarke, 2003).

In general the privatizations of services related to water have been realized in three principal ways. The first type of privatization, the public companies that supply and treat the water are sold to private companies. The United Kingdom is an example of this. The second category of privatization consists of concessions by local authorities to corporations who become responsible to operate and maintain the water systems. This type of privatization is denominated as public-private partnership and is the most common system of privatization at the present time. The third form consists of the contracting of a private company by the local government to administrate the services in return for a fee. In this form of privatization the corporations don't keep the revenues or the profits from the water services (Barlow and Clarke, 2003; Petrella, 2002).

The three types of privatization have been producing negative experiences for the local populations. In France the price has risen constantly in recent years. As well as this, various corruption scandals relating to the management of the concessions have appeared in the country. In the United Kingdom water wastage has increased, prices have gone up, disconnections due to lack of payment and interruptions of water supplies have become more frequent. In India many families started spending 25% of their income on water. These negative experiences have been repeated in Argentina, Bolivia, Honduras, Hungary, Germany, Mozambique, Nicaragua, Spain and the United States, among others (Poupeau, 2003; Solon, 2003; Barlow and Clarke, 2003; Petrella, 2002; Petrella, 2003b; Maris, 2003).

Thus in the majority of the countries the main problems after privatization were: price increases, wastage and cuts in the supplies; reduction in the quality of the water, non compliance with the investment contracts of the privatization process, lack of public transparency and corruption scandals. On top of this, in all countries the social classes most affected were the poorest groups of the population (Poupeau, 2003; Solon, 2003; Barlow and Clarke, 2003; Petrella, 2002; Petrella, 2003b; Maris, 2003; Hall, 2001).

On the other hand the societies that have had their water treatment or sewage systems privatized suffered other negative impacts. These were the expenditure, investments and financial guarantees that the public sector was obliged to carry out to finance the privatization. Governments of these countries were compelled to not only contribute in cash but also with tax exemption and

reimbursements. Moreover, a large number of contracts guaranteed the private corporations profits and loans during the period of the contract.

Various governments tried to cancel or had their water privatization contracts cancelled. However, as most of these cases refer to a period of two or three decades, many local governments are having to deal with strong court cases against them, as in the case with Cochabamba (Bolivia), Valença (Spain), Szeged (Hungary) and Tucuman (Argentina) (Poupeau, 2003; Solon, 2003; Barlow and Clarke, 2003; Petrella, 2002; Petrella, 2003b; Maris, 2003; Hall, 2001).

One of the cases in the struggle against privatization which is most cited is the Cochabamba one. When the local government of this city broke the privatization contracts for the drinking water supply services, reprisals started to appear. The principal shareholder of the company operating the water services in Bolivia, Betchel, a North American company, sued for an indemnity fifty times bigger than the amount invested in the country. Besides this, they took legal proceedings in the international court (Solon, 2003).

Under the rules of GATS water is defined as a commodity. Thus according to the rules of the World Trade Organization (WTO) countries cannot impose quantitative restrictions on its imports or exports. Besides this, quotas that restrict exports are prohibited, as they are considered measures restricted to international commerce. On the other hand, the General Agreement on Trade and Services (GATS) of the WTO also considers water a service and in this way Services come under the same rules of this institution.

In fact, the negative experiences cited in this text illustrate that the commercialization of water is based on a philosophical fallacy. So, many ideological points which sustain it should be carefully analyzed before being accepted.

The first point to be considered is the cause of the shortage of water. Specialists in the area have shown that the principal factors responsible for its shortage are the increase in the practice of intensive agriculture, industrial pollution and a big increase in the construction of dams all over the world. Thus, it is not the fact that water is a social asset that possesses low prices that stimulate waste. In fact statistics show that the price of water rose considerably in the last decade all over the world without generating a reduction of costs as a counter point (PETRELLA, 2002; BARLOW; CLARKE, 2003).

The second point to be analyzed is the effectiveness of the market law as a regulator of the shortage of this asset. One of the main elements that guarantee the perfect performance of the market law is the existence of substitute assets that allow consumers to choose among those that satisfy their demands in relation to price and quality. However, there is no substitute for water (Petrella, 2002, 2003a; Deléage, 2003). Gasoline, for example can be substituted by other types of energy or fuel, such as alcohol. But water is indispensable to human life. According to Petrella

(2002), the fact that water cannot be substituted means that it is a basic asset that should be free from market value.

On the other hand, the search for profit which is intrinsic to private enterprise is incompatible with the zeal for welfare of society as a central activity. Thus, it is up to the state to administer essential services to the population. The assumption that only private enterprise is efficient and that the public sector is by nature corrupt, inflexible and inefficient is contradicted by empiric data which proves that this is not always true. In general, public services have gone through a period of restructuring which has put efficiency and flexibility as its main target. Literature presents many examples of efficient public services. An example that is very familiar in the literature of water industry is the case of SABESP (Company of Basic Sanitation of the State of São Paulo) which is the biggest public company of water supply in the world. In 1995 SABESP initiated a restructuring process. In the same year the company managed to increase the areas of treated water by 10%. The operational costs of the company fell up to 45%. Besides, the company expanded its projects of environmental responsibility (Hall, 2001).

According to Barlow and Clarke (2003) it doesn't matter how responsible a private company may be in the conduction of its business. Private enterprise is not conceived of serving the public interest. Its principal aim consists of maximizing its profits to satisfy its stake holders. Thus to increase its profits companies have to stimulate the consumption of this asset.

On the other hand, the privatization model is not worried about equal distribution of a scarce asset. On the contrary, water as merchandise will accentuate the inequalities which already exist, both among the social classes of a country, as well as between industrialized countries and the third world (Hall, 2001; Petrella, 2002; Barlow and Clarke, 2003). According to Vandana Shiva, the commercialization of water does not solve the scarcity of water. What it does is to offer access to this asset only to those better off economically, excluding the poorer people (Shiva, 2000).

Besides this, the policies of price specification to water are centered on its use by individuals. However, agriculture is responsible for 70% of its consumption and industry is responsible for 20% of it. Thus the population consumption is only 10%. However, the policies of the international agencies related to water give little importance to this issue (Deléage, 2003).

It must be emphasized that the privatization of social assets leaves the populations in the hands of corporations that can decide to act in either a socially responsible way or not. Thus, transferring the water services to private enterprise removes government responsibility to society. Governments need to have in mind that their main function is to provide security to their citizens and not for the corporations. But more and more the models of social welfare are being substituted by models of corporative security (Barlow and Clarke, 2003).

It must be realized that as water is considered a commodity it remains at the mercy of the rules of the WTO and other commercial multilateral treaties, which determine that commodity should go to the hands of those who can pay for it. Besides this, the WTO is an institution related to commerce and as such its mission is to protect the interests of the companies and not the citizens. Besides, the WTO has the power to impose its rules and even sanction on those countries that refuses to keep to them. According to Barlow and Clarke (2003), the WTO courts can not only judge the commercial disputes among nations, but also they can annul laws and domestic policies that may contradict the rules of those of the WTO.

At first sight privatizing water systems can appear to be promising for governments in financial difficulties. The perspective of profits with the sale and idea that it will not be necessary to invest in infrastructure is completely illusory. As already mentioned experiences in the privatization of the water systems has shown that local governments have been obliged to finance the private investments.

CONCLUSION

The purpose of this paper was to examine the commercialization of water and the arguments behind it. More specifically, this investigation aimed to shed light on the following questions: what are the arguments which support the strategy of commercialization of water? Are there economic interests behind the discourses? How the market of water is being structured?

Our findings showed that the commercialization of water is based on the following principles: a) the economic value of water b) the effectiveness of the marketing mechanism to optimize the distribution and efficient use of water; c) the superiority of private investment over the public investment as a motor of economic and social development; d) the necessity of liberalization of national markets; e) water as a necessity and not as a right.

Academics, specialists and social activists related to water believe that the new predisposition in the world to commercialize water is being coordinated by a strong multinational lobby interested in exploiting this asset as a commodity. According to previous research international financial institutions such as the IMF, the World Bank and the World Trade Organization are coordinating the process of the privatization of the water.

At the same time, privatizations are taking place under intense pressure from the international financial institutions. However, the results of these privatizations have been exceptionally negative for the societies where they occur.

According to previous research, the ideology that sustains the commercialization of water is fallacious. First of all, private companies are not projected to zeal for the equal distribution of a scarce asset, nor to care for the long term sustainability of the water. The main objective of a private

enterprise is to generate profits to their stakeholders. Besides, water cannot be generated under the law of supply and demand of the market, as it is peculiar asset that is critical to the life of the human being. Thus, the water must be considered as a social asset and not as an economic asset.

The implications of this study are of extreme importance for public administrators and for those responsible for public policies. Knowledge of the philosophy that is at the core of the theory of commercialization of water collaborates to establish new frameworks to analyze this issue.

Our study has certain limitations and our conclusions and the results on which they are based should be tempered by the research choices we made. We examined the subject using only secondary data. It would be interesting to explore this question employing primary data. Future research could interview executives of IMF or the World Bank for example.

In recent years various movements related to the preservation of water have appeared. But there still exist a lack of academic research about the subject. The administration literature could collaborate in the debate with investigations related with the influence of transnational water corporations on governments, media, IMF, WTO, World Bank and the United Nations. Some questions that could be investigated in depth are: how they use lobby and public relations to affect the legislation of countries and the rules of the international treaties for their own benefit. At a time when most of the companies try to consumers that they are social responsible, how do employees of transnational water supply companies deal with ethical dilemmas? What is the ethical vision of these companies?

In 1986 Philip Kotler, analyzing the problems that companies face when entering in protected markets, claimed that marketing was more and more becoming a political exercise. Therefore, the author proposed that the companies practiced a strategy that he called "Megamarketing". In this strategy power and public relations would be two new instruments of marketing mix (Kotler, 1986; Sheth, Gardner and Garret, 1988).

In this manner, another direction to research that could be explored is: are the water corporations practicing megamarketing strategy? What are the social and economic impacts of megamarketing practices to the humanity and to the third world countries? These questions are related to the scope of Macromarketing research which is concerned with the social impact of marketing strategies.

Other themes that are of immense value for the development of the academic research about this issue are:

- New strategies for the protection of water reserves which governments and local communities have found;
- Alternative ways of managing the water services found by local communities
- The impact the commercialization of water on legislations and on local policies;

- Efforts realized by local communities to organize and influence the political processes in order to maintain the water supplies managed by the public sector;
- Successful experience in partnerships between the various levels of government of a country in managing water services;
- Positive experiences of communities that managed to avoid or interrupt the process of privatization of water services;
- Results of the experiences of the privatization of water services
- How the negative experiences of privatization of the water in many different countries are been perceived by the WTO and the United Nations.

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GERENCIAMENTO DOS SERVIÇOS DE ÁGUA: A BATALHA ENTRE SETOR PÚBLICO E PRIVADO

RESUMO

O objetivo deste estudo é analisar a comercialização de água e os argumentos que se baseia. Mais especificamente, esta investigação procura responder às seguintes perguntas: há interesses econômicos por trás desse discurso? Como está o mercado de água que está sendo estruturado? O método de pesquisa utilizado foi baseado em documentos e bibliografias. Os principais resultados da pesquisa foram: 1) o processo de comercialização da água baseia-se nos seguintes princípios: a) o valor econômico da água, b) a eficácia do mecanismo de marketing para otimizar a distribuição e uso eficiente da água, c) a superioridade do investimento privado sobre o investimento público como motor do desenvolvimento econômico e social, d) a necessidade de liberalização dos mercados nacionais, e) a água como uma necessidade e não como um direito; 2) especialistas na área acreditam que fortes interesses existem por trás a comercialização desse ativo, especialmente por parte das empresas transnacionais e instituições financeiras internacionais; 3) os resultados dessas privatizações têm sido muito negativo para as sociedades onde eles ocorreram.

Palavras-chave: Comercialização da água; Poder das multinacionais.

GESTIÓN DE SERVICIOS DE AGUA: LA BATALLA ENTRE EL SECTOR PÚBLICO Y PRIVADO

RESUMEN

El objetivo de este estudio es analizar la comercialización del agua y de los argumentos que se basan. En concreto, esta investigación busca responder a las siguientes preguntas: ¿Hay intereses económicos detrás de este discurso? ¿Cómo está el mercado del agua está estructurado? El método de investigación utilizado se basó en documentos y bibliografías. Los principales resultados de la investigación fueron: 1) el proceso de mercantilización del agua se basa en los siguientes principios: a) el valor económico del agua, b) la eficacia del mecanismo de comercialización para la optimización de la distribución y el uso eficiente del agua, c) la superioridad de la inversión privada en la inversión pública como motor de desarrollo económico y social, d) la necesidad de que la liberalización de los mercados nacionales, e) agua como una necesidad y no como un derecho, 2) expertos en la materia creen que hay fuertes intereses detrás de la comercialización de este recurso, sobre todo por las empresas transnacionales y las instituciones financieras internacionales, 3) los resultados de la privatización han sido muy negativas para las sociedades en las que se produjeron.

Palabras clave: Comercialización del agua; Poder de las multinacionales.