



**Submission to
The Department of Prime Minister and Cabinet
Australian Government**

***A Discussion Paper on the Role of the Private Sector
in the Supply of Water and Wastewater Services.***

Submission by

John McDonald and Kate Brass
Centre for Health Research and Practice
School of Behavioural and Social Sciences and Humanities
University of Ballarat
PO Box 663
Ballarat, Victoria, Australia, 3353.

Email and telephone j.mcdonald@ballarat.edu.au (03) 5327 9818
k.brass@ballarat.edu.au (03) 5327 9197

Our response to the Discussion Paper is here submitted as an open comment. We have consciously and deliberately not responded to the 17 prescribed questions because they have been framed in such a way that induces pro-privatisation answers.

Here we put the case as to why water and wastewater services must not be permitted to fall into private hands.

Our critical response opens by challenging the presumption in the Discussion Paper that water should be treated as a commodity and subjected to the vagaries of market forces. Water is, in fact, a basic constituent of life. It is fundamental to good health for individuals, societies and the environment. Therefore, governments – not corporations – should be responsible for the supply of water and wastewater services.

Water – a fundamental constituent of life. Not a commodity.

Water makes up on average between 60 and 70% of the human body. This fact is one of the few things that is universally agreed on by the international scientific community. Water bathes every cell in the body and is a fundamental component of all body systems. It is continually processed in multiple ways within the body and needs continual replenishment as it is excreted as part of numerous waste removal processes including urination and sweating and breathing. Not all of us drink the eight glasses a day recommended by nutritionists; nevertheless, every liquid we drink and every food we eat; be it carbohydrate or protein, vegetable or meat, is also made up mostly of water. Water, then, is not just an important resource or a vital commodity: it is a fundamental constituent of living things including humans. Consequently, any changes to the ownership and regulation of any aspect of our water supply have the potential to impact enormously on our health and well being. In keeping with this reality we have structured this response around the key ways in which the privatisation of water has the potential to harm our health – both individually and collectively.

The discussion paper commodifies water. The opening sentence in the executive summary is “Water is a vital commodity.” Vital, yes. Commodity, no! Water is a natural resource which is essential to sustaining life. Governments have a responsibility to ensure that water is available to meet the needs of its citizens.

Underpinning each of the points made above is the way in which privatisation impacts on health and well being by entrenching the ‘commodification’ of water so that access to clean water is no longer a right and becomes subject to the terms of trade applied to other commodities. Central to this is the adoption of economic models that normalise the assumption that privatised utilities will not be required to provide an appropriate service to all users and that public ‘subsidising’ of low socio-economic groups is required if they are to have access to water (Willner 1996).

Public Private Partnerships as the preferred model for privatisation is one that requires careful and critical analysis (Hukka & Katko 2003). This is a seductive proposition because what looks like a push for ‘cooperative action’ but actually means that public funds will be sequestered to subsidise private companies.

Given that we have not as yet irrecoverably committed ourselves to the privatisation of water, we do have the opportunity to learn from the experiences of other countries and not just imitate them. Even if policy makers are not swayed by arguments couched in terms of social justice or access and equity concerns, they really need to take notice of the fact that internationally well-regarded commentators writing in journals such as the *Journal of Regulatory Economics* are beginning to question the appropriateness of privatisation of water in purely economic terms (Barlow 2001). Indeed, a critique of Australia’s privatisation program by Walker and Walker (2000) – both self-confessed economic rationalists – concluded that there was a serious lack of evidence and rigorous financial analysis applied in our recent history of the sale of public enterprises. Government trading enterprises have been grossly undervalued. Proposals for privatisation have been notable for a lack of critical analysis, a

surfeit of misinformation, and inept financial analysis – all of which have been used to justify the sell-off.

The broader ramifications of the privatisation of utilities including water must be acknowledged. International experience indicates privatisation not just affects the supply of the resource or commodity itself, it also damages communities and economies leading to job losses and take-overs, with subsequent insecurity of tenure and poorer conditions for workers (Atzmuller & Hermann 2005).

Neo-liberal, pre-emptive strike for privatisation

The Discussion Paper reflects the ideological, neo-liberalist zealotry of the Howard government in assuming the superiority of the market as an allocative mechanism for essential public goods. The Government's central position is that public control should be ceded to the private sector because of the economic benefits that will (purportedly) accrue, and because it will (supposedly) lead to the more efficient and productive use of water. The paper is unashamedly biased and pro-corporate business.

This is evident in the framing of the key questions. For example, question 3 is "To what extent should the private sector play a greater role in urban water and wastewater infrastructure and services?" The question should have been: "Should the private sector be granted a role in urban water and wastewater infrastructure and services? Why or why not?" Or even "What evidence is there about any deficiencies in the public provision/control of urban water and wastewater infrastructure and services? What should be done to remedy this lack of public investment?" Or maybe "What will be lost if the public provision/control of urban water and wastewater infrastructure and services is sold off to large corporations?" Other examples abound. The paper asks "What are the pros and cons of using outsourcing as a way of involving the private sector?" Instead, try "What are the pros and cons of involving the private sector?" Rather than asking about the "significant barriers to private sector involvement" and "what could be done to reduce them?" the alternative question concerns the "significant barriers to ongoing public sector provision." The paper concludes by outlining "two possible initiatives to help facilitate and manage private sector involvement" (p. v): the privatisation agenda is clear.

Further to this, the paper's flimsy analysis is based upon the idea that an efficient economy is not a means to an end, but an end in itself. Even putting aside the contested argument that the private sector is inherently more efficient, the paper renders people as little more than an aggregate of consumers solely intent on minimising personal costs and maximising individual gains. Society (and notions of public good) are subordinated to the economy (and the pursuit of private interest). The paper exposes the Howard government's belief that 'the economy' is the beneficiary of privatisation – rather than what is in the best interests of Australian society.

Given this, it is not surprising that the Productivity Commission, the Organisation for Economic Co-operation and Development, the International Monetary Fund (p. 5), and the World Bank (p. 19) are all cited in the paper as favouring the entry of the private sector. All of these organisations apply pressure on national governments to dismantle and sell off publicly-owned services.

Flawed arguments about the merits of privatising water

The paper fundamentally fails to come to grips with two important facts about the privatisation of water. First, the executive summary acknowledges the need to ensure environmental flows as one of the primary reasons for making more efficient use of water; "...we recognise that much of our water has been over exploited and that we need to allocate a greater share to the environment to ensure the health of our rivers and wetlands" (p. iv). There is a mistaken belief that the market will generate efficiencies. These are "efficient" only insofar as water is sold at its optimum market price. What are the allowances for environmental returns (which don't fit with a market model)? The paper fails to grasp the antipathy between the imperatives of

privatisation and environmental sustainability. How exactly will selling water and wastewater supply services to large corporations improve the environment? There is very little evidence that privatising water leads to sustainable practices and greater water flows to the environment. On the contrary, there is emerging evidence that the environmental flows are further reduced when water is exposed to market forces. Secondly, because corporations are motivated by profits, it is their interest to either increase the price of water or to increase the volume of water consumed. Neither of these is conducive to improving water management or ensuring that environmental flows are enhanced. There is no evidence that privatisation leads to 'better' use of water.

The price of water and access issues

Perhaps less immediately apparent is the fact that the privatisation of water can compromise our health by impacting on the price of water. Experience with the privatisation of water in other countries, such as the UK, reveals that one of the consequences of privatisation is that access to a ready supply of water by lower socio-economic groups is restricted due to more punitive responses to late payment of higher water bills, including shorter payment cycles for late payers and increasing use of disconnection. In England the British Medical Association, (hardly a radical institution) felt the need to intervene in debates about these issues and identified such disconnections as a health risk for people with gastro-intestinal disease.

Many people in Australia are on minimum wage levels of pay and are continually juggling the available money to pay for essentials including food, and basic gas water and electricity bills. At present it is possible to negotiate to pay a minimum amount from your utility bills each month to stay connected to essential services even if you cannot pay the full amount of the bill. Mirroring developments elsewhere, one of the consequences of privatisation of water is likely to be the removal of this financial management/ survival strategy by the introduction of 'pre payment'. For example, access to water for lower socio-economic groups in South Africa has been restricted by the introduction of water meters that must be 'pre paid' in order to access water (Centre for Civil Society 2004). When the ability of water companies in England to disconnect customers was curtailed, they introduced prepayment meters (which the customer had to pay for) which in effect are *disconnection* meters since you can't access water if you don't pay upfront and you have the additional cost of the meter itself. It took an expensive legal challenge from various municipalities in England before such practices were made illegal. It is worth noting in this context that publicly available documentation in the UK clearly shows that any expenditure on improvements deemed 'not necessary' by private water companies is consistently converted into increased shareholder dividends and not into measures to maintain or reduce the cost of water to customers (Lobina & Hall 2001).

In most countries, inability to pay for basic commodities like water has strong social stigma associated with it. This harms people's health and well being, and also makes it very difficult for them to openly seek help.

Research indicates that the privatisation of water contributes to increases in the number of people who do not have access to safe drinking water. Even the World Bank – which supports privatisation – estimates that by 2025 two thirds of world's population will not have access to safe drinking water. (Pool 2006)

The impact of international trade agreements requires very careful consideration in terms of transnationals in competition with local publicly funded water bodies. For example, licensing standards and quality protocols are seen as barriers to trade or acting as disincentives to investors. The danger is that 'harmonisation' of standards across various markets becomes an uncontested assumption leading almost inevitably to lowest common denominator standards. Since the privatisation of water in England, for example, there have been continuing calls for a decrease in regulation as a means of lowering barriers to new investment entering the industry (Sawkins 2001).

The broader costs of privatisation

The Discussion Paper draws upon highly selective information to claim a host of advantages flowing from privatisation in other sectors. Following privatisation of gas, electricity, transport and telecommunications in Australia since the early 1990s, the paper asserts that there have been falls in electricity bills, gas prices, rail freight rates, conveyancing fees etc. While it is true that there were some immediate cost reductions in some sectors for short periods, independent research (conveniently ignored in the paper) shows that there have been rising costs (partially offset by government subsidisation to the new corporate owners), cost transfers to poorer people, greater insecurity of supply of electricity, an increase in electricity disconnections, unemployment caused by retrenchments in the lead up to the privatisation, a loss of technical knowledge and experience from the industry, poorer quality assurance leading to serious pollution, many failures to deliver on the contract, and a gross undervaluing of government trading enterprises which have led to “fire sales” (see, for example, Collyer, McMaster & Wettenhall 2001; Consumer Law Centre Victoria and The Centre for the Study of Privatisation and Public Accountability, 2006; Romeril 1998). Privatisation imposes these burdens elsewhere. In England, for example, immediately following privatisation there was a fall of 21.5% in the number of people employed in water and sewerage companies between 1990 and 1999. This did not, however, translate in to lower prices; that time period in England brought an increase of 46% in the price of water in real terms adjusted for inflation (Lobina & Hall, 2001).

The bottom line is this: corporations are in it for the profit. If they don't make the profit, they walk away – even with penalty provisions. The government then has no alternative but to step in and guarantee security of supply. For instance, a recent study has shown that the privatisation of Melbourne's trams and trains has been an “expensive failure” with massive public subsidies propping up the privatised system (Mees, Moriarty, Stone & Buxton, 2006). Privatisation benefits corporations – not consumers. Corporations are involved only when and to the extent that they can “make a commercial return” (page v). This is a critical point: they have no interest in or commitment to the long-term sustainability and security of water supply.

The impact of privatisation on the quality of drinking water

The most obvious way in which the privatisation of water has the potential to injure our health is by influencing the incidence of any condition or disease related to:

- Chemical contamination of waters, by for example: metals, chlorinated solvents, pesticides and hormonally active chemicals, bi-products of disinfection;
- Contamination of water due to an increase in numbers of disease-causing organisms including bacteria, viruses and parasites (resulting from, for example, industrial waste or inadequate sewerage treatment);
- Inadequate levels of hydration/ chronic dehydration for extended periods due to lack of access to water;
- Contamination of people by:
 - Ingesting food or baby formula prepared using contaminated water;
 - Inhaling contaminant vapours from showering, bathing, cooking and washing;
 - Dermal absorption of contaminants.

Outbreaks of gastrointestinal illness, leukaemia from disinfection by-products, spontaneous abortion, cancer, and childhood liver cirrhosis are prominent among proven or suspected water-related diseases. The International Agency for Research on Cancer has identified at least 10 recognised carcinogens with varying levels of toxicity to humans in drinking water. There is the risk that commercially-oriented multinational corporations will at best adhere to existing legal limits rather than incurring the costs of minimising pollutants which may be damaging even at current legal levels (Fehr, Mekel, Lacombe & Wolf, 2003).

Decreases in the numbers of people having access to safe drinking water

Access is not only about the price of water. People (usually people who are very economically disadvantaged) in both developed and developing countries, expend inordinate time and energy each day carting water from distant sources. This is a huge burden on healthy people, but is impossible for the ill, elderly or disabled – all of whom are therefore dependent on others in the absence of appropriate infrastructure to supply water for basic needs. Our initial reaction may be that this could not possibly apply to us in Australia. But in the USA (not normally identified as a third world country, the aftermath of Hurricane Katrina notwithstanding), rural populations having this experience are surrounded by infrastructure that diverts clean water elsewhere. Given the comparatively large and inequitable burden of disease born by remote aboriginal communities already, it is not difficult to imagine the health of a small population spread over a large remote area not being the top priority of a commercially driven provider. This would of course also affect not only aboriginal communities but all residents of remote areas of Australia and not so remote rural areas and the enterprises that they run on which the future of small rural communities and towns depend.

Concentrating ownership of water in the hands of a small number of multinational corporations

Proponents of privatisation will of course say that safeguards will be put in place to ensure an adequate supply of clean water to everyone regardless of geographic location or socio-economic status. This may even be a genuinely held conviction but the reality of privatisation of water in other countries is that privatisation places the control of water supply in the hands of small number of powerful corporate owners whose principle responsibility is to their shareholders. Three hundred million people worldwide now receive water from a small number of corporations. For example, French companies Suez and Vivendi have more than 200 million customers in 150 countries.

The situation is made more complex by the fact that amalgamations and takeovers have led to the creation of multi-utility conglomerates and – ironically, since increased competition is a central plank of the arguments for privatisation – a subsequent loss of competition. The opposite also happens where the splintering of formally uniform systems leads to a patchwork of different providers (Guy, Graham & Marvin 1997).

Given that the first priority of private water providers is to their stakeholders, privatisation of water which is advocated for on the basis of efficiency can contribute to water shortages and wastage due to reduction in the provision and maintenance of basic infrastructure. A lack of maintenance leads to artificial shortages, such as Yorkshire drought in late 1980s. The response was to declare a drought, introduce rationing and increase prices, rather than focus one of the real causes of the water shortage, namely widespread leakage from poorly maintained pipes. Ironically this lack of maintenance is often invisible for the first few years as the apparent early success of privatisation relies on hidden government subsidies in the form of the healthy state of pre-existing publicly funded infrastructure, which is boosted by additional investment pre-privatisation to make the utility attractive to private capital providers in the first place (Baraque 2003).

In the current circumstances (depending on one's philosophical inclinations), one might think that everyone owns the water supply or that no one owns it. However, once the water is privatised, that is it sold to someone, it is by definition also bought by someone. So now someone definitely owns it. The combined impact of concentrating ownership of water in the hands of a small number of multinational corporations and entrenching the commoditisation of water raises an interesting and troubling question. At what point does the water become the property of the multinational corporation who has bought it? Is it when it is falling from the sky? When it hits the ground? When the water reaches the surface of the dam or the river or indeed the roof of the house? Is it when it reaches the reservoir or the water delivery infrastructure? If an international corporation owns the water wholly or even partially, can they charge farmers for filling dams or people outside the metropolitan areas or even within them

for filling water tanks? Corporations are legally mandated to place the interests of shareholders above all other considerations. Provided that they meet the minimum obligation to provide water of a certain quality to customers who can pay for it, what is to stop these corporations from diverting water from the previously publicly owned water supply, and bottling it to sell wherever they please. Australia is, after all, a tiny market in global terms!

Threatening the sustainability of water supplies at the broader environmental level

Placing the control of water supplies at one end of the water cycle and waste management at the other in the hands of a small number of private providers whose main loyalty is to their shareholders and who may or not be Australian based or owned has serious potential to threaten the sustainability of our water supply at the broader environmental level. Research in New Zealand relating to 'user pays' systems and complex problems relating to the ownership and maintenance of water supplies in the context of irrigation, land use and the quality of river water (Collins, Kearns & Le Heron, 2001) indicate that privatisation has ramifications that go way beyond the provision of water for everyday domestic and industrial use.

The absence of rigorous and transparent risk assessment processes

Linked to the issues raised above, research indicates that one of the ways in which privatisation can impact negatively on us individually and collectively is if it is implemented based on soft consultation processes that do not adequately canvass or interrogate the potential consequences. At the very least, any proposal to privatise our water supply needs to be critically analysed in the light of adequate research, policies and procedures relating to risk assessment including comprehensive health impact assessment. In some European countries comprehensive risk assessment relating to the privatisation of water and other utilities is regarded as a minimal requirement and sophisticated Health Impact Assessment Models have been developed (Fehr, Mekel, Lacombe & Wolf, 2003).

At the very least a comprehensive Health Impact Assessment with respect to the role of the private sector in the supply of water and wastewater services needs to be conducted before the government advocates any further for the privatisation of water. There is an increasing body of robust recent research, based on case studies from numerous countries, which questions all aspects of the rationale for privatising water (Balanya 2005, for example). Before we hand over control of water to multinational corporations who may or may not have any loyalty to or abiding interest in Australia, we need to be very sure that this is the wisest possible response to the need for greater investment in water-related infrastructure.

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