

# Veolia Environnement: A Corporate Profile

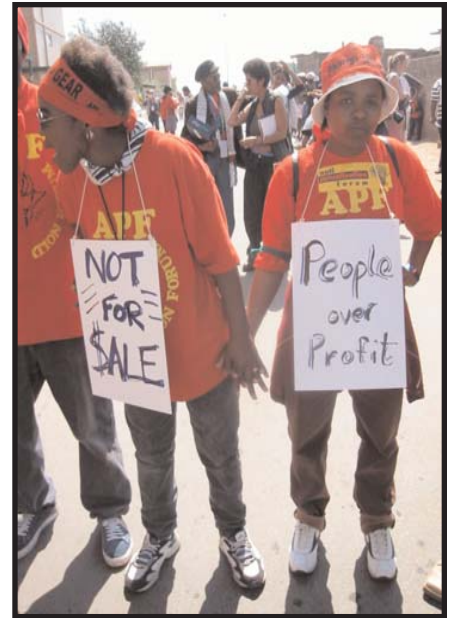
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## A Corporate Profile

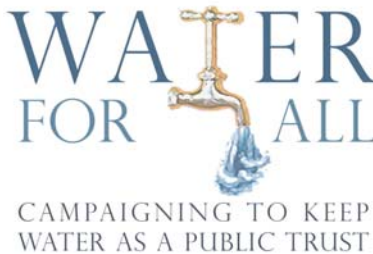
A special report by Public Citizen's  
Water for All program.

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Photographs by Maj Fiil-Flynn



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Public Citizen, founded in 1971, is a non-profit research, lobbying and litigation organization based in Washington, D.C. Public Citizen advocates for consumer protection and for government and corporate accountability, and is supported by over 150,000 members throughout the United States.

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**VEOLIA FACTS: WHO, WHAT, WHERE, & WHEN\***

**The Name Game - Veolia Environnement goes by many names**

General-Des-Eaux, Onyx Environmental, Dalkia, Veolia Water North America, Folkstone and Dover Water Services, Tendring Hundred Water Services, Connex

The company was formerly known as Vivendi Environnement, reflecting its erstwhile corporate parent, Vivendi Universal. Facing massive debt and junk bond status, Vivendi Universal recently sold many assets, including its movie studio, TV, and theme park holdings, to NBC, creating NBC Universal, in which Vivendi retains a 20% stake. In 2002 Vivendi spun off its utilities unit, Vivendi Environnement. To signify this break, in 2003, Vivendi Environnement changed its name to Veolia Environnement. Vivendi Universal still owns about 5% of Veolia Environnement.

In 2004, Veolia Environnement sold portions of its USFilter unit, renaming the remaining water operations arm Veolia Water North America.

**The Money**

Veolia Environnement is number 463 on the Fortune 500  
 Net income: US\$2.58 Billion  
 Net Revenue: US\$35.96 Billion. Water services make up 40% of sales.

**The Empire**

Veolia Environnement is the world's largest water company. Its water and wastewater unit serves over 110 million customers in 84 countries.

**Seat of Power**

Veolia Environnement's headquarters are located in Paris, France.

**Veolia Environnement**

Chairman and CEO: Henri Proglio  
 Also board member of Thales Group, an electronics company serving aerospace, defense and information technology markets. Member of the powerful lobby group, the European Services Forum

\*Sources: Hoover's Company Information, updated June 2004; 2001 Annual Company Report; [www.ketupa.net/vivendi.htm](http://www.ketupa.net/vivendi.htm)

# Veolia Environnement: A Corporate Profile



Until 2003 Veolia Environnement was known as Vivendi Environnement, a reflection of the company's one-time status as a subsidiary of the multinational conglomerate Vivendi Universal. In recent years, the corporate labyrinth has twisted, turned and unraveled, and Vivendi's erstwhile majority interest in the world's biggest water

company has dwindled to a little more than 5 percent. Veolia Environnement, too, has made changes, most notably selling off an equipment sales and service division, a pair of retail-level water service companies and even some water rights in California.

Amid so much change, one thing has remained the same: the company's nightmarish vision of a future where the entire planet's increasingly scarce supply of water fit for human consumption is controlled as a commodity to be bought, sold, traded, marketed, managed and priced for the highest possible corporate profit.

Veolia's vision is shared by the rest of the increasingly consolidated private water industry, the international financial organizations which are heavily influenced by the financially powerful water conglomerates, and scattered public officials at all levels of governments who have either been misled into thinking that privatized water is economical or who are driven by ideology and blind faith in private-sector superiority.

Veolia's vision is not shared by citizens of the world whose common sense and common sense of justice tells them that clean, safe water is a human right that should be available to all, not just those who can afford to pay. And throughout much—too much—of the world, citizens have seen first-hand the price-gouging, corruption and profiteering that Veolia, formerly Vivendi, carries in its wake.

As Veolia attempts to expand its control of the world's water resources on every continent, in nations rich and poor, citizens, communities and countries need to understand Veolia's purpose, practices and track record. This report attempts to contribute to that understanding.

## ***Backstory—A Conglomerate Unravels***

Early this century, the once-massive Vivendi Universal empire, of which Vivendi (now Veolia) Environnement was a part, was a maelstrom of corporate corruption and chaos, bribery convictions, raids on corporate offices by evidence-seeking securities investigators, class action suits filed by shareholders on both sides of the Atlantic, collapses in both its stock price and its credit rating, massive debt necessitating a fire-sale of assets, a discredited and ultimately ousted corporate chieftain, dizzying financial uncertainty, and an identity crisis.

At one time Vivendi Universal ranked among the 60 largest corporations in the world by the Fortune 500. Like many large transnationals, Vivendi Universal went on an end-of-the-century buying and merger spree followed by some serious legal, financial and debt problems. Following its buying spree, Vivendi Universal announced a €12.3 billion net loss for the first half of 2002 and began trying to sell parts of its extensive holdings to pay off the debt. As profitability fell and Vivendi's credit rating was reduced to 'junk' status<sup>1</sup>, the company's board forced the resignation of former CEO, Jean-Marie Messier. Messier was subsequently charged with fraud by the SEC, fined US\$1 million and denied a US\$25 million severance package. He was later fined €1 million by France's market regulators for inaccurate financial reporting.<sup>2</sup> In December 2003, the U.S. Securities Exchange Commission settled a civil fraud action against Vivendi Universal which showed a course of conduct by Vivendi that "*disguised Vivendi's cash flow and liquidity problems, improperly adjusted accounting reserves to meet earnings before interest, taxes, depreciation and amortization targets, and failed to disclose material financial commitments, all in violation of the anti-fraud provision of the federal securities laws.*"<sup>3</sup> Vivendi shareholders subsequently filed a lawsuit against the former managers, demanding that they pay US\$54 million towards the US civil fine and legal costs.<sup>4</sup>

As it happens, Vivendi's buying spree was funded by unsuspecting French water consumers. Vivendi started out as a water company. It was founded in 1853 as Compagnie Generale des Eaux and began to supply water to Paris, Lyons, Venice and Constantinople. Over the past century and a half Generale des Eaux /Vivendi gained water concessions all over France. As part of their contracts, Vivendi set aside a portion of revenues to be saved for maintenance and repair of the water system. A recent book by former Vivendi employee, Jean-Luc Touly, and investigative journalist, Roger Lenglet, reveals that by 1996 Vivendi's "capital improvement" account added up to 27 billion Francs which were invested in a reinsurance company, General Re Financial Products. Lenglet and Touly claim that these funds were then used to finance Vivendi's ill-fated end of the century buying spree.<sup>5</sup> The French consumers' 27 billion Francs, enough money to replace the entire water network of France, have gone down the drain, leaving Vivendi with a multi-billion dollar debt and the citizens of France with aging pipes in desperate need of rehabilitation.<sup>6</sup>

It would be difficult to underestimate the massive global holdings of Vivendi, but a few highlights from the acquisitions spree include Universal Studio, Multimedia Entertainment, HBO Asia, MCA Records, Cineplex Odeon, Houghton Mifflin, and Seagram. By the late 1990s Vivendi Universal was operating in over 90 countries with a workforce of 235,000 people.<sup>7</sup>

### ***Veolia Environnement is born***

In December 2002, Vivendi Universal's financial crisis forced it to sell half of their majority stake in the water subsidiary, Vivendi Environnement, reducing the parent company's shares to 20.4%.<sup>8</sup> This was an attempt to renew investor and shareholder confidence in Vivendi Universal's plan to focus on communications and media. Vivendi Environnement, the water and environmental services subsidiary, was later renamed Veolia Environnement to reflect its greater independence. As one Vivendi executive put it, "Anything's better than Vivendi."<sup>9</sup>

In December 2004, Vivendi Universal announced that it was disposing of another 15 percent of Veolia, leaving the erstwhile corporate parent with a 5.3 percent stake in the water company.<sup>10</sup>

Veolia Environnement has made it clear that it is now concentrating on debt reduction and long-term service and management contracts with clear cash flows and little in the way of capital commitment. These are contracts where the company can lease assets and collect revenue without being required to make any major capital investments in maintaining, expanding or rehabilitating the water system infrastructure.

In other words, the public must pay for pipes, treatment plants and other infrastructure, and the company gets to make the money. The French term for the model is *affermage*, but several English phrases serve more than adequately to describe the arrangement; for instance, "corporate welfare," "subsidy" or "consumer rip-off."

Corporate strategies to ensure profits and shareholder returns aside, the water systems in many communities around the world are in desperate need of investment (especially in the global south) to rehabilitate and to expand. The "promotional" appeal of public/private partnerships or privatization from governments and institutions such as the World Bank has always been based on the mythology that private companies can bring capital investment. Citizens around the world are waking up to the real deal. The reality is that public funds are used to maintain and build water systems and increasingly private companies want to reap the profits.

With the *affermage* model in hand, Veolia executives have traipsed the globe seeking deals in an attempt to gain control of and profit from water services. The planetary sales pitch has gone well for the company. As of 2003, Veolia Environnement operated in 84 countries with roughly 300,000 employees worldwide.<sup>11</sup> and revenues of US\$37.58 billion- more than half from outside France, primarily in Asia, Australia, North America and elsewhere in Europe. Net income in 2003 was US\$2.3 billion.<sup>12</sup>

### ***Anti-competitive behavior***

In the world of abstract economic theory water service delivery is viewed as a *natural monopoly* because average cost becomes lower as output increases. The relatively large initial investment in infrastructure adds significant barriers to competition. (For example, it would make little sense for a "competitor" to construct a second system of

pipes arguing that it could deliver water services more cheaply than the existing service.) The *natural monopoly* characteristics of water lead many, including Public Citizen, to conclude that water should remain in public hands rather than being owned by a private profit-making business. Institutions like the World Bank, while recognizing that water is a *natural monopoly* and thus very little competition is possible, continue to consider privatization or “*private sector participation*” the preferred approach. The *natural monopoly* characteristics of the water business have helped Vivendi/Veolia build an empire. Currently about 70 percent of the international privatized water business is dominated by just two companies, Veolia and Suez.<sup>13</sup> Occasionally some government regulators find problems with this situation. For example, in July 2002 the French competition council (“*Conseil de la concurrence*”) ruled that the two giants had been abusing their market dominance in France, where they control 85% of the private water. With that kind of market control, the two companies find that collaboration can really pay off. They have created joint subsidiary companies in a number of cities and regions, so that they are sharing their profits instead of competing against each other. The report listed 12 such joint ventures in France, including cities such as Marseilles and Lille. The council also said that since June 1997 the bidding process in more than 40 cases had been made uncompetitive by the collaborative behavior of Vivendi and Suez, and occasionally a third company SAUR.<sup>14</sup>

### **An insiders club**

Mergers and buy-outs during the last couple of decades have made the global water industry a wealthier, but even smaller and more concentrated club. Veolia and Suez are the two biggest giants with RWE/Thames, SAUR and Anglian forming a second tier. Often these second tier companies will have to form a partnership with the two giants, Veolia and Suez, in order to establish themselves in the market. For example, Veolia (then Vivendi) formed a partnership with RWE/Thames on three of their recent major water operations – Berliner Wasserbetriebe, Budapest Sewerage (FCSM), and United Water in Adelaide, Australia, and its offshoots in New Zealand (Papakura) and Indonesia (Sidoarjo). Veolia has a partnership with SAUR in both the UK and the Czech Republic. Anglian is a partner of both Suez and Veolia in Aguas Argentinas, and separately of Veolia and Suez in the Czech Republic.<sup>15</sup>

### **Corruption**

It is well known that the company will use bribery to obtain water contracts. Indeed, corruption appears to part of their corporate culture. In mid-1996, five out of 13 directors on the main board of Vivendi/Generale des Eaux were under investigation for corruption (mostly in connection with their jobs with other companies).<sup>16</sup> However, it is often very difficult to obtain sufficient evidence and to find court systems willing to cooperate in prosecutions.

Some of the most significant recent convictions for bribery involving officials of Vivendi and their many subsidiaries and affiliates are listed below. All of the convictions were obtained in the U.S. and Europe. This probably reflects the greater difficulties that face judicial and regulatory institutions in the global south when trying to regulate the behavior of transnational corporations in the context of very imbalanced global power relationships. It is likely that Veolia employs these corrupt practices even more commonly in the developing world, given the weaker rule of law and judicial institutions.

**Strasbourg, France, 1991:** Andre Fougerousse resigned as mayor of Ostwald and municipal councilor of Strasbourg after allegedly receiving paybacks from Vivendi, Saur and Suez. Mr. Fougerousse claimed the payments were ‘normal’ and that other officials received similar cutbacks.<sup>17</sup>

**St. Denis, Isle de La Reunion, France, 1996:** Two senior Vivendi/General des Eaux executives were convicted of bribing the mayor of St. Denis in order to obtain a water contract<sup>18</sup> after admitting in court in October 1996 that Vivendi had funded elected officials in order to obtain a water concession.<sup>19</sup>

In 1996 Jean-Dominique Deschamps was fined US\$27,000 in addition to an 18-month prison sentence after courts found him guilty of bribing officials in as many as 70 cities throughout France. Mr Deschamps was then Vivendi’s deputy director general and sought to secure water contracts for the Vivendi conglomerate.<sup>20</sup>

**Angouleme, France, 1996:** The former mayor of Angouleme, Jean-Michel Boucherone, admitted to accepting US\$55,000 from Vivendi affiliate Generale des Eaux in exchange for awarding a contract to the company. He

was sentenced to two years in prison (plus two suspended years)<sup>21</sup> and fined US\$172,000.<sup>22</sup>

**New Orleans, Louisiana, USA, 2001:** Professional Services Group (PSG), purchased by Vivendi subsidiary USFilter in the mid-1990s, signed the contract to operate New Orleans sewer service in 1992. A PSG executive and a member of the New Orleans Sewerage and Water Board were convicted in connection with bribery charges as PSG was seeking an extension to that contract.<sup>23</sup> Aqua Alliance, PSG's parent company, pleaded guilty to the charge of bribery and was levied a US\$3 million fine.<sup>24</sup>

**Milan, Italy, 2001:** Alain Maetz, a senior manager in Vivendi's water division was convicted for bribery and received a prison sentence of one year and ten months with a conditional discharge.<sup>25</sup> Judges said Mr. Maetz had paid a bribe to the president of the Milan city council during the bidding procedure for the contract for a wastewater treatment plant in the south of Milan.<sup>26</sup> Massimo De Carolis, the then former city council president received an almost three year sentence for receiving the US\$2 million bribe. The contract was worth US\$100 million.<sup>27</sup>

**Bridgeport, Connecticut, USA, 2002:** Between 1996 and 1999, PSG gave US\$700,000 to two close associates of Joseph P. Ganim, the mayor of Bridgeport, in order to obtain a contract to operate the city's wastewater treatment plant. Ganim was subsequently convicted in U.S. District Court on 16 counts, including extortion and bribery in connection with taking kickbacks for steering the city contract to PSG. The associates and eight other defendants also pleaded guilty to charges in connection with the case.<sup>28</sup>

Unethical and socially irresponsible behavior by multinational corporations is a major problem in contemporary society. The problem is much deeper than the legal definitions of what is considered bribery or criminal behavior by a corporation. The legal definitions change over time and from country to country. For example, in the U.S., political contributions by corporations are used as financial inducements to encourage actions by politicians in the interests of these corporations. Within guidelines, this behavior is called lobbying (really not so different from bribery) and is considered legal. Aside from the actual

content of the law, the economic power and influence of large transnational corporations within the politics of a country can distort outcomes. For example, in both Lesotho and Pakistan individuals have been convicted of receiving bribes from water companies, but the companies themselves have not been convicted of paying those bribes.<sup>29</sup> In most countries, the legal, political and social structures tend to privilege actions of large transnational corporations over other social actors such as unorganized consumers and especially poor and low-income citizens.

## Lobbying

Veolia is a member of several corporate lobbying groups, including the European Services Forum (ESF) and USCSI (the U.S. Coalition of Service Industries). The ESF describes itself as "*committed to promoting actively the interests of European services and the liberalization of services markets throughout the world in connection with the GATS 2000 negotiations.*"<sup>30</sup> In fact, at the WTO meeting in Seattle in 1999, the European Services Forum was an official member of the EU delegation. The influence of Veolia and other European water multinationals in global trade negotiations is evidenced by the EU request for 72 countries to commit their water sectors under the General Agreement on Trade in Services (GATS) negotiations. USCSI is another major service industry lobby group that claims a significant role in setting a liberalization and deregulation agenda for negotiations on the WTO General Agreement on Trade in Services (GATS). Inclusion of water in the GATS agreement will give Veolia and other multinational companies greater access to national water resources and will create the legal and institutional framework to promote even more extensive water privatization.<sup>31</sup>

## A shoddy environmental record

Veolia has a fairly extensive history of questionable environmental practices. A few of the most disastrous situations documented in the U.S. and Britain are listed below. Again, the fact that fines were levied and the events widely documented has more to do with the legal and regulatory environment in these countries than with the particularity of the cases themselves. There are many more cases around the world that remain undocumented and where regulatory actions are never taken.

Several cases of environmental degradation and violations of environmental regulations were compiled in the Friends of the Earth 2001 report, "Dirty Water."

Vivendi's subsidiary Tyseley Waste Disposal Ltd. was listed by the UK's Environment Agency as the second worst polluter in 1998. The Environment Agency director of operations, Archie Robertson said, "The companies included in our Hall of Shame have let down the public, the environment and their own industry."

Another of Vivendi's subsidiaries, waste management company Leigh Environmental (now called SARP UK) received the fifth highest fine of £87,500 (US\$136,980) with seven prosecutions for pollution in 2000. In 1999, Leigh Environmental was also in the UK's Environment Agency's worst ten polluters' list, with fines of £18,000 (US\$28,180) and three prosecutions.

In May 1998, a cloud of nitric-dioxide gas leaked from SARP UK's Killamarsh chemical wastage plant in north Derbyshire. Residents in three separate counties were affected and more than 20,000 people were forced indoors as the 300-foot plume of thick orange gas spread over the area. The Health and Safety Executive and the Environment Agency investigated the incident and SARP UK was prosecuted and fined a total of £270,000 (US\$422,700).<sup>32</sup>

In the U.S., perhaps the company's most notorious environmental degradation took place on July 26, 2001. An electrical fire interrupted the operations of New Orleans' East Bank Sewage Treatment Plant, which serves 440,000 people and is operated by Vivendi subsidiary, USFilter (since renamed Veolia Environnement North America).<sup>33</sup> Raw sewage backed up, covered surrounding property and made its way through some of the plant's offices. The plant's operators diverted the untreated raw sewage into the Mississippi River for two hours before the plant returned to operation.<sup>34</sup> City Councilmember Jim Singleton said Sewerage and Water Board officials told him that USFilter was aware of the equipment problems for several weeks and knew they could cause serious damage, but took no action. The fire came only a few months after two broken incinerators caused excess, untreated sewage sludge to be removed from the facility in trucks. Residents of the Arabi Park and Carolyn Park neighborhoods of St. Bernard Parish were exposed to the stench for more than two months.<sup>35</sup>

## Veolia in the U.S.

*"Beginning with Vivendi's purchase of USFilter in 1999, an acquisition hysteria developed, with the European firms battling each other to acquire water utilities, equipment manufacturers, chemical supplies and other players in the business. Prices were driven sky high, with several of the larger U.S. private utilities selling out at valuations in excess of five times annual revenues, or as high as 15 to 20 times annual EBITDA (operating cash flow). This frenzy to establish a position in the U.S. water market lasted the best part of five years and changed the competitive structure and face of the industry."*

- Global Water Intelligence, June 2004

One of the acquisitions of Vivendi during its buying spree was the private U.S. water company USFilter, purchased in 1999 for US\$6 billion. As part of its on-going debt reduction strategy, in September 2003 Veolia decided to sell the supply and services businesses of its USFilter subsidiary. The "vertical integration" strategy of water monopolies may be coming under question. The pieces of USFilter that Veolia decided to sell included consumer water services such as Culligan and Everpure which represented around 80% of USFilter's US\$4 billion annual sales. Veolia Environnement posted a \$2.4 billion loss for the first half of 2003 and appears to regret ever having purchased USFilter and will continue to try to "slim down," and sell its non-core assets to bring its debt load under control.<sup>36</sup>

Despite its financial troubles Veolia is still seeking to expand its markets in the U.S. which is seen as a stable and established market—although problematic because of its relatively stronger regulatory institutions when compared with other favorable markets in China or Eastern Europe. Veolia Water North America is hoping to concentrate on its middleman, or, *affermage* business model. Over the last several months it has sold its Culligan and Everpure water divisions, as well as the equipment and industrial division of USFilter, all in an effort to focus on the "core business of long-term service contracts" with municipalities.<sup>37</sup>

It's a market that Veolia already dominates in the U.S., reporting government operating contracts with 42 wastewater facilities and 26 water facilities, accounting for US\$380 million in revenues in 2003. (Its closest competi-



tor in the U.S., the Suez-owned United Water, reported US\$188 million).<sup>38</sup>

So when trade publications write lines like this...

*“US private firms prepared to abandon weak deals: Contract operators who had once competed fiercely for big city water and wastewater projects in North America may be throwing in the towel”*

—Global Water Intelligence, August, 2003

...they’re talking about Veolia Water North America. As it happens, just months later the analysis proved even more cogent, when Veolia’s plans to land what would have been the biggest water privatization deal in the country went, well, splat. The water industry’s aforementioned thrown towel can be found in New Orleans.

### **New Orleans**

New Orleans ended its long nightmarish flirtation with privatizing a combined water/wastewater operation in April 2004. The ill-fated consideration ran up a price tag of roughly US\$5 million over more than five years and a pair of mayors. And what has New Orleans to show for all that time and money?

Like that of its competitors, the bid proposal submitted by Veolia Water—the biggest, and presumably most experienced, water/wastewater system operation and management contractor in the country—was so laden with uncertainties, inadequacies, omissions and other problems that New Orleans officials could not credibly assess the much promised savings.<sup>39</sup>

Paralysis in the publicly operated water system, where uncertainty about future management stalled decision-making, stymied implementation of cost-saving innovations identified by public system managers and employees, and hammered public employee morale.<sup>40</sup>

Complacency and lack of commitment on the part of Veolia, which had picked up the contract to operate the wastewater system through purchase of an incumbent operator in the 1990s—even as the company was trying to convince New Orleans to grant it a water services contract. In 2002, the Black & Veatch consulting and engineering firm was asked to conduct an independent audit of waste-

water system operations. In the course of cataloguing numerous environmental violations (29 discharge violations in 2001 alone), mechanical failures, clogged pipes and other problems, the audit noted the uncertainty and indecision of future system management while privatization was being considered. *“Observation of these plants’ activities, as well as the serious problems reported above, indicate a reduced concern for operations and maintenance by the contractor,”* Black and Veatch concluded.<sup>41</sup>

The New Orleans Sewerage and Water Board rejected privatization bids in October, 2002, after hearing from a coalition of over 90 faith, labor, community and environmental groups dedicated to protecting the public interest. Yet the mayor was determined to start the process anew. Subsequently, the Louisiana Legislature became concerned that some New Orleans officials were planning to circumvent a requirement earlier approved by referendum mandating that any privatization contract would, in turn, have to be approved by voters. To be on the safe side, the legislature reaffirmed the requirement.<sup>42</sup>

That knocked out Veolia’s biggest competitor, United Water, which put industry fear of public scrutiny on public display; citing the voter approval requirement, the company pulled out of the renewed privatization process.<sup>43</sup> United Water’s decision left Veolia the only private company standing in New Orleans, a development commented on by a former Veolia executive in a June 27 corporate memo vowing to stay the course despite *“the peculiar government barriers—such as a public referendum,”* i.e., democracy. (The memo, from the then-CEO of then-USFilter, Andy Seidel, provides a revealing glimpse of corporate attitudes that serves to reinforce stereotypes of corporate attitudes. Seidel took the opportunity to boorishly make light of the media covering the death of the homeless, and wished that the *“crappy little newspapers”* reporting on Veolia’s activities would be purchased by the Fox News Network.)<sup>44</sup>

Even before the New Orleans water privatization scheme was officially sunk, water corporation observers were ringing the death knell of so-called *“showcase”* long-term contracts in major metro areas—not so long ago the main strategy of the corporate water titans.<sup>45</sup> The New Orleans plan, once hailed by corporate officials as yet another example of privatization’s big trend in big cities, wound up as the dying gasp of a failed business model.

For Veolia, all that's left of the big-city strategy is a contract in Indianapolis.

### **Indianapolis**

Veolia typically points to Indianapolis as a privatization success story. Communities, and the public employees that communities trust to deliver safe and clean water, don't need a success like Indianapolis.

Since Veolia landed the contract in 2002, non-union employees have seen their benefits slashed, and the company made an aggressive move to reduce personnel costs—and personnel—through buying out veteran employees.<sup>46</sup> Lawsuits have been filed complaining not only about the treatment of workers but also about the legality of the contract itself, and a coalition of Indianapolis citizens is aiming to nullify the contract and bring the system under public management.<sup>47</sup> The National Labor Relations Board has issued 16 complaints against the company, and workers this spring were on the verge of a strike. That was averted when the employees essentially agreed to a two-tier benefits plan under which existing employees would get a pension plan, and new employees wouldn't. Veolia has also been rapped by officials for allowing hydrants to freeze (perhaps in Veolia's French homeland there are no fires in winter), and the company's service has been marked by numerous billing errors and customer dissatisfaction.<sup>48</sup>

The big city thing just hasn't worked. So Veolia is setting its sights on smaller towns, apparently in the hope that community opposition will be less pronounced and local political leadership will be more easily manipulated. That hasn't worked so well for Veolia, either. Unfortunately, it's worked even worse for some communities.

### **Rockland, Mass.**

Rockland terminated Veolia's contract to run the town's sewer plant in February 2004, amid embezzlement charges involving a sewer department official and a local company executive. The men were charged with embezzling more than US\$300,000 from the Rockland Sewer Department.<sup>49</sup> The termination came on the heels of a forensic audit that suggested the bidding process by which Veolia was selected to run the plant was rigged, as well as an investigation by the Massachusetts Office of the

Inspector General into whether the original bidding process was rigged in Veolia's favor.<sup>50</sup>

### **Angleton, Texas**

Angleton terminated a contract with Veolia for non-performance, and took the company to court, charging it breached its contract by failing to maintain adequate staffing levels, not submitting capital project reports and charging improper expenses to the maintenance and repair tab picked up by the city.<sup>51</sup>

### **Lynn, Mass.**

Lynn ended a wastewater overflow plant contract with Veolia because the company failed to stay adequately bonded for the project.<sup>52</sup> While company officials lauded the continuing contracts with water and wastewater treatment plants in the community, the town recently rapped the company for cutting costs by refusing to properly treat wastewater with chemicals. As a result, the town was blanketed in a stench.<sup>53</sup>

Fortunately, communities are becoming increasingly aware of the corporate track record, and are getting wise to the risks of privatization.

### **Lee, Mass**

Town representatives of Lee voted overwhelmingly in September 2004 to reject a proposal from Veolia to take control of the public water and wastewater system.

The more people in Lee learned about privatization, the less they liked it. Serious concerns were raised about Veolia's track record in other communities; the company's effort to push the scheme through establishing financial ties with powerful community leaders; doubts that Veolia's promised savings, even if achieved, warranted the risks of privatization, and the reliability of the company's promise that current system employees would be retained and treated fairly. At bottom, Lee citizens became increasingly wary of turning over their community's public water system to an enormous private company headquartered on another continent.<sup>54</sup>

The proposed contract offered by Veolia offered little assurances. Made public to Lee citizens only days before the town representatives were scheduled to vote up or down on the deal, the contract was riddled with holes and

omissions. The city would have been saddled with any number of costs, ranging from excavation to testing to administrative tasks. The company reserved for itself the right to set rates for treatment of “*trucked-in waste from outside of town*,” reflecting a scheme to turn Lee’s wastewater treatment facilities into a regional waste plant/Veolia profit stream. The contract allowed the town only “*limited*” access to documents relating to system operations. And the entire proposal lacked a credible cost estimate against which savings promised by Veolia could be measured, calling rather for an “*audit and asset valuation*” only after the contract had been signed.<sup>55</sup>

Veolia’s effort to privatize water in Lee had been quietly churning along mostly under the radar for nearly four years, and as late as spring 2004 it appeared as if the contract was, in fact, a done deal. But as the community became more engaged, Veolia’s scheme couldn’t withstand scrutiny, and Lee town representatives ultimately voted down the project 41 to 10.<sup>56</sup>

### ***Village of Hempstead, N.Y. and the United States of America***

Veolia’s dreams for little towns, as well as the corporation’s long-term corporate strategy for the entire country, may have come together in early 2004 in the Village of Hempstead, N.Y.

The specter of privatization came to the Village of Hempstead, on Long Island, at the invitation of a mayor who is the former president of the pro-privatization U.S. Conference of Mayors. The Conference, and more specifically its Urban Water Council, has effectively become a lobbying arm of the big water corporations. Contrary to the best interest of cash-strapped municipalities, the Urban Water Council urges Congress to de-emphasize increased federal assistance for water and wastewater infrastructure projects, instead supporting regulatory and tax schemes such as relaxed restrictions on private activity bonds which serve merely to promote municipal water privatization.<sup>57</sup>

The Urban Water Council is ostensibly comprised of mayors, but the council’s “*Water Development Advisory Board*” is comprised exclusively of 17 private companies in either “*full*” or “*associate*” member status. Veolia Water is one of four “*full*” members. Veolia Water also sponsors the U.S. Conference of Mayors web site, [www.usmayors.org](http://www.usmayors.org).<sup>58</sup>

So it was particularly pleasant earlier this year when the then-president of the U.S. Conference of Mayors was unable to foist water privatization on his constituents in the Village of Hempstead; local citizens and organized labor mounted a rigorous opposition to the privatization scheme, which now appears to be shelved by mostly embarrassed proponents.<sup>59</sup>

But the attempt serves as a reminder of Veolia’s strategy with regard to privatizing municipal water systems. For now, it’ll go after small towns instead of big cities. In the long run, it’ll work with its corporate counterparts and front groups like the U.S. Conference of Mayors to win favorable tax and regulatory treatments in Congress, in the hopes of choking off federal money to cities, effectively putting desperate towns up against the wall to make wild-eyed schemes like privatization palatable.

### ***Veolia in Latin America and the Caribbean***

#### ***Vivendi in Tucuman, Argentina***

Tucuman is the smallest and poorest province in Argentina with a population of a little more than one million. When the provincial authorities decided to privatize their water system, they were following in the steps of similar privatization processes in Buenos Aires and in the province of Santa Fe. The newly elected Peronist party was enacting IMF and World Bank-style economic reforms that included the privatization of many state-owned companies. In 1993 the province passed a law requiring the privatization of all of its water and sewerage systems. At the time, the provincial authorities thought this would be a way to modernize the old and poorly functioning system and provide needed expansion and rehabilitation without deepening the provincial debt.<sup>60</sup>

Unfortunately, the privatization resulted in additional financial burdens for both consumers and the provincial and national governments, while the functioning of the water system remained deficient. On the first round of bidding in 1994, the government received interest from five transnational companies; however, in the second round they received a single offer from a consortium led by Vivendi (at the time Vivendi was called *Compagnie Generale des Eaux*). The fact that Vivendi was the only interested company enabled it to negotiate a reduction in promised investment and to require additional increases in consumer prices.

The final contract included an overall tariff increase of 95% the first year (the individual increase varied by category of consumer) with a declining increase in the subsequent years. The contract stipulated that prices would increase the day the concession began on September 1, 1994.<sup>61</sup> Meanwhile, a study done in 1993 by the Centro de Estudios sobre Transporte y Infraestructura (CETI) showed that 37.8% of the population had no ability to pay for water consumption at all.<sup>62</sup> As one might imagine, the privatization was immensely unpopular and immediately caused a tense political situation where the newly elected right-wing governor of the province attempted to re-negotiate the concession contract and lower consumer prices.

In January 1996 water consumers in the city of Tucuman found muddy brown water pouring from their taps. The main water source, the reservoir of El Cadillal contained high concentrations of dissolved manganese coming from the walls of the dam. When chlorine was added for disinfection purposes the water turned a dark brownish color.<sup>63</sup> Even prior to the water pollution problem, consumers had begun organizing a payment boycott due to the unaffordable price increases. The payment boycott began in the areas of sugar cane production, the poorest regions in the interior of the province where there was a long history of struggle. Later, seven small cities formed a coordinating committee and established the *Asociacion en Defensa de Usuarios y Consumidores*. The consumer organization took steps to obtain a legal framework for the payment boycott and participants completed forms documenting their inability to pay and presented them to the company and the regulatory body.<sup>64</sup>

The Vivendi consortium declared that it was losing US\$2.8 million a month with the payment boycott. A protracted period of negotiation between the company, the provincial and national authorities and the World Bank ended unsuccessfully and the Vivendi consortium stated it would take the case to arbitration using the World Bank's International Centre for the Settlement of Investment Disputes (ICSID). This was perceived by the population of Tucuman as a further threat to pressure the province in the negotiations.<sup>65</sup> Several contract proposals were agreed upon by the negotiators but rejected by the legislative power unless they could make further modifications. In September 1997 the Vivendi consortium notified the provincial authorities that it was rescinding the con-

tract claiming that it was owed US\$250 million by the province. The regulatory authority responded that the company would have to pay fines amounting to several million for water quality failures and contractual non-compliance. The governor demanded that the Vivendi consortium continue operating the water and sewer services for 18 months or until a new operator could be found.<sup>66</sup>

Thus began a long legal drama that now has the distinct infamy of being the longest-running dispute on the ICSID docket and has occupied the attentions of nine different arbitrators in some capacity or another. In the first round of the ICSID case, submitted in 1996, the Vivendi consortium claimed it was owed US\$300 million in damages from the government of Argentina. In November 2000, ICSID arbitrators ruled against Vivendi stating that the alleged breaches of contract fell under the jurisdiction of the Tucuman provincial authorities.<sup>67</sup> Vivendi appealed this decision and was ultimately given permission to re-submit the claim. The new claim is seeking US\$357 million in damages, an amount equal to one third of the public debt of the province of Tucuman. Vivendi's eight-year-long legal campaign against Argentina has already cost the government millions in legal fees.<sup>68</sup> It is an outrage that Vivendi, a multinational conglomerate making billions in revenues each year, is preying upon the bankrupt country of Argentina and demanding millions in damages from the poorest province in the country.

### ***Vivendi in Puerto Rico***

Between 1995 and 2001, a subsidiary of Vivendi ran the *Autoridad de Acueductos y Alcantarillados de Puerto Rico* (AAA) with disastrous results. The AAA has been the subject of two highly critical reports by the Puerto Rico Office of the Comptroller. According to Comptroller Manuel Diaz-Saldaña, the privatization "*has been a bad business deal for the people of Puerto Rico. We cannot keep administering the Authority the way it has been done until now,*" he said.<sup>69</sup>

The Comptroller's first report lists numerous faults, including deficiencies in the maintenance, repair, administration and operation of aqueducts and sewers, and required financial reports that were either late or not submitted at all. An *Interpress* account of the comptroller's report went on to say, "*Citizens asking for help get no answers, and some customers say that they do not receive water,*

but always receive their bills on time, charging them for water they never get.”<sup>70</sup> The report also showed that under private administration, PRASA’s operational deficit kept increasing and reached US\$241 million. As a result, the Government Development Bank (Banco Gubernamental de Fomento) had to step in several times to provide emergency funding.<sup>71</sup>

The second report found 3,181 deficiencies in management, operation and maintenance of the infrastructure and said the leakage rate was around 50%. Since privatization, AAA has reportedly been fined a total of US\$6.2 million for various violations of environmental laws.<sup>72</sup> According to a local journalist, whole communities on the island have had no water supply for weeks and even months at a time. A local coalition of waterless communities has documented the effect of the water crisis on the local population, including cases of skin allergies, irritability, anxiety, gastroenteritis, conjunctivitis, muscular spasms, depression and anxiety.<sup>73</sup> In 2001 the government finally decided to end the contract and Vivendi left, leaving behind a debt of US\$695 million.

### **Brazil, SANEPAR**

Vivendi’s history in Brazil is one of the most sordid. In December 1997, a new law authorized the state of Parana to sell shares in the state-run Company of Sanitation of the State of Parana, SANEPAR, as long as the state remained in control of the company. SANEPAR supplies water to approximately 8 million people, covering 98.5% of urban residents. SANEPAR sewage services cover 3.6 million people.<sup>74</sup>

In June 1998, the Domino Holding S/A- a joint venture formed primarily by Vivendi/Veolia (through Vivendi’s Brazilian subsidiary Sanedo) and the building company Andrade Gutierrez- bought 39.71% of the company. The shares were acquired for 25% less than the estimated market value and in five years Domino Holding recovered more than half of their investment.<sup>75</sup>

Three months after acquisition of SANEPAR’s shares, the Domino Holding Group, through an illegal shareholder agreement, modified SANEPAR’s statute in order to give the Vivendi-led consortium control of the state water company.<sup>76</sup> The shareholders agreement also included an international arbitration clause, such that any disputes

would be directed to the Chamber of International Commerce in Paris.<sup>77</sup> Through this new statute Domino Holding effectively took control of SANEPAR.

In December 2001, under Vivendi’s (Domino Holding) control SANEPAR was accused of inappropriately raising rates. SANEPAR had used incorrect inflation statistics between 1994 and 2001 to determine increased tariffs. The company assessed inflation in that period to amount to 219% as opposed to the official inflation rate of 138%. Tariffs had increased over this period by 144%. At the same time, increases to workers’ compensation was less than the actual inflation rate. SANEPAR made record profits (from 1999 to 2000 profits increased by 130%) at the expense of consumers and employees.<sup>78</sup> In 2001, a number of municipalities took successful legal action against SANEPAR to reduce “abusive” tariffs and investigate questionable accounting practices.<sup>79</sup> In 2003, despite these legal actions many consumers in Parana still could not afford to pay the prices charged by SANEPAR and were using free untreated water – water which was often contaminated.<sup>80</sup>

Unfortunately, people who can afford to pay SANEPAR’s tariffs are also drinking contaminated water. SANEPAR has faced charges of supplying contaminated water in a number of cities in Parana. They have also been threatened with legal action and fines for discharging raw wastewater, illegally exploiting groundwater, and alleged financial irregularities.<sup>81</sup>

In February 2003, the governor of Parana declared that the shareholder agreement which gave control to Domino Holding was void. His decree returned control of SANEPAR to the public. Domino Holding responded with a lawsuit. The Parana State judiciary upheld the cancellation of the agreement. Domino Holding appealed to the federal courts.<sup>82</sup> In August 2004, the federal justice reconsidered the shareholders agreement, giving the control of SANEPAR back to Domino Holding.<sup>83</sup> But many towns were not interested in continuing work with SANEPAR (municipalities have the right to discontinue concessions with SANEPAR) and the state government encouraged them to end the contracts. On September 15, 2004, faced with the cancellation of such a large number of concessions a state Justice handed control of SANEPAR back to the state government, effectively canceling the

shareholders agreement. According to the Justice, the decision was taken considering “*the evident social damage that will be caused if the current situation continues.*”<sup>84</sup>

## **Veolia in Africa**

Veolia’s three large contracts in Africa - Gabon, Chad and Niger - have all been unsuccessful, leaving the corporation weak on the African continent. Without additional public subsidies Veolia has been unable to compete and instead has concentrated on debt reduction. However, in Ghana the corporation is still considered a contender for an upcoming water contract. Meanwhile Ghanaians are seeking to oppose the water privatization altogether.

### **Kenya**

In December 1999 Vivendi’s joint venture with Israel’s Tandiran Information Systems Sereuca Space obtained a management contract for Nairobi’s water supply.<sup>85</sup> The US\$5 million contract quickly turned sour for residents in Nairobi. The management contract was estimated to increase water rates 40% amounting to US\$25 million over ten years. Investment in equipment would be refunded by the water department after the 10-year contract with no depreciation.<sup>86</sup> In addition users were expected to shoulder the cost of upgrades with not a cent of investment from Vivendi. Meanwhile Vivendi expected a 15% profit rate on the contract. Then-deputy mayor Aketch opposed the deals’ whopping staff cut which put 3,500 workers on the streets at the same time as employing 45 new experts, four expatriates and increased the annual staff budget by \$2.2 million in a country where the average per capita income in 1999 was US\$1,022.<sup>87</sup>

Subsequently city councilors called for a repeal of the contract. Although Vivendi agreed to contribute US\$150 million worth of upgrades, the contract was reversed in July 2001 after the World Bank found that there had been no competitive bidding process.<sup>88</sup> In May 2004 Vivendi sold its 60% stake of the Kenyan cell phone company Kencell for US\$230 million, further concentrating the control over Africa’s cell phone business.<sup>89</sup> The stake was purchased for US\$55 million, but put into question during the water debacle. Now once again Kenya’s water is up for grabs. On June 17, 2004, the World Bank approved a US\$17 million loan in order to ring-fence the water utility. The loan followed several studies commissioned by the

World Bank’s Public Private Infrastructure Advisory Facility (PPIAF) which is known for its pro-privatization “*consensus building*” activities which targeted Kenyan decision makers.<sup>90</sup>

### **Chad**

In 2000 Vivendi received a 30-year no-bid<sup>91</sup> operation and management contract for Tchadienne d’Electricite de l’Eau (STEE), the company in charge of water and electricity provision in the country. The privatization received international loans from (1) Agence Francaise de Developpement, supported with US\$4.5 million, and (2) the World Bank, which provided US\$8.8 million.<sup>92</sup> Vivendi agreed to freeze electricity prices but quickly complained that the infrastructure was insufficient and increased the cost of supplying the government from the Farcha oil refinery. In 2002 international institutions froze their involvement in the privatization process due to the lack of an open and transparent bidding process.<sup>93</sup> In August 2004 Vivendi, now Veolia, dropped out of the process. The World Bank is attempting to attract new bidding corporations with money from the Critical Electricity and Water Services Rehabilitation 2002 loan of US\$39 million. France has also renewed its commitment to the project and provided \$4 million for the privatization of the energy sector.<sup>94</sup>

### **Niger**

Water privatization in Niger is the tale of World Bank loan conditions and never ending debt spirals forcing Niger’s citizens into the arms of multinational corporations. As elsewhere in Africa, the privatization of water was continued through a number of soft and hard conditions set by the World Bank, using their so-called Poverty Reduction Strategies to justify the water sector reforms. Niger is unique in the region with its considerable water resources.<sup>95</sup> In 1987 the public supply was transferred into a corporatized structure and renamed Société Nationale des Eaux (SNE). The World Bank continued to criticize SNE operations and the lack of full cost recovery from its primarily low income consumers. In 1998 the Bank provided US\$18.6 towards privatization and restructuring of the water sector. An additional US\$48 million was provided for the sector in 2001, but Vivendi failed to provide documentation for the purpose of the funds.<sup>96</sup> According to PSIRU the funds will be controlled through an investment fund managed by Vivendi.<sup>97</sup> However, that money

was used to facilitate the subsequent Vivendi ten-year management contract<sup>98</sup> through a French consultant firm, Mazars et Guerard, which in turn received a 5-year contract through Vivendi's new Niger operations.<sup>99</sup> Vivendi's bid for the contract provided less infrastructure upgrades than Suez's competing bid, but Vivendi offered a dive bid and won the contract due to its projection of water rates.<sup>100</sup> Vivendi expects the contract to generate €150 million.<sup>101</sup> Under the contract SNE was dissolved and replaced with Societe de Patrimoine des Eaux du Niger (SPEN) a new company where Vivendi holds 51% of the shares; 34% of shares are held by local shareholders, 10% by workers and 5% by the government.<sup>102</sup>

### **Gambia**

In Gambia Vivendi received a water and electricity contract in 1993 through a subsidiary of Generale des Eaux. From the beginning Vivendi's capacity was weak and the government was unsatisfied with the operation. During the military coup in 1994 Vivendi started disconnecting users for non-payment.<sup>103</sup> The contract was broken by the government in 1995 citing Vivendi's poor performance, including failure to produce accounts and financial reports.<sup>104</sup> Under the subsequent public control the water department has increased the number of households receiving piped water.<sup>105</sup>

### **Burkina Faso**

In January 2001, Burkina Faso's well-performing water utility was privatized by Vivendi's cherry-picking adventure in Africa supported by World Bank loans. Suez, another French water corporation, holds a construction contract in the country financed by the French development agency.<sup>106</sup> Prior to privatization, the water utility had gone through an 8-year restructuring process which included expansion to low-income households, reaching 86% of residents.<sup>107</sup> In August 2001 thousands of Burkinabé workers went on a strike against the massive privatization projects pushed by World Bank loan conditions. The strike came after the parliament approved privatization of the public utilities.<sup>108</sup>

### **Comoros**

According to the *Indian Ocean Newsletter* public authorities in the Comoros broke Vivendi's electricity contract in 2001 after experiencing a number of problems. Vivendi's subsidiary, la Comorienne de l'Eau et de l'Electricite

(CEE), was unable to deal with its debt, fraud and service breakdowns. After CEE failed to pay for its fuel costs, the government appointed a committee to manage the electricity supply.<sup>109</sup>

### **Morocco**

Vivendi has often profited from alliances with highly authoritarian governments. While the country struggled with policy reforms Vivendi received two concessions for water, sanitation and electricity supply in Tangiers and Tetouan worth US\$350 million in February 2001.<sup>110</sup>

### **Guinea**

In 1989 Vivendi entered a lease contract in partnership with another French multinational, Saur, to run the water utility in Guinea. Initially the charge per cubic meter was US\$0.12 but then increased to US\$0.83 by 1997 – a price higher than in many industrial nations. At first the price increases were softened by World Bank loans, but gradually these subsidies were phased out. As a result 58% of the water bills were unpaid in 1996.<sup>111</sup> Vivendi's 10-year lease ended in 1999 where after the government signed a one-year extension. An attempt to negotiate a new 15-year contract broke down much to the World Bank's regret.<sup>112</sup> The World Bank had expected the Guinea contract to provide a lesson in the "success" of privatization that could be replicated in other countries.<sup>113</sup> Instead the government decided to renationalize the water sector.<sup>114</sup>

### **South Africa**

After losing a number of contracts to Suez on the market in South Africa, Yves Picaud, the managing director for Vivendi's water division in the country denounced the government's policy to provide a free block of water to the poor. According to Mr. Picaud "Free water gives the impression that water is free, service is free and you can use water as much as you want."<sup>115</sup> Nevertheless, Vivendi has bought into the policy in Durban where it is involved in a partnership with eThekweni Water Service and has built a wastewater treatment plant.<sup>116</sup> In fact, the free water policy in South Africa originates from eThekweni and has been problematic, not for the reasons Picaud assumes, but due to the fact that it is insufficient to guarantee adequate supply to those in most need. In 2003 the eThekweni utility disconnected 4,000 to 5,000 poor users every week;<sup>117</sup> hardly a success worth repeating. Vivendi sought to gain from its foothold in Durban, but additional contracts are

now unlikely as the government is investigating the negative reports from the Durban water contract.

## ***Veolia in Asia and the Pacific***

In Asia Veolia's Chairman and CEO Henri Proglio hopes to double profits every two years mainly through the demand in China.<sup>118</sup> In 2002 Vivendi's Asia operations contributed a mere 2% of total revenue but are seen by industry analysts to have great potential for corporate expansion.

### ***China***

According to industry analysts, China holds a large potential for the expansionist dreams of the major water corporations. With China's strong government control over civil society, large corporations such as Veolia have met with little resistance to their schemes. Veolia has been involved in a number of deals in the vast country including a wastewater contract in Beijing, a US\$19.3 million water supply contract in Changle (Fujian Province) and it has acquired water assets worth US\$54.4 million in Huhhot (Inner Mongolia province).<sup>119</sup> A new law in 2002 outlawed fixed returns, but Veolia is still counting on a 15% rate of return.<sup>120</sup> When the new law took effect, Veolia's subsidiary, Berlinwasser, rescinded its fixed return contract in Xian.<sup>121</sup> While the large water corporations have received a number of contracts they are seeing increased competition from Asian players. Although the Chinese government has introduced market liberalization, not all authorities are welcoming foreign corporations with open arms. Large investments are needed in the country, but as elsewhere, Veolia is bringing little real investment and expecting corporate welfare from the state, the development banks and the consumers.

In Chengdu, the relationship with Veolia turned sour. The city has a water surplus, but has been forced to buy from a more expensive source, the Veolia/Marubeni project, through a "take or pay" contract, which has impeded the city's attempts to produce cost savings.<sup>122</sup> The European Investment Bank provided US\$26.5 million toward the project and the Asian Development Bank provided US\$48 million.<sup>123</sup>

### ***South Korea***

In South Korea Veolia has acquired a number of industrial contracts operating as Veolia Water Korea. It has supplied water treatment for Hyundai Petrochemicals in South Chungchong Province since 1998,<sup>124</sup> holds a 20-year contract for wastewater in Incheon and secured a 23-year contract with the state of Chilgok for wastewater treatment. The contracts are worth over €20 million annually.<sup>125</sup>

Veolia was met with fierce resistance at the Chilsu water treatment plant in Masan. Veolia Water Korea partnered with Korea Water Resources Company (KOWACO) to acquire the contract. KOWACO is linked to a number of environmentally destructive projects in the country, and when workers learned of the partnership, which was being developed behind closed doors, they spread the word to local residents. The municipal council subsequently denounced the employees who had negotiated with Veolia and exposed manipulation of the data.<sup>126</sup>

### ***The Philippines***

In central Philippines Vivendi and a local partner negotiated an unsolicited bid to manage water distribution in Cebu City in 1999. Soon after, serious opposition developed from the water district workers and Vivendi dropped out.<sup>127</sup> In Roxas City, Capiz Vivendi's 25-year water contract was put on hold while the Regional Development Council investigated how the loans would be assumed.

### ***Malaysia***

Veolia's 1987 water contracts with the Selangor state, through its subsidiary CGE, were terminated by the Malaysian concession holder in 2003.<sup>128</sup> In 1998 Vivendi bought 26% of Intan Utilities, which holds a water concession in Perak.<sup>129</sup> Malaysia's government has awarded water privatizers with guaranteed loans and grants — policies that make the country attractive to the corporations.<sup>130</sup> In addition, the government announced that they would no longer automatically review water tariffs, but that consumer increases could be based on company performance.<sup>131</sup>

### ***Australia***

Vivendi's subsidiary in Australia and New Zealand, United Water, is a joint venture with Thames Water



(47.5%) and Kinhill Engineers (5%). United Water holds a US\$1.5 billion wastewater contract in Adelaide. In one year United Water managed to turn Adelaide into a sewerage smelling outlet which became known as “*the big pong*” with odors so strong that they affected resident health. A subsequent investigation found that the stench occurred due to inadequate monitoring and equipment failure which allowed sewerage overflow to run directly to settling lagoons. Vivendi was attempting to cut costs. The state subsequently funded a \$72 million (US\$43.8 million) upgrade.<sup>132</sup> United Water won the secret contracts after submitting the bids late, apparently dropping its price at the last minute to beat North West Water.<sup>133</sup> While inflation remained at 11% United Water managed to increase water tariffs by 59% in seven years. Meanwhile the company has shed almost 1,000 jobs.<sup>134</sup>

### **New Zealand**

In 1997, United Water, owned by Vivendi (47.5%), Thames Water (47.5%) and Kinhill Engineers (5%) won a 30-year franchise contract (with 20-year optional extension) to provide water and wastewater services in Papakura, a district with 40,000 users.<sup>135</sup> At the time it was claimed that water users would receive a 27% savings on their council rates. The city council put the controversial franchise idea out for public submissions over the Christmas 1996 holiday period, for the legally minimum time required.<sup>136</sup> Despite strong public opposition, it decided to go ahead in April 1997. A poll showed that nearly 97% of the residents opposed the franchise, which has jacked up water rates to an unaffordable level. Customers who are unable to pay their water rates have their water supply cut off, but they have responded by learning how to reconnect the pipes.<sup>137</sup> Papakura city council has outsourced services from water supply to aquatic centers following the government’s privatization binge in the 1990s (subsequent councils have taken back some services after predicted improvements failed to materialize). Papakura city councils have faced an ordeal in sorting out the mess. In November 2004 the newly elected mayor condemned the financial practices used by previous councils which were designed to keep council rates down artificially and unsustainably.

Water and wastewater services in Papakura are provided through two bodies: publicly-owned Watercare supplies bulk drinking water to and receives/treats waste water

from the privately-owned retailer United Water. From 1998 to 2004, Watercare’s charges have increased by about 21%, whereas United Water’s charges have increased by a whopping 144%.<sup>138</sup> Adding insult to injury, the Papakura mayor (brother of the national minister of Police) and his director of works, who together were instrumental in ramming through the privatization of Papakura’s water services, are now both employed by Watercare. There is great concern that despite public opposition, stealthy privatization efforts are still going on.

The city council was voted out in the election in 1998 but Papakura has faced an ordeal in sorting out the mess left behind. The average water bill increased 11.3% in 1999 alone.<sup>139</sup> The audits done in 1998 and 2001 have both criticized the lack of performance monitoring by the city council.<sup>140</sup>

In 2001, United Water and the city council won the special “*Egg On Face*” award, part of the Roger Award for the Worst Transnational Corporation. The award was won after United Water interfered with Papakura council affairs and managed to pressure the city council to reverse a NZ\$500 grant to a pressure group opposing the franchise.<sup>141</sup>

In 2001 a testimony to the high court revealed that a bid for the Papakura water franchise, nearly NZ\$1 million higher than United Water’s, had been ignored by the former mayor.<sup>142</sup>

Water pressure groups have faced serious opposition from those in power and some of its members have faced arrest several times. They continue their work to expose the rate hikes and the backroom deals. With their very own fire engine they prevent cut-offs and stand up to authorities to stem the privatization drive.<sup>143</sup>

### **Taiwan**

According to the latest report from PSIRU Veolia attempted to persuade the Taiwanese to award a non-competitive bid for a water treatment plant. The attempt failed.<sup>144</sup>

## ***Veolia in Eastern Europe***

In the post-Cold War era, Eastern Europe is seen as a lucrative new frontier for the exploits of major multinational companies in a variety of natural resource and service sectors areas, including water. Veolia has jumped on this bandwagon obtaining contracts in the Czech Republic, Hungary and Romania.

### ***Prague, Czech Republic***

In January 2001, Vivendi in consortium with Anglian water (AWK) was awarded a 13-year concession to operate the water, sewerage and sanitation services in Prague. Vivendi also purchased 66% equity in the city's water company, PVK, paying £174 million (in 2005 US\$327.5 million). Vivendi was bitterly criticized for the purchase in Prague by its competitors (Suez and International Water/United Utilities) for putting forward an excessively high bid, apparently twice as high as the price proposed by the other companies.<sup>145</sup> Vivendi also allegedly overpriced the estimated cost of investments required to comply with EU legislation for the reconstruction of the water treatment plant. Then, the following year after serious flooding placed the city council in the position of needing to finance a US\$400 million project to rehabilitate the water and sewer system, Vivendi exploited the city's need for cash and offered to purchase the remaining portion of PVK, making them full owners of Prague's water and sewer system.<sup>146</sup>

Vivendi justified the high bid with the strategic importance of the Prague concession. Vivendi, now Veolia, is vying for market dominance in the rapidly privatizing Czech Republic and, according to a 2003 study by the European Commission, 40% of the Czech water market is now served by Veolia, 13% by Anglian Water, 1% by Gelsenwasser and the rest by municipal companies.<sup>147</sup> The Czech labor union, CMKOS, states that in 2002 69.7% of residents in the Czech Republic were supplied with drinking water by Vivendi, Ondeo and Anglian Water, which provided 74.9% of the drinking water sold using 80.7% of the water supply pipes.<sup>148</sup> Water services in the Czech Republic have moved very rapidly from a state-run system to a system dominated by the large European multinationals - with Veolia taking the lead. Veolia has contracts in Pizen, North Bohemia, Usti nad Labem, Olomouc among others.

There is concern that the high price that the company paid for the Prague utility may cause Veolia to try to recoup potential losses by raising consumer prices. PVK, the Prague water utility, also has contracts to provide water to other outlying municipalities. One of these, Vak Beroun, has been asked to pay 20% more for water than the comparable district of Ricany. In May 2002 it was refusing to do so and some of the customers were left without water.<sup>149</sup> Up until 1990 water prices in the Czech Republic were uniform across the country, but part of the liberalization and privatization process has decentralized administration to the municipalities, with oversight from the Ministry of Agriculture and Environment. Between 1990 and 2001, the primary period of liberalization and privatization, consumer water rates rose from 0.9 KCS to an average of 37.69 KCS per cubic meter for drinking water and wastewater services. Prices vary substantially across the country. For some households there have been price increases up to 190% and for others up to 626%. These are price increases well in excess of the rate of inflation during the 1990s.<sup>150</sup>

Water privatization in the Czech Republic has had a serious impact on the trade unions. As part of the liberalization and privatization process in the water sector, all collective bargaining agreements were cancelled by the association of employers. There has also been a large reduction in jobs in the water and wastewater sector, from 25,519 people in 1991 to 15,420 in 2002.<sup>151</sup> While it is clear that the transformation in the water sector has been profound, the changes are very recent and there is still a lack of information on the extent of the social, political, economic, public health and environmental impacts.

### ***Szeged, Hungary***

In 1999, the city council of Szeged tried to terminate their five-year-old concession with Vivendi and take back operation of the city's water company. This would have been the first time that a water privatization was reversed in Eastern Europe. The dispute arose when the city determined to increase sewerage coverage by 20%, which would involve significant works investment. The original concession with Vivendi created a separate works company (70% owned by General des Eau, ie Vivendi; 30% owned by the City of Szeged) with exclusive right to works contracts. The water company had been paying the works company a fixed annual fee, described as "very high," to carry out all

the maintenance work. This arrangement assured that a substantial share of profits made by the water company could be passed through to the works company, and ultimately exported to Vivendi.<sup>152</sup> The city council claimed that they had lost US\$3.2 million during the 5-year contract.<sup>153</sup> Internal subcontracting is a common practice among water multinationals used to soak up more profits.<sup>154</sup> In order to prevent further increases in operations and management costs, the city created their own works company with outside financing and terminated the concession, including exclusive subcontracting, with Vivendi.

Vivendi fought back with international arbitration, another common practice among water multinationals. The original contract included a clause that directed all disputes to the International Commercial Chamber in Switzerland. In 2001 the municipal government aborted its termination attempt and reached agreement with Vivendi. The water utility was turned into a stockholders' company managed and owned 49% by Vivendi, 51% by the city of Szeged. City council members also make up a majority of the board of directors and the supervisory board.<sup>155</sup> However, Vivendi still chooses the managing director and is guaranteed an operating profit, the city council and thus the taxpayers must cover any losses for the company.<sup>156</sup>

While Vivendi has faced challenges providing drinking water to Hungarian citizens, they've been quite successful at depriving them of water. In August 2004, the Dorog Incinerator Plant, operated by Onyx, Vivendi's waste management arm, contaminated the Danube River with more than 100 cubic meters of spent oil and various hazardous materials. The 50,000 residents of Esztergom downstream were banned from drinking the city's water for more than a week.<sup>157</sup>

### **Vivendi in Romania**

Within a month of being awarded a 25-year water concession in Bucharest, in April 2001, the mayor of Bucharest accused Vivendi's Apa Nova of breaching its obligations towards employees. Trade unions protested the plans for major restructuring that would cut 3,000 of its 4,900 jobs.<sup>158</sup>

Accusations against Vivendi continued. In February 2003, experts were asked to resolve a dispute between Apa Nova and the city of Bucharest when an inspection team from the office of the Romanian prime minister found irregularities in the transfer of assets to Apa Nova. Some transferred assets were not on the list approved by the city council and did not relate to water or sewage services.<sup>159</sup>

### **Veolia in Western Europe**

*"Over the past decade the two French water giants have taken the largesse of their French water customers and redistributed it around the world, with particular generosity to the citizens of Buenos Aires and Beverly Hills. The returns from this escapade seem to add up to not much than a few airmiles. Not they are going back to France with a determination to take their home market seriously once more. What is an investor to make of this?"<sup>160</sup>*

Veolia is seeking to get back to its roots in Europe in order to boost the bottom line which has diminished dramatically over the past few years. It won a number of contracts in the industrial wastewater business in 2004.<sup>161</sup> Through the European Services Forum's high level negotiations with the EU, Veolia, along with Suez, has pushed for redefinition of water services targeting free trade for the less controversial services delivered directly to industrial customers. But the European water market is dominated by communally-owned water companies that receive tax breaks and have established affordable water tariffs. Furthermore, the European Parliament voted in April to exclude water services from the internal market<sup>162</sup> - a contrast to the aggressive strategy to include water services in the WTO negotiations through the GATS agreement.

And while Veolia seeks to retreat, its home country France is highly concerned by the anti-competitive behavior and corruption convictions in the past decade. The French will not forget how Vivendi and Suez managed to abuse their dominance on the French water market.

### **Italy**

While Veolia seeks to return the core of its operations to the European mainland an expressed interest in Sicily did not materialize after Veolia failed to raise the funds needed to submit an offer.<sup>163</sup> The prospects of the conviction in the Alain Maetz case hasn't necessarily helped Vivendi's

ambition on the Italian peninsula (see previous section on corruption) although the corporation did receive a 30-year contract for water and sewerage treatment in the Latina region in 2001.<sup>164</sup> As part of Vivendi's cash flow problems it was forced to sell Telepiù, the Italian pay-TV platform, in 2003. The acquisition was made by Rupert Murdoch, the conservative media mogul, further cementing his position in the Italian TV market.<sup>165</sup>

### **Germany**

In Germany Veolia has held a 24.95% stake in Berlinwasser since 1999. German multinational RWE holds a similar 24.95% of shares. Berlinwasser, the provider of water services in Berlin, has been met by massive consumer protests in past years for its failure to deliver contract commitments. In 2004 Berlinwasser pushed yet another rate hike, this time 15%.<sup>166</sup> The Green Party has criticized the consortiums 15% guaranteed profits received regardless of measurable success rates.<sup>167</sup> In 2004 Veolia failed its bid for Gelsenwasser, which is owned by the Dortmund and Bochum municipalities. Veolia's offer wasn't even considered – the cities preferred to seek public ownership.<sup>168</sup>

### **United Kingdom**

The returns of the heavily regulated water industry in the United Kingdom are no longer justifying the capital the corporation has tied up in the country.<sup>169</sup> *“The US market and the French market are in, but the UK market and emerging markets are out – unless the water companies can find a less capital hungry means of operating in these markets.”*<sup>170</sup>

It all started with the big rush when then-Prime Minister Thatcher announced deregulation of the water services in the UK. The rules in the UK limits foreign ownership, but with the 2002 acquisition of Southern Water Vivendi held 10% of the UK water market.<sup>171</sup> Scottish Power was forced to sell Southern Water after failed investments in the deregulated U.S. energy market. However, the idea to sell to Vivendi through First Aqua was blocked by the UK competition commission in 2001. In order to get approval for the acquisition Southern Water Investments Ltd was established, which took ownership of Southern Water from First Aqua, whereafter Vivendi (now Veolia Environnement) bought 19.9% of Southern Water Investments Ltd.<sup>172</sup> The British utilities regulator finally

approved the deal despite potential monopoly problems posed by Veolia's investment in other UK water companies.

Since the acquisition, the UK water market has proven less attractive to the large water corporations, and corporation disinvestment rumors are heard, especially after regulators have limited the ability to increase water rates.

### **Spain**

Veolia spent a great deal of time in 2004 negotiating the sale of its 25.7% interest in FCC, the second largest water company in Spain and also the second largest construction group. The FCC investment was initially made in 1998 to increase Vivendi's involvement on the Spanish market.<sup>173</sup> In May Veolia rejected an offer made by the daughter of the founder, Esther Klopowicz, and *“has hinted that changes to Spanish law may have invalidated the pact between the French group and Koplowitz which, if proved true, would change the balance of power in the battle for control of FCC.”*<sup>174</sup> Dirty tricks seem to work for Veolia; Esther Klopowicz settled the deal in August 2004.

## Conclusion

Despite Veolia’s global track record of corruption, broken promises, environmental degradation, price-gouging, obfuscation, misdirection and secrecy, the world’s largest water company continues to enjoy substantial support within powerful pockets of financial and political circles. In some instances, the private water industry has garnered that support the old-fashioned way—by bribing officials.

But support for Veolia, and for the private water industry generally, also stems from ideology, specifically the fashionable variety wherein government is viewed as an incompetent, inefficient, even outdated construct bloated by idle bureaucrats, while market forces and the “ownership society” are celebrated as humanity’s panacea.

What the water privateers, their champions and apologists are loathe to admit is that while companies like Veolia have profited from a cultural wave in celebration of the free market, market forces have nothing whatsoever to do with water delivery. Water service is a natural monopoly. Once Veolia lands its preferred contract, which is to say

one that lasts so long it will outlive the contract negotiators, dissatisfied communities do not have the option of simply waking up one morning and turning to a competitor. The promise of private sector superiority in the water sector is a hoax.

The risks, however, are not. While publicly operated water systems are managed to deliver clean, safe and affordable water to you and your family, privately operated systems are managed to get as much money as possible from you and your family.

While the demand for water is on the rise, the supply is shrinking, due to water-intensive agriculture, population growth, industrial pollution, breakneck development and other ecological threats that are depleting freshwater supplies. More than one billion people lack access to clean drinking water and 2.5 billion do not have sanitation services.

Veolia is not the solution. But as the company has demonstrated time and again, in every corner of the globe, Veolia is part of the problem.



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