

Media briefing – April 2015

Why are so many cities choosing to end privatisation and return to public water services?

In the run-up to the opening of the 2015 World Water Forum in South Korea, Transnational Institute, PSIRU, Multinational Observatory, MSP and EPSU have released new research on the emerging remunicipalisation trend and the questions it poses about the future of water privatisation. The launch of the book [*Our public water future: The global experience with remunicipalisation*](#) comes in the wake of Jakarta's decision in March 2015 to annul its privatised water contracts citing the violation of the 9.9 million residents' human right to water. This is the largest remunicipalisation in the world, suggesting that water privatisation is running out of steam and the pendulum is swinging back in favour of a reinvigorated, accountable and sustainable public control of water.

Key findings of the book

Water remunicipalisation refers to the return of previously privatised water supply and sanitation services to municipal authorities, and is also broadly used to refer to regional and national-level services in some cases.

Between March 2000 and March 2015, researchers have found:

- **235 cases** of water remunicipalisation in **37 countries**, affecting **over 100 million people**
- Number of cases **doubled** in the 2010-2015 period compared with 2000-2010
- Cases are **concentrated in high-income countries**, with 184 remunicipalisations compared to 51 in low- and middle-income countries
- The great majority have taken place in two countries: France (94 cases) and the US (58 cases)
- Public water operators are joining forces within and across countries to facilitate the remunicipalisation process

Why are cities remunicipalising?

Policy makers opting for remunicipalisation argue that the public sector can provide better services following common **problems of private water management**, such as:

- poor performance (e.g. Accra, Dar es Salaam, Jakarta)
- under-investment in infrastructure (e.g. Berlin, Buenos Aires, Latur)
- degrading water quality (e.g. Rennes, Cameron)
- disputes over operational costs and price increases (e.g. Almaty, Maputo, Santa Fe)
- soaring water bills (e.g. Buenos Aires, Jakarta, La Paz, Kuala Lumpur)
- environmental hazards (e.g. Hamilton)
- monitoring difficulties (e.g. Atlanta, Berlin, Paris, Arenys de Munt)
- lack of financial transparency (e.g. Grenoble, Paris, Stuttgart)
- workforce cuts and poor service levels (e.g. Antalya, Atlanta)

Globally, 92 of 235 recorded cases followed contractual termination (the remainder were non-renewals of private contracts, private operator withdrew or sold their shares, or the decision to remunicipalise has not been implemented yet). This means that in those cases, private contracts proved so unsustainable that local governments opted to remunicipalise despite litigation risks and expected compensation claims by private companies.

What have been the results of remunicipalisation?

While each case differs, there is strong evidence that remunicipalisation brings immediate cost savings, operational effectiveness, increased investment in water systems and higher levels of transparency. Moreover, remunicipalisation offers a chance to make public water services more accountable and participatory, and to build environmentally sustainable models.

- **immediate direct savings** for most of the municipalities – €35 million in the first year in Paris and US\$2 million annually for Houston (17% cost cutting).
- more **competitive outsourcing rates** by contracting local providers, in turn contributing to the regional economy; in comparison private companies tend to use their own subsidiary companies and overcharge for services – the private concessionaire was charging fees nearly four times higher to expand the municipal network in Arenys de Munt.
- **increased investments in water systems** – shown in Dar es Salaam, Berlin, Medina Sidonia.
- long-term vision for infrastructure development **reduces future cost burdens associated with health and environmental hazards** experienced under privatisation.
- social benefits accrue from restructured tariff systems to guarantee **equitable access** to water for low-income households – Arenys de Munt and Buenos Aires.
- greater **accountability and transparency** – in Paris and Grenoble, the new public water operators introduced advanced forms of public participation.
- Enhanced ability to engage in **coordination across sectors and jurisdictions** – often essential on issues such as watershed management (e.g. Paris) and climate change adaptation more generally.

What are the risks of remunicipalisation?

- **Litigation:** If the contract is terminated before expiry, private operators can obtain **compensation** for the full profits granted under the contract. When municipalities claim a breach of contractual obligations the private operators tend to contest in court – Castres was forced to pay €30 million to Suez to compensate for investments despite the fact that the contract had been illegally signed.

- **Investor-state investment disputes (ISDS):** Mechanisms that allow multinational; investors to sue states are included in numerous bilateral investment treaties and are likely to be extended in the proposed or agreed trade agreements such as TTIP, TPP, CETA and TiSA. Water multinationals have already used ISDS to claim significant amounts of public money in compensation for cancelled service management contracts despite their failure to meet their own contractual obligations – private concessionaires sued Tucuman and Buenos Aires, Argentina before an **international arbitration** tribunal to obtain compensation.
- If the remunicipalisation process takes place over a long period, private operators tend to let **assets degrade** such as happened in Buenos Aires.
- In many cases the private companies refuse to release critical **operational information** to the new public utility or local government – e.g. proprietary software used to manage billing, water meter data collection, and monitoring maintenance works in Paris.

Learning to move forward

Our public water future also explores the lessons and learning that have come from this wave of remunicipalisations, along with a practical checklist for cities considering bringing water under public control. The learning explored in the book shows that:

Assistance from and partnerships with other local authorities and public operators can generate economies of scale and such public-public partnerships (PuPs) can strengthen operators' capacity to solve problems. National and regional public water operators' associations (e.g. France Eau Publique, Aqua Publica Europea) are also starting to play active roles in sharing knowledge and providing peer-to-peer support to facilitate remunicipalisation. Remunicipalisation is an opportunity for trade unions not only to improve working conditions but also to push for greater worker participation in the governance of new public companies to rebuild public service values. Indicators that enable the articulation of public service values must go beyond current benchmarking systems that are driven by financial performance evaluation and account for the 'public' character of services.

From Jakarta to Paris, from Germany to the United States, this book draws lessons from this growing movement to reclaim water services. The authors show how remunicipalisation offers opportunities for developing socially desirable, environmentally sustainable and quality water services benefiting present and future generations. The book engages citizens, workers and policy makers in the experiences, lessons and good practices for returning water to the public sector.

Selected case studies

Note that a global list of remunicipalisations (as of March 2015) is available at:

<http://www.tni.org/briefing/our-public-water-future>

Paris, France: In 1984, two 25-year water supply lease contracts were awarded to Veolia and Suez (each company covering half of the city). In 2000, the contracts were criticised by the regional audit body for lack of financial transparency and in 2002 an audit commissioned by the city of Paris found that water

was 25% to 30% overpriced. Later reports revealed that the lease operators subcontracted works and maintenance to their own subsidiaries to realise additional profits. The city of Paris took back control of its water supply in January 2010 after the expiry of the two contracts.

- In the first year of operations, the new municipal operator Eau de Paris realised efficiency savings of €35 million
- Tariffs dropped by 8% and contributions to the city's housing solidarity fund jumped (from €175,000 to €500,000) in addition to the water solidarity allocations granted to 44,000 poor households
- A Water Observatory was set up to promote transparency and citizen engagement in Eau de Paris.
- France's Regional Court of Auditors published two reports in 2014 that demonstrate that the return to public management enabled Paris to lower the price of water while maintaining a high level of investment and implementing a water policy that address conservation, sustainability and democracy.

Berlin, Germany: In 1999, a secretive agreement sold 49.9% of the shares of Berlinwasser Holding AG (BWH) to a private consortium including RWE and Veolia, which could then control Berlin's water management through the appointment of the CEO and CFO. The contract fixed the return on equity for the private shareholders at 8%, guaranteed by the state of Berlin for 28 years. The contract was highly controversial as it led to severe under-investment compared to planned spending and to soaring prices, a situation that triggered a popular referendum in 2011 for disclosure of the terms of the contract. The contract was terminated when the state of Berlin bought back the shares owned by RWE in April 2012, and the shares owned by Veolia in September 2013. This process completed the remunicipalisation, costing taxpayers €1.3 billion in buyback, which will be paid for through higher water bills over the next 30 years.

Jakarta, Indonesia: In 1997, two 25-year water concessions were awarded to two consortia respectively led by subsidiaries of multinationals Suez and UK-based Thames Water. The two concessions have been highly controversial, due to lack of transparency in awarding the contracts and poor performance. PAM Jaya, the public water company, and the government have accumulated at least IDR 590 billion (US\$48.38 million) in debt due to advantageous payment mechanisms for the private companies set out in the agreement. Water tariffs for households went up tenfold in Jakarta, making it the highest water tariff in all of South-East Asia. The Coalition of Jakarta Residents Opposing Water Privatisation filed a citizen lawsuit in 2012 demanding that the Central Jakarta District Court pass an injunction requiring the government to terminate the concessions. On 24 March 2015, the court ruled in their favour. The remunicipalisation debate in Indonesia is likely to continue, however, as there remain 31 water Public-Private Partnerships (PPPs) in Indonesia.

Latur, India: India has become one of the main targets of water multinationals. There are 20 known PPPs to improve water supply and boost revenue collection in 13 cities, but they are encountering

significant problems and stiff public resistance. Latur was the first Indian city to return its water service to public hands, in 2012. In 2008, a 10-year management contract was awarded to the Delhi-based firm SPML. SPML took charge of operations, metering and billing, with no substantial contract provision for infrastructure investments and network extension, although this was obviously the key problem with the water services in the city. SPML received a fixed management fee, calculated on the basis of an internal rate of return of 19.6%. Water rates were increased and heavy meter and connection fees were introduced, without any improvement in the service, leading to widespread non-payment, protests and even riots. Late in 2011, SPML declared it would suspend its operations in Latur because of its inability to operate the service effectively. The public operator, MJP, took over on 1 January 2012.

Resources

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<http://psiru/sites/default/files/2014-11-W-HeretoStay.pdf>

Municipal Services Project, TNI and CEO. 2013. Remunicipalisation: Putting Water Back into Public Hands. Video (5 minutes; English, [Spanish](#), [French](#), Italian, Portuguese, German, Turkish, Greek).
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Media contacts

TNI: Satoko Kishimoto (satoko@tni.org; [+32474486268](tel:+32474486268))

PSIRU: Emanuele Lobina (E.Lobina@greenwich.ac.uk; [+44\(0\)2083318476](tel:+44(0)2083318476))

Multinationals Observatory: Olivier Petitjean (opetitjean@multinationales.org; [+33\(0\)608273989](tel:+33(0)608273989))

