

Briefing



**Friends of
the Earth**

Dirty Water

The environmental and social records of four multinational water companies

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Friends of the Earth

26-28 Underwood Street, London N1 7JQ

Tel: 020 7490 1555 Fax: 020 7490 0881 Email: info@foe.co.uk Website: www.foe.co.uk

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Introduction

Over the past decade the world's water companies have expanded, merged and diversified to become some of the largest and most powerful multinational corporations. The water section of these companies businesses was traditionally delivered by the public sector.

Today the water giants are set to grow even bigger; the World Bank and International Monetary Fund often include private sector participation in water services as a condition of debt re-scheduling; water services are now in line for further liberalisation under the World Trade Organisation; and water privatisation is happening all over the world. All of these changes have put more power in the hands of the big water corporations.

This paper focusses on the past record of four water companies: Vivendi, Suez-Lyonnaise (the two biggest water companies), Enron (which has just declared bankruptcy) and Thames Water (a subsidiary of German water giant RWE).

This paper documents some of the environmental and social records of these companies and their subsidiaries. It reveals a history of convictions for corruption, pollution, connections to oppressive regimes and human rights abuses and corporate lobbying.

Friends of the Earth (FOE) believes water resources should be managed by those who have the objective of putting people and the environment first, and that they should be subject to proper rules of democratic accountability. Water is a precious resource that must be managed in the public interest, not just in the interests of shareholders who may be thousands of miles away. Until corporations have social and environmental duties and are properly accountable to the people they affect, FOE believes the headlong rush to liberalising water services must be curtailed.

Vivendi

Vivendi Environnement is the environmental services (water, energy, waste and transport) subsidiary of French media and communications company Vivendi Universal. It claims to be the number one environmental services company in the world and the largest water company in the world. Vivendi Universal shares are traded on the French and US and Canadian stock exchanges. Vivendi's water division - Vivendi Water - was formed from Vivendi Water Systems, Compagnie Generale des Eaux and US Filter.¹ In this report, "Vivendi" is used to refer to Vivendi Universal and subsidiary Vivendi Environnement.

Vivendi owns the following UK water companies:

- Bewater OTV
- Folkestone and Dover Water
- Mid Kent Holdings
- North Surrey
- SADE (UK)
- South Staffordshire Water

- Three Valleys

Bribery 1

It has been reported that in July 2001, Alain Maetz, a senior manager in Vivendi's water division, was convicted for bribery and received a prison sentence of one year and eight months with conditional discharge. Judges said that Mr. Maetz had paid a bribe of ITL 25m (about £8,000) to Mr. De Carolis, the president of Milan city council, who expected to receive up to ITL 200m (over £64,000) to favour OTV, a subsidiary of Vivendi) in the bidding procedure for the contract for a wastewater treatment plant in the south of Milan. Mr. De Carolis disclosed to Mr. Maetz, the list of bidders for the contract (which should have remained secret) and it has been reported that OTV subsequently bought 51% of Italian company Siba, which appeared in this secret list of competitors. Mr. De Carolis and Mr. Maetz, together with three intermediaries, will have to pay ITL 1bn (over £320,000) damages to the city council.^{2,3}

Bribery 2

In July 1997, a junior French minister Jean-Michel Boucheron was jailed for two years, with a further two suspended, and fined one million francs (£94,800) for taking bribes from companies bidding in public tenders. Boucheron reportedly had received fees of 327,000 francs (£31,000) for a fictitious job by Compagnie Generale des Eaux (Vivendi) in exchange for giving the utility a water distribution contract in Angouleme. He was also found guilty of taking bribes worth about 550,000 francs (£52,000) in 1986-89 from various companies.⁴ Executives of Générale des Eaux were also convicted of bribing the mayor of St-Denis (Ile de Réunion) to obtain the water concession.^{5,6}

Business Standards

The Puerto Rico Aqueducts and Sewers Authority (PRASA) water supply and sanitation services was privatised to Vivendi's Compañía de Agua in 1995. Since then, PRASA has been the subject of two highly critical reports by the Puerto Rico Office of the Comptroller, who said in a press conference that water privatisation "has been a bad deal for the people of Puerto Rico". The most recent report found 3,181 deficiencies in management, operation and maintenance of the infrastructure and said the leakage rate was around 50%. Since privatisation, PRASA has reportedly been fined a total of \$6.2 million (£4.3 m) for various violations of environmental laws.⁷

Whole communities on the island have had no water supply for weeks and even months at a time. MAPT, 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.⁸

Environmental Pollution 1

Vivendi's subsidiary Tyseley Waste Disposal Ltd was listed by the Environment Agency as the second worst polluter in the UK in 1998. 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."⁹

Environmental Pollution 2

Another of Vivendi's subsidiaries, waste management company Leigh Environmental (now called SARP UK) received the fifth highest fines (£87,500) with seven prosecutions for pollution in 1999.¹⁰ In 1998 Leigh Environmental was also in the Environment Agency's worst ten polluters list, with fines of £18,000 and three prosecutions.¹¹

Environmental Pollution 3

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.¹² The Health and Safety Executive and the Environment Agency investigated the incident and SARP UK was prosecuted and fined a total of £270,000 which Environment Minister Michael Meacher said was "a measure of how seriously the Court viewed these offences".¹³ In their summary of the case, the Health and Safety Executive said the "public [were] put at serious risk".¹⁴

Health and Safety 1

Vivendi subsidiary Norwest Holst Construction Ltd was prosecuted and fined £50,000 with costs of over £20,000 after an employee died from injuries received when he struck an underground electric cable with a pneumatic drill in September 1998. The court found that site rules were not being enforced, despite the fact that this was high risk work. No edge protection had been provided and the risk assessment for the work was inadequate.¹⁵

Health and Safety 2

Vivendi subsidiary Onyx UK Ltd was prosecuted and fined £14,500 after contractors were exposed to asbestos during its removal from a property in October 1999. The contractors were not licensed for asbestos removal and inadequate precautions were taken. The risk was described as "significant". Onyx was also prosecuted and fined £3,600 after an employee fell 2.5 metres and fractured his skull and collar bone in October 1998.¹⁶

Health and Safety 3

Vivendi subsidiary Ringway Highway Services Ltd was prosecuted and fined £50,000 after an employee had his leg amputated after being run over by a chippings spreader in January 1999. It was ruled that Onyx had insufficiently safe reversing systems.¹⁷

Lobbying

Vivendi is a member of several corporate lobbying groups, including the European Social Forum (ESF) and USCSI (the US Coalition of Service Industries). The ESF describes itself as "committed to promoting actively the interests of European services and the liberalisation of services markets throughout the world in connection with the GATS 2000 negotiations"¹⁸, and USCSI is a major service industry lobby group which claims a significant role in setting a liberalisation and deregulation agenda for negotiations on the WTO General Agreement on Trade in Services (GATS). Inclusion of water in

the GATS agreement will give multinational companies greater access to water resources or, in other words, will allow and encourage extensive water privatisation.¹⁹

Suez

Suez-Lyonnaise-des-eaux was formed from the merger of Compagnie de Suez and Lyonnaise des Eaux. In 2001 it changed its name to Suez. It is the world's largest water company and one of the ten largest companies in the world. Its shares are traded on the French and US stock exchanges.²⁰

Suez owns the following UK water companies:

- EL Water
- Essex and Suffolk
- North-East Water
- Northumbrian (SW Scotland)
- Northumbrian Water
- NWG/SP
- Water Training

Environmental Pollution

Suez's subsidiary London Waste Ltd was listed by the Environment Agency as the third worst polluter in the UK in 1998. 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."²¹

Business Standards

Since 1993 Suez-Lyonnaise has been the major partner in the privatised utility supplying water to Buenos Aires' 10 million inhabitants, one of the largest water concessions in the world. According to the first independent study of the utility, prices were raised by more than 20% after privatisation. It reported that many poorer families - if at all connected to the supply - can no longer afford to pay their water bill. The sewerage system, which was to be renewed according to the contract, does not function. 95% of the city's sewage is dumped into the Rio del Plata River, causing environmental damage that must in turn be paid for with public funds.²²

Price Increases

In Manila, water prices are set to rise by over 50% after months of bitter dispute. In October 2001, Maynilad Water Services Inc. (MWSI) (partially owned by Suez) was given permission to increase rates by up to 64%, despite the privatisation project missing its key target of providing 24 hour water supply to all connections.²³

Bribery 1

Water supply and sanitation in the city of Grenoble was contracted to COGESE, a subsidiary of Suez-Lyonnaise, in 1989. The sanitation service in the region of greater Grenoble was contracted in 1985 to

a joint venture owned equally by Suez-Lyonnaise and Vivendi-GdE. In 1994 French magistrates found that the water service was privatised in exchange for contributions by Lyonnaise des Eaux (now Suez-Lyonnaise) to the electoral campaign of Alain Carignon, ex-Mayor of Grenoble, and other gifts, totalling over FF19 m (£1.8 m), and prosecuted Carignon, and two executives of Suez-Lyonnaise.

In 1995 Jean-Jacques Prompsey, a Lyonnaise des Eaux executive (who by 1995 was chief executive of SITA, Lyonnaise's waste management division) was convicted of paying bribes and sent to prison for four years. Alain Carignon, (who by 1995 was minister of communications in the French central government) was convicted of accepting, and sentenced to one year in prison. The courts also ruled that consumers could claim compensation of a total of FF 300,000 (£28,400). COGESE used various methods including factitious accounting to inflate the price of water charged to consumers. It has been estimated that the total cost to the citizens of Grenoble was in excess of FF 1bn (nearly £95m). In 2000 Grenoble city council terminated the private contracts and replaced them with a municipal service.²⁴

Bribery 2

Suez-Lyonnaise, through its subsidiary Dumez International, has been accused of bribing a top official in the South African Lesotho Highlands Water Project in order to gain project contracts. In August 1999 after the Lesotho government accused Masupha Sole, the former CEO of the project, of taking nearly \$2 million in bribes from ten companies and two consortia. Dumez International was formally charged with bribery.²⁵ The companies deny the allegations.²⁶

Disputes

In September 1998, Thames Water and Suez Lyonnaise subsidiaries were involved in a dispute with Jakarta City Council who claimed that the water agreements held by the companies were unfair for two reasons. Firstly, unfair to consumers due to high price increases for people who were already facing economic hardship. Secondly, unfair to Indonesian workers as the companies discriminated against local employees in their wage structures.²⁷ By April 1999, Jakarta workers were taking strike action demanding equal pay for all water workers and an end to privatised water concessions in the city.²⁸

Over abstraction

In 1998 Suez-Lyonnaise subsidiary Essex and Suffolk Water were fined £14,000 for over-abstracting water over a period of three years at five sites in Suffolk.²⁹

Health and Safety 1

Suez subsidiary Lancashire Waste Services Ltd was prosecuted and fined £12,500 in January 1999, after an employee fell from the top of a skip. There was no safe system for working on skips in place.³⁰

Health and Safety 2

Suez subsidiary SITA Wastecare Ltd was prosecuted and fined £15,000 after an employee died when

hit by a large skip which fell off a lorry. Even after a number of previous incidents, SITA had not carried out adequate risk assessments.³¹

Enron

Enron, a US company started life as a gas company in the 1980s. It quickly diversified to become one of the world's largest companies, transforming itself into a multi-sector service corporation. Between 1999 and 2000, its total revenues increased by 151 per cent from \$40 bn to \$108 bn. But in November 2001, the company filed for bankruptcy, after admitting that profit margins between 1997 and 2001 had been inflated.

Enron's main business was electricity generation, but since 1998 it also had big interests in the water sector through its subsidiary Azurix which owns two UK water companies: EWE and Wessex Water.

Lobbying 1

Enron's lobbying expenditures for 1998 were \$1,600,000.³² The company's chairman Kenneth Lay has close connections with US president George Bush and Enron made substantial donations to his presidential campaign. Lay personally gave \$318,050 to Bush's electoral campaign in 2000, and Enron gave another \$300,000 to Bush's inauguration party.³³ Kenneth Lay is now one of Bush's top energy advisors, playing a key role on his Energy Advisory Panel and working with the new Energy Policy Development Council.³⁴

Lobbying 2

Enron is a member of several corporate lobbying groups, including the European Social Forum (ESF) and USCSI (the US Coalition of Service Industries). The ESF describes itself as "committed to promoting actively the interests of European services and the liberalisation of services markets throughout the world in connection with the GATS 2000 negotiations"³⁵, and USCSI is a major service industry lobby group which claims a significant role in setting a liberalisation and deregulation agenda for negotiations on the WTO General Agreement on Trade in Services (GATS). Inclusion of water in the GATS agreement will give multinational companies greater access to water resources or, in other words, will allow and encourage extensive water privatisation.³⁶ Enron was a major sponsor of the World Services Congress in Atlanta where the agenda for GATS 2000 was consolidated.³⁷

Corruption / Human Rights

Human rights groups, including Amnesty International and Human Rights Watch, have criticised Enron for its activities at its Dahbdol power plant in India. This power plant has been surrounded by controversy since 1992. In 1995 the new government set up an enquiry which concluded that the deal for the plant should be cancelled. Problems associated with the plant have been documented as including ^{38, 39, 40}

beatings and denial of water to villagers;

allegations of corruption of politicians;

documentation of persecution of opponents to the plant;

suppression of peaceful protests against the plant;

surrounding wells and rivers of local villages drained as the plant uses so much water;

pollution;

the contract was awarded in secret (ie without competitive bidding);

estimates that Enron will recoup more than six times its initial investment from consumers.

According to Amnesty International and local human rights groups, Enron security guards and local police have used violence, harassed women and children, and arrested activists without due legal grounds. Enron has paid for extra local police to be posted in surrounding areas to protect the plant. It did not speak out against the human rights violations and is alleged to have actively participated in the suppression of protests.⁴¹

Environmental Pollution 1

Over the past decade, Enron has been listed for numerous spills of hazardous materials on the EPA ERNS Database. Substances involved in these spills include: natural gas, crude oil, asbestos, arsenic, polychlorinated biphenyls, isobutane, sodium hydroxide, ethane and various other chemical substances.⁴²

Environmental Pollution 2

In 1998, Enron subsidiary Wessex Water was ranked by the UK Environment Agency as the fourth worst polluter with five prosecutions resulting in total fines of £36,000. 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."⁴³

Corruption/bribery allegations

In March 2000, the World Bank cancelled a \$100m water project loan in Ghana because of corruption concerns and Britain's Department for International Development cancelled a \$30m rural water project. Enron subsidiary and water arm Azurix which was reportedly awarded the contract on a non-transparent basis denied press allegations that the company paid a \$5m bribe to senior officials to secure the contract.⁴⁴

Lack of transparency

In 1999 the Wessex water watchdog, Ofwat Wessex Customer Service Committee, criticised Wessex Water for its lack of transparency over the way the company had handled publication of its results for 1998-99.⁴⁵

Thames Water (RWE)

Thames Water is the largest water and wastewater company in the United Kingdom with 12 million customers. Thames water has received many complaints regarding rate increases and poor service. CEO Bill Alexander made more than 14 times the average employee wage and the base salary of Thames Water executive directors was increased by an average 4% while there was no reported increase for non-executive employees.⁴⁶

Thames Water was bought by German water giant RWE in September 2000. RWE also has also had its share of controversies, ranging from allegations of corruption to pollution, but this report focusses on Thames Water specifically.

Business Standards

Thames Water has also been criticised for operating in Indonesia whilst President Suharto was in power. His reign over the country was dominated by human rights abuses and nepotism⁴⁷ and the ethics of a western company making profit in these conditions are questionable. Furthermore, in Jakarta, Thames Water was originally in partnership with a company owned by Sigit Harjojudanto, President Suharto's eldest son.⁴⁸ After the fall of Suharto in 1997, the concessions were re-negotiated, but in May 1999 Thames Water admitted that Harjojudanto still owned 5% of Thames' subsidiary TPJ.⁴⁹

Disputes

In September 1998, Thames Water and Suez Lyonnaise subsidiaries were involved in a dispute with Jakarta City Council who claimed that the water agreements held by the companies were unfair for two reasons. Firstly, unfair to consumers due to high price increases for people who were already facing economic hardship. Secondly, unfair to Indonesian workers as the companies discriminated against local employees in their wage structures.⁵⁰ By April 1999, Jakarta workers were taking strike action demanding equal pay for all water workers and an end to privatised water concessions in the city.⁵¹

Leaks

A report by water regulator Ofwat in 2001 showed that Thames Water's already high leakage rate increased in the period 2000-1 from the rate in the period 1999-2000. Thames water did not meet the leakage target set by the regulator which recognised that Thames Water is operating in difficult conditions, but said that it was "concerned that there are deeper and more significant problems".⁵²

Environmental Pollution 1

Thames Water has been prosecuted by the Environment Agency for pollution 24 times since 1996.⁵³

Environmental Pollution 2

In 1999, Thames Water Utilities Ltd was the worst polluter in the UK, having the most prosecutions for pollution, with eight court appearances, eight prosecutions, and total fines of £79,000 (the third highest

in the country).⁵⁴

Environmental Pollution 3

In 2000, Thames Water Utilities was the third worst polluter, with five court appearances and six prosecutions. The company was fined a total of £288,000, making it the company fined the most for environmental pollution in 2000.⁵⁵

Conclusion

Friends of the Earth recognises that the public sector has not always delivered water resources to the public in an efficient and cost-effective way. A proper strategy for water, including investment in water infrastructure is needed and this should be developed in a participative and democratic manner. Friends of the Earth believes that, given the corporate record of the multinational water companies, we cannot assume that these companies will deliver water any better than the public sector. These companies, which have a duty to maximise profits for their shareholders do not necessarily have long term sustainability, water conservation, environmental protection and fair access to water in mind.

Until there are adequate duties on multinational corporations to operate in a sustainable way they cannot be the entities to deliver the world's water. Regulation is needed to ensure that corporates maintain a consistently high standard of behaviour wherever they operate, and to ensure that the democratic rights of citizens and stakeholders come before the profits of shareholders.

Friends of the Earth calls on the International Conference on Freshwater to halt the privatisation of the world's water and not to support further liberalisation of trade in water services through the WTO. Water is not a commodity to be traded on the stock exchange so that it can make profit for the corporate sector, but a resource essential to all life. A strategy for its distribution and conservation should be built upon the foundation of rights, equity and democracy and not on the foundation of profit.

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