

For NACLA Report on the Americas:

Face-Off:
The Struggle for Latin America's Water

Tony Clarke and Maude Barlow

Water Water Everywhere

Latin America is blessed with an abundance of fresh water. Twenty percent of global runoff (the renewable water source that we use for our fresh water supplies) comes from the Amazon Basin alone. In national terms, Brazil has the most water of any country in the world, with one-fifth of the globe's water resources.

Of the twenty-five largest rivers in the world, four (the Amazon, Parana, Orinoco, and Magdalena) are found in Latin America and their combined run-off (8,829 cubic kilometers) is almost as great as the combined run-off of the other nineteen. Latin America is also home to some of the world's large lakes. The greatest lakes of the region are Maracaibo in Venezuela, Titicaca in Peru and Bolivia, Poopo in Bolivia, and Buenos Aires, shared by Chile and Argentina.

As a result, Latin Americans have one of the highest per capita allocations of fresh water in the world – a little under 34 thousand cubic meters per person per year. However, for reasons of geography, pollution and inequality, water access is badly skewed in Latin America and very few Latin Americans see anything near their full personal allocation.

Mexico is relatively parched, with a potential supply of little less than 4,000 cubic meters per person. Natural desert meets a spreading human-induced desert over much of the Mexican Valley. Mexico City is sinking in on itself as it drains the last of its accessible aquifers. (Once the "Venice" of the new world, the abundant water sources where the city now stands were destroyed by the conquering Spanish who used slave labour to dredge the canals and drain the lakes.)

The Caribbean is water deprived, as most islands are too small to have real rivers, and parts of Central America have scarce water resources. Natural desert combines with human-induced desert (from over- salination of the

soil) in large areas around Peru, Bolivia, northwestern Argentina, and the Peruvian Andes. The greatest natural deserts are Patagonia in southern Argentina and the Atacama, in northern Chile. About 25 percent of Latin America is now arid or semi-arid.

Poor farming practices, unregulated industrialization and urban poverty have massively and negatively affected Latin America's water resources. Booming, concentrated populations in Latin America's mega-cities are devouring as well as contaminating their water supplies, forcing officials to seek increasingly distant supplies. Mexico City now depends on aquifers for 70 percent of its water supplies, and is mining these underground sources as much as 80 times faster than they are naturally replenished. Sao Paulo is threatening residents with rationing, unless something drastic changes. The city is now relying on water sources that are farther and farther away from the city, hiking the cost of delivery to the people, many of whom who cannot pay for it.

Water basins and aquatic habitats are routinely used as dumpsites for garbage, mine drainage, and industrial and agricultural waste disposal throughout most of the region. The highly toxic waters along the U.S. Mexico border are referred to now as a "3,400 kilometer Love Canal." Probably the worst polluter is Brazil – the country with the most water. Brazil allows massive chemical and industrial pollution as well as mercury dumping from its gold-mining industry; this contamination of its waterways is exceeded only in Eastern Europe and parts of China.

Most of Latin America's wastewater still flows untreated back into its rivers, lakes and canals and infrastructure leakage in most of the large cities exceeds 50 percent. Some cities lose almost 90 percent of their water through leaky pipes.

And then there is massive poverty. After living through years of World Bank and International Monetary Fund-induced structural adjustment programs, Latin America, as a region, has the highest rate of inequitable income distribution in the world. This inequality is mirrored in accessibility, or the lack of accessibility, to water. More than 130 million people have no access to safe drinking water in their homes, and only 86 million - less than one-third of the population - are connected to adequate sanitation. The situation is worsening as millions of subsistence farmers, driven from their land by

policies favouring industrial agriculture, join the urban poor in burgeoning slums every year.

As a result of the destruction of water sources, combined with inequitable access to water resources, most Latin Americans are water poor; millions are living without access to clean water at all. Although the water resources of Latin America could provide each person with close to 34,000 cubic meters of water every year, the average resident has access to only 311 cubic meters per year. This compares to North Americans, who, with a much smaller population, use 1,280 cubic meters a year and Europeans, who use 694.

Tragically, these statistics are getting worse, not better, as political turmoil and big private interests combine to drive the price of fresh water out of reach to the majority of Latin Americans.

Water Barons and Institutional Backers

Added to this lethal mix is an influx of private, for-profit corporations into the region over the last decade, determined to take advantage of Latin America's water crisis. Private water companies are operating or planning to operate in most of the countries of the region, including Bolivia, Uruguay, Brazil, Chile, Mexico, Argentina, El Salvador, Ecuador, Honduras, Dominican Republic, Peru, Colombia, Nicaragua and Panama.

Most of them are local subsidiaries of the giant multi utility corporations and their water service companies --- Suez- ONDEO and Vivendi-Veolia of France and RWE-Thames Water of Germany of Germany – who, between them, deliver water and wastewater services to almost 300 million customers in over 130 countries. The growth of these giants is exponential; a decade ago, they serviced around 51 million people in just 12 countries. Two of the Big-3, Suez and Vivendi, control over 70 percent of the existing water service market worldwide. And their revenue growth has kept apace. Vivendi earned just US\$ 5 billion a decade ago in its water-related revenues; by 2002 that had increased to over \$12 billion.

All three are ranked among the wealthiest 100 corporations in the world with combined annual revenues in 2002 of almost \$160 billion and growing at ten percent a year – thereby outpacing the economies of many of the countries in which they operate. They also employ more staff than most governments: Vivendi employs 295,000 worldwide; Suez employs 173,000.

These corporations have the backing of the World Bank and the Inter-American Development Bank in their aggressive entry into Latin America. Both use their considerable clout in the region to force countries to adopt private water delivery as a “conditionality” for debt relief. According to Public Citizen, the IADB alone holds about \$58 billion of debt in the region, giving the institution tremendous power to impose water privatization on desperate municipalities. Current projects for the IADB for 2003-2005 include over US \$1 billion for privatized water and sanitation services. Some of the largest IADB loans in the last decade went directly to the transnational water companies after they were granted private water concessions in countries like Argentina, Bolivia and Honduras.

Meanwhile, the World Bank has decided to triple its annual financing commitments for funding its global private sector water projects. After a decade of lucrative assistance from the World Bank, the Big-3 water giants are now demanding guaranteed financing to insulate themselves from foreign currency fluctuations, before making any new investments in developing countries. At the same time, the major water privateers are facing mounting and fierce public opposition to their operations in many parts of Latin America. As in the rest of the world, the damaging effects of water privatization here have been well documented: secret contracts; huge profits for corporate investors; higher prices for water; cut-offs to customers who cannot pay; reduced water quality; bribery and corruption.

In the Maldonado province of Uruguay, water prices soared and supplies became contaminated when Uraqua, a subsidiary of the Spanish water company, Aquas de Bilbao, was given the concession to deliver water on a for-profit “full cost recovery basis.” The citizens of Uruguay have launched a national referendum to seek a constitutional amendment that would guarantee water as a human right and public good, out of the reach of for-profit companies.

In Puerto Rico, --- where Suez has been granted a 10-year, US\$4 billion contract to deliver water services, after Vivendi made a fiasco out of the

previous water contract --- the Solicitor General himself has decried the recent performance of Suez, saying that it has paid lots of attention to improving billing and collection fees while there has been “no improvement” in the delivery of potable water to residents.

Yet, arguably the best-known case of water privatization occurred in Cochabamba, Bolivia, when Bechtel set up a subsidiary, Aguas del Tunari, in early 2000 and immediately raised the price of water out of the reach of the vast majority of the population. The contract even gave the company the right to charge people for the water they took from their own wells and collected in barrels from the rain. Consumers suffered huge rate increases while the company was planning to earn an annual profit of US\$58 million. Although the government was forced to back off its privatization scheme, but Bechtel is now suing the Bolivia for US\$25 million for lost profits. Despite the fiasco in Cochabamba, the Bolivian government is still pursuing several privatization schemes, as well as plans to export and sell bulk water to neighboring Chile for its mining industry.

To understand how governments, the international financial institutions and the water companies operate together, it is useful to examine two cases in more detail.

Case One – Argentina’s Dirty Secret

In 1993, Argentina signed the largest private water contract in the world - a 30-year contract with the two major French companies to provide water and sewage services to the city of Buenos Aires, which served a population of 10 million people. The Buenos Aires privatization deal was, in its early years, widely lauded by the World Bank, the Argentine government, and the water industry as an international success story. A study by the Argentine Ecology and Environment Foundation called the new company “the biggest transfer of a water service and watershed into private control in the world.”

The original contract was heavily promoted by the World Bank (which, through its International Finance Corporation, reportedly put up US\$300 million to start plus another US\$115 million to \$250 million in loans for the US1billion dollar project], the U.S. government, the International Monetary Fund and the French government. The early negotiations were handled for the French by Suez’s CEO Jerome Monod, a leading fundraiser for French President Jacques Chirac. From the beginning, the project smacked of

opportunism for many players. The city's water services up until that time had been well run by the public company, the National Sanitation Service. But exploding demand coupled with private-sector ideology of the Menem government in Argentina and the drying up of public funds opened the door to a new experiment.

The International Consortium of Investigative Journalists, in a May 2004 study, says the project was plagued by "greed, deceit and failed promises" from the beginning. A 1996 Argentinean Congressional inquiry noted "repeated and grave breaches of contract." Weak regulatory practices and contract re-negotiations that eliminated corporate risk enabled the subsidiary, Aguas Argentinas S.A., to earn large profits; a 1995 report by the Universidad de la Empresa found profits of 28.9 percent. More recently economists cited by Inter-American Development Bank officials put annual profits as high as 40 percent, far above the industry average. Water rates, which the company said would be reduced by 27 percent, actually increased 88 percent, according to Daniel Azpiazu, researcher at the Latin American Faculty for Social Sciences, putting access to clean water out of the reach of millions of the city's population.

The journalist's consortium details a litany of greed and corruption connected to this privatization. A senior World Bank employee, Ventura Bengoechea, went to work for the new company in 1997 (his salary paid by the Bank) to protect the Bank's investments. After helping the company negotiate higher rates than it had contractually agreed to, he returned to the Bank where he helped negotiate a US\$30 million loan back to Argentina.

The deal enriched union leaders, who sold out their comrades (half the public sector workers lost their jobs), then environment minister Maria Julia Alsogaray, who negotiated steep rate increases on behalf of the company (increases forbidden in the contracts) and then bought a mansion in Buenos Aires and two apartments in New York (she was later indicted on charges of corruption and "illicit enrichment"), the World Bank itself, when its International Finance Corporation bought 5 percent of the company for US\$7 million, Menem cronies who are being sued by the current government of US\$2 million for embezzlement of World Bank funds, and dozens of businessmen involved with both the Argentinean and French governments.

Throughout its first six-year contract Agues Argentinas reneged on its promise to build sewage treatment plants and continued to dump the vast majority of its sewage untreated every day into the Rio de la Plata. This once magnificent river that runs between Buenos Aries and Montevideo Uruguay now has the distinction of being one of the few bodies of water whose pollution can be seen from space. The contaminated water was then recaptured and sold back to residents with their spiraling water bills. Yet in 1999, the Menem government signed a new contract with the company, even forgiving US\$10 million worth of fines for contract violations.

In the spring of 2002, the company again defaulted on its loans and threatened to cut back services and promised infrastructure development unless it got loan guarantees in U.S. dollars and rate increases of 42 percent. When the government refused, Aguas Argentinas took its case to the International Center for the Settlement of Investment disputes, a World Bank institution. As well, the company resisted paying \$16 million in fines to ETOSS in 2002, Argentina's regulatory agency or failing to meet its contractual obligations.

In site of this appalling litany of deceit and corruption, Suez is now running the water systems in many other parts of Argentina including fifteen cities in the state of Santa Fe.

Case Two: Priming the Pump In Mexico

Mexico provides another prime example of how governments in the global south are developing national program for the corporate takeover of their water systems. Under the presidency of Vincente Fox, a former Coca-Cola executive, the Mexican government has created a national program called Promagua, which is facilitating the privatization of the country's water by transnational corporations. Promagua, which is a US\$250 million dollar program financed by the World Bank and the Mexican government, is a key component of Fox's five year National Development Plan [2001-2006].

On the surface, Promagua is mainly designed to coordinate a massive restructuring of Mexico's water systems between federal, state and municipal governments. In doing so, it facilitates the takeover of public water utilities by for-profit water corporations. It does so by authorizing contracts or concessions between local governments and water corporations, ranging between 5 and 50 years. Promagua's targets are urban centers of

50,000 or more people. By 2002, Promagua had signed agreements with 28 of Mexico's 30 states, including 687 municipalities representing 70 percent of the country's urban population.

In order to move aggressively in this direction, the Fox government declared water to be a national security issue in the wake of September 11th. The full powers of the state, including military operations and anti-terrorism measures, would be applied, if necessary, to ensure the restructuring and privatization of the water sector. In the 1990s, these moves were preceded by a series of changes in both Mexico's constitution and its laws. In 1992, for example, the Salinas administration modified the Mexican constitution to allow foreign-based corporations to obtain water contracts and concessions and introduced a new national water law permitting global water corporations to invest in Mexico's water utilities. Later, the Zedillo government handed over responsibilities for maintaining water services, treatment and sewage to municipal governments as part of its national development agenda, 1995-2000.

As a result, 20 percent of Mexico's water system has been privatized during the past decade. The main corporate players have been the two leading French based water giants, Suez and Vivendi Universal, along with United Utilities, the main water subsidiary of the US-based Bechtel Corporation, and the Spanish company, Aqua de Barcelona. For these corporations, the prime targets for takeover have been water services in tourist areas and urban centers of more than 100,000 people, leaving smaller populated and less lucrative municipalities to governments. By law, however, these foreign-based water corporations are obligated to operate in joint ventures with Mexican companies, in carrying out contracts or concessions with municipal governments.

To assist these corporations on where to invest in Mexico's water utilities, a national data bank has been established under the auspices of the World Environment Center [WEC]. Called the "Municipal Water Project Mexico," the WEC works closely with Promagua in order to secure the information and intelligence required for this national data bank. At the same time, Promagua has set up a training center on the outskirts of Mexico City where people are trained to work in water systems. Co-sponsored by some 40 companies based in France, the center has re-tooled over 3000 people for work in Mexico's revamped and privatized water system. Suez and Vivendi,

of course, are among the most prominent and active supporters of Promagua's training facility.

In addition to its own operations, Promagua's program is heavily financed by international finance institutions like the World Bank, the IADB and the European Bank for Reconstruction and Development. In 2003, for example, the World Bank announced that, through its Country Assistance Program, it would be pumping US\$5 billion into Mexico over a two-year period between 2003 and 2005. Although this financing is earmarked for a variety of infrastructure development projects, a considerable portion of it will be used to fuel the corporate takeover of public water utilities, through the World Bank's International Finance Corporation,

Mexico City provides a vivid illustration of what happens when for-profit corporations get together to carve-up public water utilities. In 1993, the water delivery system was divided into four quarters. Suez, through its main water company, ONDEO, took control of two quarters of the city, serving 2.5 million households in one and 1.8 million in the other. Bechtel's United Utilities took over another quarter involving 2 million households while Vivendi captured the fourth quarter, containing some 3 million households. In delivering water services, each of these corporations charged very different and therefore inequitable water rates to the people of Mexico City. And, when the PRD took over the government in Mexico City, calling for a uniform water tariff across the metropolitan area, the corporations rebelled.

Besides unjustified billing rates, the privatization of water services in Mexico City and elsewhere in the country has been plagued by numerous other problems. Unable to pay escalating water bills, residents have frequently faced water cut-offs while others have experienced long delays from company officials in dealing with their complaints. In 2001, for example, Vivendi increased its water rates by 60 percent in Mexico City, which resulted in major water cut-offs to residents, mainly the poor, in that quarter. For the most part, the big water corporations have been unwilling to make any substantial new investments to improve water infrastructure, while, at the same time, they have been very willing to pass on mounting debts to municipal governments. Meanwhile, flooding also dramatically increased due to un-repaired leakages in the pipes and infrastructure.

Fight Back

All across Latin America, fierce resistance to this theft of public water is growing. In communities large and small, citizens are taking to the streets, organizing referenda and petitions, fighting for the right to water. Latin American activists and academics are on the front line of the global water justice movement as well, speaking at international conferences, protesting World Bank policies and organizing for a binding UN Convention on the right to water.

On August 22, 2003, forty-seven grassroots organizations from sixteen countries of the Americas met in San Salvador where they launched a new movement called RED VIDA and issued the San Salvador Statement for the Defense and the Right to Water. Many of the member groups of this new network had played a pivotal role at the World Water Forum in Kyoto Japan in March 2003, where the World Bank and the big water companies tried with no success to sell their privatization “consensus” to the world.

RED VIDA also played a prominent role in the launch of the Peoples’ World Water Movement created at a summit in New Delhi on the eve of the World Social Forum (WSF) in Mumbai, India in January 2004. RED VIDA members were also outstanding at the WSF, forging deep alliances with groups in India fighting the same companies.

The people of Latin America have been struggling against almost twenty years of neo-liberal policies, with varying degrees of success. But the move to commodify their water for some faraway investors has put new life into this movement. It is as if a line in the sand has been drawn: because people cannot live without water, there is an urgency and a tenacity to this fight that is different. Demands for water democracy will not be silenced.

Tony Clarke is the Director of the Polaris Institute and Maude Barlow is the Chairperson of the Council of Canadians. Their book, *Blue Gold, The Fight to Stop Corporate Theft of the World’s Water* is published in 20 countries.