

Paris Reclaims Public Water

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In June 2009, the Paris City Council announced that the city's water system would revert to public control at the end of 2009, after a century of private control. Paris is one of more than 40 French municipalities and urban communities that reclaimed public control of their water systems over the last decade to reduce prices and improve services.¹

This historic return to public water management in Paris represents a dramatic renunciation of privatized water. For more than a decade, the World Bank has promoted the "French model" of water privatization — private management of public utilities through contractual relationships known as public-private partnerships — as a model for other countries to adopt.² As Paris rejects this model, municipal governments worldwide should take note that alleged cost savings and efficiency benefits of water privatization are largely a mirage.

The failures of private-sector involvement in the water sector are consistent and widespread. The private management of public utilities has been promoted as a way to bring efficiency to public services to save money for both taxpayers and water customers. Too often, however, consumers face steep water rate hikes, rapidly crumbling infrastructure, excessive leaks, water service disruptions and unaccountable management. The lessons Paris learned in the past few years have been played out in cities around the world.



The Paris City Council restored public management of the water system to stabilize prices for consumers, improve efficiency and provide accessible water services to all residents. By reclaiming public control over its water service, the city expects to save at least 42.32 million U.S. dollars (USD).³ The new public utility will retain some of the private companies' employees and establish a municipal laboratory for monitoring water quality.⁴

France's two private water giants — Veolia and Suez — have touted their operations in France to encourage cities worldwide to privatize their public water works. In the United States, these French companies have delivered a host of problems to communities. From maintenance problems in Atlanta to sewage spills in Milwaukee to complaints of overbilling in Indianapolis, water privatization in the United States has been marred by underachievement and failure.⁵ Increasingly, French cities are breaking their ties with private water companies by either refusing to renew their contracts with for-profit operators or terminating contracts before they have expired. In 2003, the small city of Castres cancelled its contract with Suez after the company issued water bills that a French tribunal found were illegally high.⁶



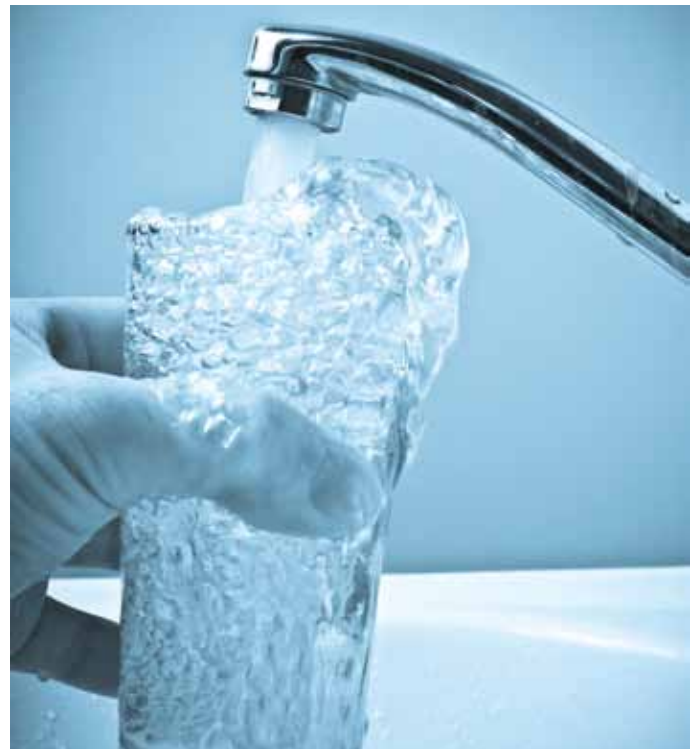
Water Monopolies Dominate French Tap Water

The three largest French water companies (known as the “three sisters” — Veolia, Ondeo-Suez and Saur) expanded their market dominance during the 20th century by acquiring smaller rivals.¹⁷ Both Suez and Veolia (formerly Vivendi) have come under scrutiny with accusations that include bribery of public officials, illegal political contributions, kickbacks, price fixing, operating cartels and fraudulent accounting.^{18,19}

The three sisters have tremendous influence over French, European and, to a certain extent, international water policy. As part of a general movement toward commodifying vital resources, private water companies have made successful inroads in influencing global water policies. According to a collaborative report released by Waterjustice.org, Corporate Europe Observatory and Public Services International, water multinational corporations (MNCs) and various international bodies (World Bank, Water Supply and Sanitation Collaborative Council; United Nations Development Programme; United Nations Educational, Scientific and Cultural Organization) have worked towards “develop[ing] a common strategic vision on integrated water resources management, a governance approach that is a trademark of the ‘French Water School’ and French water multinationals Veolia and Suez.”²⁰ The report also mentioned that, “International Financial Institutions (IFIs) within the World Water Council’s membership such as the World Bank and its agencies IFC [International Finance Corporation] and PPIAF [Public-Private Infrastructure Advisory Facility] have also been very supportive of this approach for the past 25 years, strongly pushing for private sector involvement in water services.”²¹

Private operators began managing French water systems in the 1800s.⁷ Especially during the past 20 years, French municipalities have increasingly turned to giant companies to run their water utilities. Paris first contracted with a forerunner of French water giant Veolia in 1860.⁸ Paris fully privatized its water production, transportation and storage through a concession to a semi-public company in 1985 (the city held over 70 percent of the public-private company).⁹ The water distribution contracts have been controlled by Compagnie des Eaux de Paris (a Veolia subsidiary) for the right bank of the Seine and by Lyonnaise des Eaux (a Suez-Lyonnaise des Eaux subsidiary) for the left bank.¹⁰

The privatized water system reaped considerable profits and charged consumers hefty rates for water. A 2003 audit found the private companies operating throughout France, including Paris, overstated company costs and in turn were able to underreport their profit margins.¹¹ For example, the regional board found that La Compagnie des Eaux de Paris (Veolia-Paris) estimated a 5.1 percent margin while the board estimated a 12.3 percent margin, “which is almost three times the margin submitted.”¹² Additionally, the audit found that these companies would, in some cases, include stipulations within their contracts that allowed them to increase prices even as consumption decreased or stagnated in order to maintain profit margins.¹³ In 2008, the mayor of Paris rejected the 2009 renewal of the city’s private water contracts after more than two decades of corporate management.¹⁴ Mayor Delanoë announced that the water system would be returned to a municipal corporation to manage the entire city’s water network and ensure water quality.¹⁵ The creation of a single publicly controlled operation fulfilled a promise that the mayor made during his successful 2008 reelection campaign.¹⁶





Corruption allegations and scandals have dogged some French water privatization efforts.²² For example, in 1995, the former Mayor of Grenoble was sentenced to three years in prison for “having received 20 millions francs (6.02 million USD adjusted for inflation) worth of ‘gifts,’ ‘presents,’ and ‘benefits’ in exchange for granting his city’s water and sanitation concessions to Lyonnaise des Eaux and SDEI of the Merlin group.”²³ In 1990, the city of Toulouse received a 437 million franc (153.26 million USD adjusted for inflation) concession from Veolia (then Vivendi) for the city’s water contract, but the city paid Veolia 1.47 billion francs (515.45 million USD adjusted for inflation) to manage the water system and citizens of Toulouse paid another billion francs in water fees.²⁴

Price Hikes, Low Quality Services End Corporate Water Works

Until the 1980s, cities in France largely ignored their water systems, since most of them were managed and operated by private corporations. During the 1990s, however, prices began to skyrocket and mayors throughout France began to reconsider the costs of private water management. According to a 1999 OECD-based study, French consumers pay some of the highest water rates in the European Union.²⁵ Furthermore, a study from the University of Paris highlighted that, “consumers pay more when municipalities choose [Public-Private Partnerships].”²⁶

Numerous studies have concluded that private water is more costly than public water. In 2001, Institut français de l’environnement (French Institute for the Environment)

found that water prices are “higher when management is private than when it is public.”²⁷ The study reported that private water contracts cost 27 percent more for drinking water and 20 percent more for sewer systems, and that totally public systems (water and sewer) were 44 percent cheaper than totally private systems.²⁸ A 2006 study of 5,000 French water systems found that privatized water utilities charged significantly higher prices than publicly operated ones. The authors of the study concluded, “Our results are consistent with a theory in which high transaction costs make the use of PPPs [public-private partnerships] inefficient.”²⁹

Any efficiencies of scale, management and capital allocation that may exist in the private sector are clearly not passed on to consumers. As was noted by the French General Assembly’s report on the financing and management of water, “It remains equally surprising that groups as large as those that dominate the French water and sanitation market do not pass on to users the benefits of economies of scale made possible by their considerable number of contracts.”³⁰

Conclusion

Paris was long held as the water privatization poster child and is home to the world’s two largest water corporations, Veolia Environnement and Suez Environnement. Now the city is at the forefront of a movement to regain control over water resources. In a big blow to multinationals attempting to extract profit from the most essential resource for life, the remunicipalization of Parisian water has become emblematic of the rejection of corporate-controlled water around the world.

Endnotes

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