a report by

Public Citizen

Suez

A Corporate Profile

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

Photograph by Maj Fiil-Flynn

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Public Citizen

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.

SUEZ FACTS:
WHO, WHAT, WHERE, & WHEN

(from 2001 Annual Report)

The Name Game -Suez goes by many names:

Ondeo, Aqua Chem, Degrmont, Nalco, Suez Lyonnaise des Eaux, Calgon, Elyo, Trigen Energy, United Water Resources, SITA, Groupe GTM, Tractabel.

The Money

Suez is number 99 on the Fortune 500.
Suez has a Net Income of - $2.1 Billion

Total Revenue of - $41.9 Billion

With $15.23 Billion in revenue from water services.

Suez paid out $1.84 Billion in dividends to stockholders.

The Empire

Suez operates in 130 countries.

Suez's has its biggest grip on the markets in the United States, Europe, China and Latin America.

Suez has over 125 million customers in the water market.

With another 70 million customers in the wastewater market.

United Water Resources, the second-largest private water services company in the U.S., in an all-cash transaction valued at $1.02 billion became a wholly-owned subsidiary of Suez.

What's Going On -

Suez was set up in 1858 to build and operate the Suez Canal, since then Suez has acquired 4 different US companies and has reached all over the globe for the control of water. Today it controls the water in more than 34 cities in the United States, as well as 100s of cities throughout the world.

Seats of Power

Suez's headquarters are located in Paris, France.

Suez

CEO: Gerard Mestrallet

Suez - A Corporate Profile

The only thing worse than being a shareholder is being a customer

Part I: The Background

It's $29 billion in debt. It posted a $950 million net loss in 2002.[1] It just bungled huge, high-profile contracts in Atlanta, Buenos Aires, and Manila. Its stock has lost two-thirds of its value in the last year.[2] It's Suez, one of the biggest private water corporations in the world, and it isn't pretty. And that's just if you're a shareholder.

It's decidedly worse if you're one of Suez' 125 million water service customers in one of the roughly 130 countries where Suez operates. Suez has been scrambling to do whatever it takes to turn its financial fortunes around. That means that as water divisions Ondeo and United Water grab control of a city's water system, a top priority is cutting costs, because low costs mean higher revenues. So Suez slashes water system staffs to inadequate levels, fails to perform necessary maintenance, tries to delay or avoid altogether any costly infrastructure investments, screams for higher rates, more money from government or both, and blames public officials, or just the public, for all the company's problems. Customers end up paying more for less.

Whether they're industry executives drawing a bloated salary, government officials depositing an industry bribe, ponderous ideologues sucking their thumbs in market worshiping think tanks, or silk-tied silver-haired masters of all they survey cloistered in international financial institutions like the World Bank, privatization's apologists and promoters trot out corporations as The Big Answer for a developing world that so desperately needs safe, drinkable water. Business will come to the rescue, the world is told.

Suez, however, is in the water business, not the rescue business. As far as Suez is concerned, there's one big reason the company lost $900 million in 2002: Argentina.[3] How could Suez possibly collect money from its Argentine water customers amid that nation's enormous fiscal crisis and the collapse of the nation's currency? It couldn't. Suez took a financial bath, writing off $500 million. And Suez has had enough.

Unveiling the New Corporate Strategy

In January 2003, Suez unveiled its "action plan" designed to rescue the corporation from its colossal debt and chart the path back to profit. Key among those action items is reducing by one-third the company's exposure in "emerging countries."[4] Suez instructs its companies to reach profitability within three years of operation pulling a potential of 27 years of profitability on its lease and concession contracts.[5]

Among other "problems" within the Suez emerging countries portfolio, weak currencies led to a "specific refusal/impossibility to increase water rates, in compliance with contracts, to compensate for devaluation of depreciation effects."[6] In Manila, Buenos Aires and other cities, Suez discovered there were limits on how far government regulatory structures would succumb to corporate demands. Even weak regulatory bodies created to "partner" with corporate interests, had limits in their political ability to burden consumers with continuous rate hikes in order to compensate for currency de-valuations or other corporate misfortunes. As such, the company is reducing investments in those risky "emerging markets" and shedding assets.[7]

The Suez action plan to de-emphasize investment in developing nations flatly contradicts the prevailing corporate/government mantra that the private sector will provide safe and affordable water to nations that most need assistance. On the contrary, the more troubled a region or its economy, the less likely privatization's prospect for delivering anything but empty promises. Instead of making needed investments and applying private sector efficiencies to increase access to water services at affordable rates, Suez openly acknowledges that it can't cut it financially in the developing world, and certainly can't afford to make infrastructure investments in a "market" that can't support the water company's profit expectations.

So, the Suez corporate strategists took a new look around the world and decided to refocus their competitive grab for market share on (1) Europe – especially France, Belgium and to a more limited extent, Eastern Europe, and (2) North America, including Mexico, with a focus on expanding the foothold of United Water. These markets tend to have more complex and developed legal and regulatory structures protecting the environment, labor and consumers, a definite disadvantage from the corporate viewpoint. On the other hand, they house a population of relatively stable middle-class consumers capable of generating a secure revenue stream. Which is to say Suez is applying the Willie Sutton strategy; Sutton, when asked why he robbed banks, famously replied, "that's where the money is."

Improving the global "investment climate"

Clearly influenced by the Suez strategy, leaked documents from the European Union (EU) showed that the EU requested the United States, Mexico, Canada and Switzerland to commit their water sectors under the World Trade Organization (WTO) negotiations on the General Agreement on Trade in Services (GATS). After substantial pressure placed by US civil society organizations, US trade negotiators publicly stated in March 2003 that they rejected the EU's request that water "collection, treatment, distribution" for human use be opened up to foreign competition under highly favorable GATS rules. However, the persistent push from Suez and other corporations, coupled with a trail of closed-door meetings reflecting pronounced corporate access to and influence over decision makers with international trade organizations and financial institutions, suggests assurances from the US trade team may be, at best, changeable, or less charitably, a cynical hoax. US fair trade activists will remain vigilant as WTO negotiations proceed.

Suez played a major role in shaping the EU GATS requests as evidenced by a letter from the EU trade commission to Suez stating: *"One of the main objectives of the EU in the new round of negotiations is to achieve real and meaningful market access for European services providers for their exports of environmental services."*[8] This statement was sent along with a questionnaire asking major water corporations for their wish-lists on market liberalization. Suez's interest in the GATS negotiations includes (1) proposals to abolish 'restrictive fee setting' – policies that governments may use to protect low-income consumers, (2) concerns about overburdensome licensing requirements and national regulations ensuring high environmental standards and drinking water quality, and (3) restrictions requiring foreign investors to enter with local business partners. Suez had an open door to the trade commission while civil society was shut out.

Suez does not officially take part as a non-governmental organization (NGO) in the World Trade Organization events, but the European Services Forum (ESF) participates on behalf of its two members from the water sector, Suez and Veolia (formerly Vivendi), and exercises substantial influence in the negotiations. In fact, at the WTO meeting in Seattle, ESF was an official member of the EU delegation. Over 50% of the accredited NGOs registered for the September 2003 Cancun Ministerial in Mexico are so-called BINGOs (Business Initiated Non-Governmental Organizations), leaving little doubt that the behind the scenes activities are left out of reach for ordinary citizens.

While Suez is eager to get a larger foothold in the North American market and claims it will reduce its "exposure" in the developing world over the short-term, there can be no doubt that the longer term plan is to reform the institutional, regulatory and legal environment in order to maneuver in those "emerging country" markets with less risk and more profit. Part of this reform plan is evidenced in the requests made by the EU asking 72 countries to commit their water sectors under the GATS. More than 70 percent of the EU requests were made to developing countries, despite the EU's previous assurances that there were no requests made to those nations.

Another key part of the Suez reform agenda directed at developing country markets is reflected in the report of the World Panel on Financing Water Infrastructure chaired by ex-International Monetary Fund (IMF) Managing Director Michel Camdessus. Suez Vice President Gérard Payen sat on the panel which argued for new credit, risk insurance and guarantee programs from the public coffers of the World Bank, IMF, export credit agencies and multilateral banks to protect the earnings of the global water companies in risky markets.[9] Other members of the panel included representatives of the World Bank, Citibank, US Ex-Im Bank, European Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, and others.[10] If implemented the programs proposed in the Camdessus report would ensure corporate profit with publicly funded guarantees on everything from earthquakes to fluctuation of international exchange rates. The Camdessus report was unveiled at the 3rd World Water Forum in Kyoto, Japan in March 2003. The World Water Forum is organized by the World Water Council and Rene Coulomb, a former Suez vice-president is one of its three founding members.

The IMF and the World Bank thought they had scored a victory when the major global water companies committed to a "partnership" in the Bank's campaign to promote the private sector as the solution to the lack of access to potable water in the developing world. Gèrard Mestrallet, CEO of Suez, gloated about this partnership as the keynote speaker at the World Bank's annual staff exchange conference in June 2002. In his speech, Mestrallet presented the Suez program created at the end of 2001: "Water for All" (co-opting Public Citizen's campaign slogan). The speech, titled "Bridging the Water Divide," claimed that Suez can supply excellent water services at affordable prices that the poor are willing to pay. The background music preceding his statement was John Lennon's "Imagine". Mestrallet further claimed that the concession in Buenos Aires was a huge success – effectively putting the CEO's cluelessness on blazing display. The concession in Buenos Aires was in big trouble at the time of the speech and, after major losses, Suez abandoned Argentina altogether in early 2003.

The World Bank, the G-8 governments, and the major water multinationals had a great public relations strategy. They traveled the world grandstanding about how the United Nations Millennium Development Goals (MDGs) on water and sanitation could be fulfilled through public/private partnerships.[11] The implication, of course, was that the only way water and sanitation services could be expanded to serve the poor in the developing world (and meet the MDGs) was with the involvement of the major water corporations. The World Bank told governments around the world that private sector water companies would bring significant investment as part of the new public/private partnership model.

But a funny thing happened on the way to the public-private paradise. Suez has changed its mind. Actually, the company is not willing to invest. Suez, along with the other multinational water companies, is calling the World Bank's bluff. This is quite damaging to the Bank's already suffering credibility. But, Suez and the other global water companies have some pretty clear suggestions on what the World Bank could do to get them back on board. Specifically, the companies are pinning their hopes on the proposals in the Camdessus report, proposals that would shield the companies from risks and wrap them in a protective financial cocoon of public handouts from multinational banks. It remains to be seen whether the World Bank and other financial institutions will acquiesce to the corporate demands.

In the meantime, the new Suez corporate strategy includes avoiding the risky developing country markets and focusing on the quickest cash flow generating contracts. The strategy also requires unloading debt and, most importantly, avoiding new investment. Suez wants to view itself as an "information" company. The company doesn't want to sink real money into the real nuts, bolts and pipes that make a water system sound. This has forced Suez to back out of some potentially lucrative deals in Germany and Vietnam where investment requirements were just too hefty. And, it has meant selling 75 percent of its shares of Northumbrian Water in order to reduce its debt by 1 billion Euro. The Northumbrian deal releases Suez from the substantial new investment requirements demanded by the British regulator OFWAT under the UK regulatory framework.

Suez is scrambling to streamline its operations to please investors and shareholders. It is a company in the midst of what one industry publication dubbed a "major makeover."[12] Even its much-touted focus on North America is floundering. In June 2003, United Water walked away from a privatization bid process in New Orleans, La., fearing a requirement that any contract must be approved by voters.[13] And, as described in more detail below, city officials in Atlanta, Ga., recently told United Water that the party was over and they should start packing.

Part II: Case studies of Suez in communities around the world

Defeat in Atlanta, Georgia USA

The failure of Suez to effectively operate a water system is by no means confined to developing nations with battered currencies struggling to fend off economic collapse. One of the corporation's most spectacular fiascoes recently came to a head in what is generally considered the most successful, stable and structurally sound economy in the world, the United States.

In 1998, the city of Atlanta signed a 20-year, $428 million contract with United Water, the then-recently-acquired U. S. subsidiary of Suez, to operate Atlanta's water system. It was the biggest privatization contract in the U. S., and its signing was celebrated by victory-declaring water corporations. Atlanta would be the "model" for other communities, gushed privatization's promoters and apologists.[14] Taxpayers and customers would save money and systems would be improved, as privatization proved itself the win-win situation for the 21st century. Atlanta was going to show the way.

Or so the story went.

But even before Suez' U.S. arm took over the system in 1999, there were suspicions that the company had vastly overstated the amount of money it could save, and vastly underestimated—at least publicly—the amount of work required to operate the system. When the company assumed the system's operation, suspicion turned to remorse as Atlanta discovered the ugly realities of the "model" for privatization:

- United Water more than halved the number of employees, and slashed the amount of training provided to remaining employees to levels far below training requirements called for in the contract.[15]

• A backlog of work orders and maintenance ballooned for virtually every portion of the system, from main breaks and facility maintenance to meter installation, hydrant repairs and fleet maintenance. Not only was the company failing to address the growing backlog of work orders, it couldn't even keep competent records of the backlog. A broken water line could take as much as two months to fix; maintenance projects hovered at a 50 percent completion rate.[16]

• Almost immediately, United Water started hitting up the city for more money, and tried to add $80 million to the contract.[17]

• The city found that United Water was improperly billing the city. For instance, routine maintenance was billed to the city as "capital repairs." And the city discovered that United Water personnel, on Atlanta's dime, were working on United Water projects outside of Atlanta, including efforts by the company to land contracts in other cities.[18]

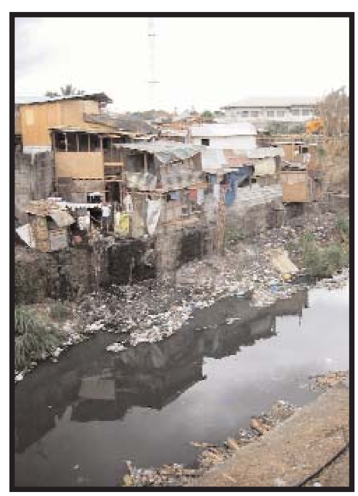
• The city repeatedly complained that United Water was uncooperative and less than forthcoming when the city requested information from the company. Trust in the company eroded to the point that the city spent $1 million to hire inspectors to verify United Water's reports.[19]

• Even after slashing the workforce to inadequately low levels, failing to fulfill maintenance and repair duties called for in the contract and successfully billing the city for millions more than the annual contract fee, the much-vaunted savings from privatization didn't materialize, and the promise that a rate hike could be averted through savings turned out to be empty. Sewer rates went up every year United Water had the contract (17 percent in 1999; 11 percent in 2000; 3 percent in 2001; and 15 percent in 2002). The combined monthly water and sewer bills for average residential customers in Atlanta rose from $46.34 when United Water took over the system to $56.47 by 2002.[20]

The promoters of privatization were absolutely right when they claimed the Atlanta contract would be a model for the privatization of water services. In that model, as so powerfully illustrated in Atlanta, the company makes promises it knows it can't keep, with the expectation that the city can simply be billed for additional charges later. While the extra charges are designed to boost the revenue side of the equation, the company attempts to dramatically cut its own costs by reducing the workforce to inadequate levels and failing to perform maintenance and repairs. The company is emboldened to pursue such an anti-consumer strategy because it has secured a long-term contract designed to hold consumers captive to the company's monopoly for decades.

Atlanta managed to get out—though the contract dissolution agreement attempts to muzzle Atlanta officials from criticizing Suez and its performance.[21] The city now faces the daunting task of taking back its water system and performing needed upgrades that were neglected during United Water's tenure.

Supporters of privatization, meanwhile, in a desperate if audacious stab at spin control, blame Atlanta for all of the company's bungling. Although corporations out to privatize water services routinely boast about superior technical expertise backed by hard-headed business acumen, United Water whined that the realities of operating Atlanta's system were much larger than anticipated, and the city should have told United Water what the company was getting into.[22] Apparently, when United Water showed up in Atlanta, it left all its vaunted expertise and acumen stashed away somewhere in Suez' Paris headquarters.



In a shameless yet incredible display of nerve, privatization's apologists brazenly claim that the Atlanta lesson is still a model for other communities considering privatization. *"Just do everything completely the opposite of what Atlanta did,"* suggested one of privatization's promoters from the think tank ranks.[23]

He's absolutely right. Whereas Atlanta signed its public water system over to a private company, other cities should do completely the opposite, and keep public resources under public control.

Losing Atlanta was a huge hit for Suez, and for all the water corporations, particularly as they try to penetrate the United States with its promise of enormous and enormously stable water utility revenue streams. But even as Suez assures shareholders that everything will be fine once it reduces its risk in "emerging" countries, cuts costs and limits investment, it's worth noting the company's profiteering model of privatization didn't even pan out financially in one of the most economically vibrant cities in the U.S.—city audits showed that $47 million of the massive debt load Suez is currently lugging around was incurred in the course of propping up United Water's Atlanta debacle.[24]

Water battles in Manila, Philippines

Five years after citizens were promised that privatization would lower prices and improve services in Manila, prices have gone up and promised infrastructure investments weren't made. Facing public resistance to efforts to raise water rates even higher, the private concession that included Suez has walked away from Manila, complaining that it can't gouge customers as much as it would like. The rates were set to increase by as much as 700% in December 2002 had Suez had its way.[25]

Under pressure from the World Bank, Manila's water system was privatized into two concessions in 1997. The concession was heavily subsidized by the multilateral development banks and received a US$45 million loan in 1999 from the Asian Development Bank. The east zone concession was awarded to a consortium that included the oligarchy Ayala family called Manila Water Co. Inc. The west zone was awarded to a consortium that included another oligarch family, the Lopezes, along with Suez, under the name of Maynilad Water Services.

Maynilad won the concession with a promise that water rates would be kept at PhP4.97 per cubic meter for the first 10 years of the concession.[26] Just months after receiving the concessions, both concessionaires tried to raise rates. Those rate hikes were fought off, but others weren't. Overall, water rates levied on Manila customers rose threefold under the concessionaires.[27] In June 2002, Maynilad was charging PhP15.46 per cubic meter but was seeking to increase the rate to PhP30 per cubic meter—a far cry from the promised rate of PhP4.97.[28] Sadly, access to water has not increased at such an impressive pace. Six years after the concessions were awarded, one-fifth of the residents in the city are still not connected to the systems. The concessionaires fought for and won contract amendments allowing them to lower or postpone their performance targets.[29] Citing the Asian financial crisis, a debt-choked Suez announced in February 2003 that it was walking away from the Manila contract, and that it intended to seek damages from the Metropolitan Waterworks and Sewerage System (MWSS).[30] The Lopez family had announced its intended withdrawal in December 2002.

Although it is facing a potentially huge price tag to regain control of its water system – Suez wants $303 million for investments, $530 million in loan payments to creditors, and ongoing water and sewer improvement costs- the MWSS is still confident it can run the system more efficiently than Suez.[31]

"We can operate the water system and even turn a profit," Orlando Hondrade, the MWSS administrator, told the International Consortium of Investigative Journalists. "Think of the savings we'll be making because the utility will no longer have to pay millions

SUEZ: Major Water Contracts and Transactions (2001-2003)

New Contracts	*Losses & Sales*
Pisa, Italy – 20 year water concession	Sold 75% of Northumbrian Water, UK
Manaus, Brazil – 20 year water concession	Sold Ondeo Nalco, South Africa
Kaohsiung, Taiwan – 15-year contract	Suffered major losses in Manila, Philippines
Puerto Rico – 10 year contract	Suffered major losses in Buenos Aires, Argentina
Quingdao, China – 25-year contract	Dropped out of bidding, New Orleans, USA
Mexico – contracts in Cancun, part of Mexico City, Torreon, Leon, and Matamoros	Terminated contract, Halifax, Canada
Tangerang, Indonesia – 25-year concession	Terminated contract, Atlanta, USA
Schwerin, Germany – 49% asset sale	Terminated contract, City of Castres, France

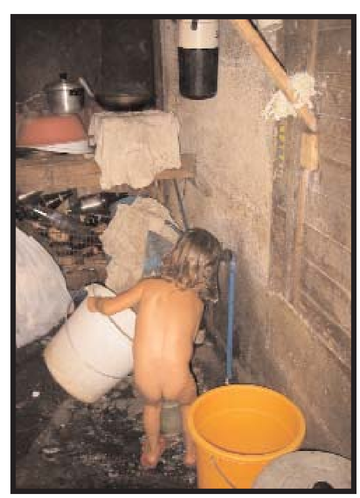
of pesos in executive salaries and consultancy fees."[32] The reality of the poorly-run water system is faced by women and their families, such as Erlinda, who has to wake up at 5 a.m. every day to let the water run before the tap runs dry. When there is no water from the tap, Erlinda is forced to buy water from local water vendors. Her monthly bill is US$47, an astronomical amount in Manila.[33] Suez brought the contract dispute to arbitration through the International Chamber of Commerce and, according to the contract, the Chamber had 150 days to decide on the dispute. As of August 2003, a decision is still forthcoming and the speculation in Manila is that the arbitration proceeding will remain undecided until after the planned 2004 presidential elections, due to the explosive political implications of the decision. In the meantime, Suez continues to operate the concession and when approached at the World Water Forum in March 2003 Gèrard Payen said: *"Manila, who says we are leaving Manila."*

The attempt to renegotiate contracts, charge customers and governments more and more money, and ultimately cry when the scheme doesn't generate the profits the company hoped for is all standard operating procedure for Suez. Manila is no exception to the Suez track record, but characteristic of it.

Buenos Aires, Argentina

In July 2002, Suez terminated one of the largest private water concession contracts in the world. Suez ended its 30-year contract to provide water and sewerage services to the city of Buenos Aires, which served a population of 10 million people, when the Argentine financial crisis turned company profits into losses. The Buenos Aires privatization deal, consummated in 1993, had been widely lauded by the World Bank, the Argentine government and the water industry as an international success story. But, the success story turned sour after the contractual clause that permitted Suez to link water prices to the U.S. dollar, and ensured hefty profits, was overruled by the Argentine government's emergency decree.

During the first eight years of the contract, weak regulatory practices and contract re-negotiations that eliminated corporate risk enabled the Suez subsidiary, Aguas Argentinas S.A., to earn a 19% profit rate on its average net worth.[34]



However, by 2002, Suez had to write off $500 million in losses because of the Buenos Aires concession.[35] What did the soaring profits, sudden crash, and subsequent contract termination mean for the residents of Buenos Aires?

IMF and World Bank structural adjustment programs have long been squeezing social services and public infrastructure in Argentina. The privatization of water became an added burden on the general population. According to Fernando de la Rua, one of many presidents that have come and gone during the Argentine crisis (speaking in March 1999 when he was Mayor of Buenos Aires): *"Water rates, which Aguas Argentinas said would be reduced by 27% have actually risen 20%. These price increases, and the cost of service extension, have been borne disproportionately by the urban poor. Non-payment for water and sanitation are as high as 30 percent, and service cut-offs are common with women and children bearing the brunt with health and safety consequences."*[36] The rate increases were supported by senior managers from the World Bank. A highly esteemed Argentine businessman who was a shareholder in the company allegedly made $100 million on the privatization deal.[37] And despite the rate hikes, the consortium in 2002 defaulted on $687 million in loans.[38]

The weak regulatory agency, ETOSS, subordinate to both presidential and corporate power, permitted constant contract modifications and non-compliance with performance objectives. These resulted in successive increases in consumer water rates, modifications to the financing program for the expansion of service, currency exchange risk insurance for the company, and the indexation of consumer water rates to the devaluation of the peso exchange rate. For example, Aguas Argentinas reneged on its contractual obligations to build a new sewage treatment plant. As a result over 95% of the city's sewerage is dumped directly into the Rio del Plata River. As Suez exits the scene in Buenos Aires, the government and the nation's taxpayers are left to clean up the mess. Using an increasingly feared tactic of multinational corporations, Suez will attempt to re-coup the $500 million loss by bringing claims against the Argentine government using the World Bank's International Centre for the Settlement of Investment Disputes. The exact monetary amount of Suez' claims against the Argentine government are "secret" but they demand compensation relating to the water concessions in Buenos Aires, Santa Fe, and Cordoba.

El Alto, Bolivia

In January 2005 the citizens of El Alto took to the streets to demand that their water system, privatized in 1997 under World Bank pressure, be returned to public hands. Pressured by a peaceful general strike that paralyzed the city of El Alto for three days, the Bolivian government announced the termination of the contract held by private consortium Aguas del Illimani, (major shareholder is Suez) on January 13, 2005.[39] This is the second contract with a transnational water corporation to be cancelled by the Bolivian government. Five years earlier in Cochabamba, Bolivia several weeks of violent conflicts between protestors and the military led to the expulsion of a consortium controlled by the American transnational corporation, Bechtel.[40]

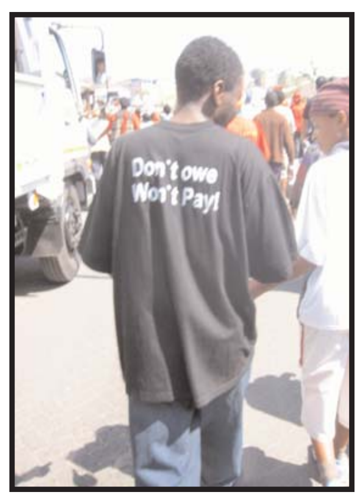
Tension between the French foreign company and the citizens of El Alto has been simmering for a number of years. Vendors, school children, and workers on their way to La Paz pass a daily reminder of the colonization of their public water system. The billboard that stands in front of the water treatment plant features a Caucasian baby with curly blond locks swimming in a pool below the slogan "Más agua, más vida" ("More water, more life.") The slogan reflects just how disconnected Suez is from the realities, needs or aspirations of the population it purports to serve. The baby's pearly white skin contrasts with that of the majority of citizens of a country in which over 60% of the population claim indigenous heritage.[41]

The Suez contract is a classic example of "ring fencing," where the contract obligates service delivery only in specific areas of the city. What is termed the "served area" in the Suez contract focuses water service provision on profitable customers and removes obligation from extending service to the newest and most marginal settlements—the areas most in need of improvements. According to the Federación de Juntas Vecinales (FEJUVE, or the Association of Neighbourhood Boards) approximately 200,000 people in El Alto currently live outside the "served area" and this number continues to grow.[42] Suez has not only left 200,000 people outside the "served area," it has also priced the possibility of connecting to the piped water system out of the reach of most of Bolivia's poor. The price of a new water and sewerage connection has been raised to the equivalent of $445, in a country where the minimum wage is $60, that is, for the few lucky enough to have a job in the formal economy.[43] Due to excessive hikes to the costs of services since privatization, FEJUVE reports that around 70,000 people who live within the "served area" cannot afford to pay for basic services offered by Suez.[44]

FEJUVE and other social movement groups in Bolivia are demanding the immediate transfer of the water and sanitation system to SAMAPA, the municipal utility that ran the water system before privatization. The Bolivian government is worried about investor lawsuits and the "signal" such a move might send to other foreign investors. As usual, Bolivia is victim to the whims of international financial institutions, in particular, the World Bank. Bolivian president Carlos Mesa argued that should the government cancel the contract on terms unfavorable to Suez and the other shareholders of Aguas de Illimani, the Bolivian government will have to pay US$17 million to the World Bank.[45] After the Water War in Cochabamba, the World Bank became an associate of Aguas del Illimani through its private sector lending arm, the International Finance Corporation, which owns 8% of shares.[46] This move has put the Bolivian government in a very vulnerable position, because now the World Bank has direct interest in guaranteeing the investment and is judge and jury of the likely forthcoming lawsuit. Suez has threatened to sue the Bolivian government for $90 million dollars in the International Centre for the Settlement of Investment Disputes (ICSID) for lost investments and future profits, similar to the lawsuit pursued by Bechtel for the termination of the Aguas del Tunari´s concession contract following the "Water War" in Cochabamba in 2000.[47]

The financial operations of Aguas de Illimani are kept secret and citizens do not know how much investment or profits have been made. In an interview with Business News America, General Manager Kuhn, stated that Aguas del Illimani did not distribute any profits to its shareholders in the first seven years of the concession.[48] By contrast, Suez reports on its website that it made US$4 million in profits in Bolivia last year. Aguas del Illimani claims that it has invested $63.5 million in La Paz and El Alto, at least $52 million of this money consists of low-interest loans from international financial agencies: US$15 million from the Inter-American Development Bank; $15 million from the International Financial Corporation, the private lending arm of the World Bank; $10 million from the Andean Development Fund; and $12 million from other international sources.[49]

FEJUVE is demanding that the new public utility be controlled by citizens, rather than politicians or private companies, national or international. FEJUVE has developed a proposal in consultation with the neighborhood committees for a new water company that would be controlled by a board of representatives, democratically elected from all the districts in La Paz and El Alto. The hopes are that by guaranteeing popular participa-



tion within the utility, citizens will be able to guarantee transparency, efficiency, and democratic governance. In response to this proposal, international donors have announced their intentions to strangle the new water utility by cutting its access to international finance. Against all these odds the Bolivian popular movements remain determined to solve the basic problems of access to clean and affordable water and ensure that all citizens be permitted to live with dignity.

Jakarta, Indonesia

Today, six years after a major water privatization contract was signed, most of the poor in Jakarta remain without piped water services. Under Suharto's dictatorship, doing business in Indonesia meant partnering with a local firm. And most major business corporations were controlled by the Suharto family. When key multilateral (World Bank) and bilateral (Japan) loans were secured, Suez and Thames began making moves to position themselves to take over the public water system. Thames formed an alliance with the Sigit Group, controlled by Suharto's eldest son, Sigit Harjojudanto. Suez worked with a Suharto business crony, Anthony Salim, CEO of one of Indonesia's largest companies, the Salim Group. There was no open and transparent bidding process. Instead, in 1997, after protracted private negotiations, the contracts were simply awarded to the two new entities. Thames' partnership with Sigit Group was called PT Kekar Pola Airindo and the Suez partnership with Salim Group became PT Garuda Dipta Semesta. The fact that national law and local regulation prohibited foreign investment in drinking water delivery and precluded private sector involvement in community drinking water supply was, apparently, irrelevant.[50]

The new 25-year contracts with PAM Jaya, the municipal water supplier, were expected to be lucrative for both the international and local partners. The new companies immediately moved into posh new offices in Jakarta's business district rather than using the older office space where PAM Jaya had operated. The salaries paid to the Suez executives, who lived in the wealthiest neighborhoods, were much higher than those paid to PAM Jaya officials causing much resentment among the employees. The contracts required the new companies to not only manage the system, but in the first five years to expand the existing pipeline, invest $318 million, add 1.5 million customers, service 70 percent of the population, increase water supply, and reduce "unaccounted-for" water.[51] PAM Jaya agreed to force businesses and private homes to shut down private wells and buy their water from the companies. (In 1997, about 70 percent of water used in Jakarta came from private wells.)

Payment to the companies was not linked to revenue collected, but rather each company was paid a fee by PAM Jaya based on water supplied. In this way, the companies de-linked their profits from the risks and problems of collecting consumer fees. Initially, the companies demanded to be paid in dollars, since they borrowed in dollars. But when the governor of Jakarta threatened to resign over the issue, Thames and Suez agreed to accept rupiah. However, they insisted that payments in local currency be pegged to the U.S. dollar to protect them against currency devaluation. There was no formal regulatory or oversight mechanism. PAM Jaya had no right to see financial reports of the companies and there was no clear sanction for non-compliance with performance targets.

In 1998, the Asian financial crisis and the downfall of Suharto changed the political landscape. Fearful of the street protest, major company executives from Suez and Thames fled to the safety of Singapore. Faced with an immediate water crisis, Jakarta's new governor ordered PAM Jaya to fill the vacuum and take back the operation. After intensive lobbying, including intervention by French and British diplomatic officials, and a statement from the British Embassy that "breaching of the contract would weaken confidence in Indonesia as a place to invest," the agreement was made to let Suez and Thames return, but the contract would need to be re-negotiated.[52] Since Suharto had fled, and the former president's family and business partners were targets of public anger, Thames and Suez agreed to buy out the local shares of their business operations in order to remove the tarnish of the Suharto family connections. As might be imagined, investment and expansion targets were never met, but there was also no reliable mechanism for verification of company reports. Suez claimed it had increased connections 50%, falling short of the 70% target. Investment was about $200 million short of the target. The financial crisis brought dramatic devaluation of the rupiah, which meant that revenues from customers fell while the payments to the private companies (pegged to the dollar) forced PAM Jaya into ever-deeper debt. Given the tense political situation in Indonesia, consumer rate increases were repeatedly delayed. Water services in Jakarta's rich, middle-class and industrial areas improved. However, most poor communities remain without piped water due to unaffordable connection charges, informal tenure arrangements, and lack of incentives for PAM Jaya or the companies to service these areas.

Customers must still boil their water to ensure its safety for drinking. According to PAM Jaya engineer Feri Watna, "the companies…just came in and robbed everything that we had. We already had the distribution networks, all those pipes, the water installations, the consumers and everything else."[53]

Johannesburg, South Africa

South Africa is often used as a showcase for Africa. With a modern economy and huge investment potential it is often deemed the economic engine of Africa. For Suez it's a water privatization display case.

As the era of apartheid transitioned into a black, majority-rule democracy, the World Bank played an important role advising the new South African government and wrote the main part of the new South African Urban Infrastructure Investment Framework in 1994.[54] The Reconstruction and Development Program of the South African government proposed a national water tariff with cross subsidization in order for low-income residents to access at least 50 liters of water per day in the short term and up to 200 liters in the longer term. Unfortunately, these policies were overruled by policies biased towards privatization and cost-recovery introduced in the Growth, Employment and Redistribution program in 1996.

Suez collaborated with the Apartheid government. It has been active in the country since 1970 when the subsidiary Degrémont won a contract to design and construct water and wastewater plants.[55] In the following years Suez was active in over 200 such contracts that supplied clean water to the white minority while ignoring the needs of black South Africans. During Apartheid the Black population was not allowed to permanently reside in white areas, which included major cities and the best agricultural areas. Black South Africans could rent council housing in the cities or reside in so-called "homelands." The result was that services to black South Africans were far inferior to that of whites and often more expensive. Cut-off restrictions applied in black townships while white households were ignored. This is the system Suez saw as a business opportunity in the 1970s. As a result the anti-apartheid organizations called for rent-boycotts, and service bills went unpaid for many years.

In 1986, Suez formed Water and Sanitation Services Africa (WSSA), a joint venture with another company named Group Five, and began the operation of wastewater treatment in KwaZulu Natal. In 1992, it won a 25-year lease contract in Queenstown (Eastern Cape), in 1993 WSSA signed a lease contract with Stutterheim (Eastern Cape) and in 1996 the corporation won the operation and maintenance contract for Zandvliet Waste Water Treatment Works (Western Cape) and for

Mtubatuba Water Treatment Works (KwaZulu Natal). WSSA has further launched a partnership in wastewater services with Durban Metro.[56]

Suez contracts have been most controversial in the larger cities. In 2001, the Suez-led JOWAM consortium signed a 5-year contract to provide water management in Johannesburg. At the beginning of 2003 a worker died in a manhole after the company failed to provide safety equipment. Members of the South African Municipal Workers Union (SAMWU) were allegedly reprimanded by the company for exposing the death to national TV.[57] In Johannesburg, Suez has installed pre-paid water meters in one of the poorest townships, Orangefarm (and requires residents there to physically unblock sewer pipes every three months).[58] Pre-paid meters require consumers to pay for their water before they use it and automatically cut-off water users when more money is owed. The use of pre-paid meters has been linked to cholera outbreaks in KwaZulu Natal. Suez has ignored the UK high-court ruling forbidding pre-paid meters and is intent on testing these meters in Africa to increase the company's profitability. The company wants to eliminate the messy work of billing for water and has ignored complaints from the township about the system and reports of faulty meters. But Orangefarm is just the test case – the company plans to introduce pre-paid water meters in the vast township of Soweto by 2004.[59]

In Cape Town the Suez contract at the Zandvliet plant led to prolonged labor disputes and continues to be embroiled in controversy. The workers were demanding a housing subsidy, an 11.3% wage increase and an extended job safety agreement.[60] Shop stewards at the plant allege that they are targeted for their involvement with SAMWU, an official trade union, and their work to keep utilities in public hands. In September 2002, 22 workers were arrested at a strike and jailed for several days. Max Ntanyana, a SAMWU shop steward at the plant, has been repeatedly arrested. When the Mandela Park community went to protest, Suez called the police and allegedly requested that Italian filmmakers who were recording the scene be detained.[61] Neither the arrested workers nor the filmmakers were charged with any wrongdoing. Max Ntanyana has been order by the court to refrain from speaking publicly and participating in organizational meetings.[62]

Suez's South African labor trouble doesn't seem to end. In September 2002, at the plant in Queenstown, 120 workers went on strike. The incident occurred after a senior shop steward, Ayanda Ndonga was mistreated by management and two additional shop stewards were charged internally with inciting the workers. Management withdrew transportation for workers who refused to work overtime. The plant is 3.5 miles outside the town.[63]

Mike Muller, Director-General, Department of Water Affairs and Forestry (DWAF) continues to claim that the World Bank inspired policies were a DWAF brain child and maintains that public-private partnerships and cost-recovery policies *"[are the] absolutely [...] most sensible way of running a water system, and it's the way most water systems are run in most of the world."*[64] Mike Muller should know that, in fact, most water systems are run by the public sector.

Other cases around the world….

As part of the contract, Suez's COGESE had to pay "entry fees" in return for the concession to the city government, worth about $35 million, which would be paid in annual installments.

To recover the fees, COGESE increased water charges. It also reported fraudulent losses to justify fictitious interest payments on the loan it would have needed to balance its books, the court concluded. By 1993, COGESE was reporting a debt service of more than $1 million. Its actual debt payments were less than $400,000.

The contract with COGESE penalized the city for conservation. The company was allowed to increase the price of water if consumption fell below 12.8 million cubic meters a year, which meant an immediate price increase, since consumption levels in the city were falling, for reasons that are not entirely clear.

Grenoble, France Suez has no more regard for customers and public accountability in its home country of France than it does anywhere else in the world. In Grenoble in 1995, a former mayor and a senior executive of Lyonnaise des Eaux (now Suez) Jean-Jacques Prompsey received prison sentences for taking and giving bribes to award the water contract to a subsidiary of Lyonnaise des Eaux.[65] The bribes totaled over $2.8 million.[66] The 25-year water contract was awarded in 1985 to a joint venture between the two water corporations Lyonnaise des Eaux and Vivendi; COGESE. Shortly after the COGESE joint venture took over the water prices increased dramatically for the consumers. According to ICIJ COGESE reported a debt service of over $1 million annually in order to justify additional consumer charges; in reality the debt payments were less than $400,000. The estimated costs of the In France families with private water supply are charged 16% higher fees.[67]

Milwaukee, USA Hired to operate the Milwaukee Metropolitan Sewerage District's system of tunnels and treatment plants, the Suez subsidiary's cost cutting has been blamed for system failure that allowed 107 million gallons of raw sewage into area waterways from 1999 to 2001.[68] The spills have continued over the past year, including a reported 250,000-gallon dump of raw sewage into a creek during a sewer construction job, a slick of used condoms apparently released from a treatment plant and leakage of raw sewage directly into the Milwaukee River from a malfunctioning outfall. The MMSD is now seeking to reopen the company's long-term contract to stiffen penalties for mistakes.[69]

Houston, USA In Houston, United Water was hired to operate the city's Southeast Water Purification Plant in 1996 under a five-year contract. When the contract expired in 2001, the city gave another company the bid. In an effort to get one more bite at the public funding apple on its way out of town, United Water sued the city in November 2001 seeking $900,000 for services. The city counter-sued for $2 million, claiming United Water failed to maintain the plant, and necessary repairs will cost $2 million. Doing business with United Water also cost the city an additional $370,000—the amount the city approved to pay for legal support in the case.[70]

Delhi, India In June 2003 five workers lost their lives, including an engineer, at the Suez-Degremont-managed Rithala Sewerage Treatment Plant in India. Activists charged that the company ignored minimum safety standards when they operated in India. They demanded that Suez be held accountable and be denied additional contracts in the country.[71]

Halifax, Canada In October 2002, after five years of company courting and negotiations, city officials signed a draft contract with United Water (the local company is called Halifax Regional Environmental Partnership). Less than a year later, in July 2003, the city walked away from the deal. The Partnership had sought substantial amendments in the contract that would cost the city more than expected. For example, the Partnership wanted the city to take responsibility for sewerage pumped into the harbor if it did not meet Canadian environmental standards. Since the city was not running the sewerage plant under the contract it refused this change.[72]

Libel? The corporation is known to attempt to silence opponents by taking them to court although they have not had great success in winning their cases. Suez sued Thierry Jean-Pierre, an investigative magistrate and author of the book titled "Black Book of Corruption." Jean-Pierre claimed that 80% of the bribery in water is organized by the two major corporations Suez and Vivendi. Later Suez charged Jean-

Loup Englander, Mayor of the city of St-Michel-sur-Orge when he claimed that *"bribery is the key to these [water] markets"* and a former employee was sued when he referred to the company's mafia-style methods.[73] In 2002, the teacher Jean-Philippe Joseph was also sued for writing about the different levels of corruption in the water sector and referring to Suez. Perhaps Suez' hardhitting legal strategy is intended to avert a public relations crisis by discouraging people from speaking out. In an internal document, CEO Gerard Mestrallet stated *"I am convinced that, more even than a financial crisis or local political crisis, the main threat to our group would be a public relations' crisis."*[74]

Conclusion

On nearly every continent, the Suez strategy for expanding its water business in recent years starts with a salvo of lofty promises to get a foot in the door. Then, costs are cut—not for the sake of efficiency and achieving savings that might be passed on to consumers, but for cost-cutting as an end in itself, negative impacts on system operation and water quality notwithstanding. Coupled with the cost-cutting is the corporation's predictable plea to local governments for more money than is called for in original contracts. Suez ignores performance targets and when held accountable prefers appeal panels and international arbitration.

And, though not an intended consequence—and despite the cost-cutting and price-gouging—a typical characteristic of a Suez privatization project involves the company taking a big fat loss. As befits one of the world's biggest water corporations out to privatize the world's water, Suez is one of the biggest examples of why water shouldn't be privatized.

The company's financial losses, meantime, compound the pressure on the company to realize fatter returns elsewhere. Corporations are in business to make money—or in the case of Suez, to quit losing money. Little wonder, then, that its action plan now intends to back away from developing nations, intensify the corporation's already pernicious resistance to capital investment, and "become more demanding with regard to its partners' upholding their contractual obligations."[75]

The Suez action plan, coupled with dismal failures such as those in Manila, Buenos Aires, Johannesburg and other locations around the globe, illustrate that multinational corporations are not going to save the day. Some mythical magic of the private sector is not, in point of fact, going to bring water to the world's poor. On the contrary, as far as Suez is concerned, the world's poor are a bad risk.

Presumably, then, Suez will make a beeline for more attractive markets in nations with more stable economies. But the Suez track record in the United States must begin and end with what Suez itself termed the "model" for privatization, Atlanta. And Atlanta was a fiasco. With seemingly few remaining opportunities for the U.S. metropolitan megacontract, the Suez business strategy may be to dig its way out of debt and back to profitability by cherry-picking wealthy customers in smaller U.S. communities and affluent suburbs.

But whether in growth-addicted U.S. suburbs, overpopulated Southern Hemisphere metropolises, or cities, towns and rural areas around the globe, people everywhere should steer clear of private water corporations out to profit from a shared resource. People should steer clear of Suez.

APPENDIX 1

Wielding Influence: Suez is a player in key business associations

The European Services Forum (ESF) was founded in 1998 to represent the interests of the European service sector during the WTO negotiations on GATS. The organization currently has 99 members involved in importing and exporting services in the sectors of insurance (Allianz), telecommunications (France Telecom), environmental services (water – Veolia and Suez) and many more. The Forum seeks GATS commitments in as many sectors as possible from as many countries as possible in order to expanding trade and regulatory liberalization for the services industry.

Suez is also active in the European Roundtable of Industrialists (ERI) which works to “improve dialogue” between industry and government and improve the “competitiveness” of Europe’s economy. The ERI has worked actively to expand EU businesses into Eastern European markets. In 2002 EU membership expanded to include Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia and Turkey. This expansion pushed greater trade and investment liberalization on these countries and provided a massive new market that Suez has sought to exploit.

Suez holds a corporate membership of the World Water Council (WWC) established in 1996 and hosts the triennial World Water Forums. The World Water Council considers itself the world’s water-policy think tank.[76] The high-end membership fee results in a government, United Nations, World Bank and industry dominated organization. The policies spewed from the organizational headquarters and its appointed committees are filled with corporate solutions and cost-recovery policies. The policies have little to do with the daily struggle of women and children in their quest to access clean and affordable water. Instead the Council along with the WWC sister organization; the Global Water Partnership focuses on the removal of “barriers” to privatization and corporate expansion e.g. through the Camdessus report described in this report. The exclusive membership of these organizations have little civil society participation but have attempted to write the water policies for the world in the 7 years of its existence. At the 3rd World Water Forum in Kyoto in March 2003 the division within the membership and the forceful civil society opposition to these elite institutions became apparent and Suez’ role exposed to a broader public.

Suez Memberships

World Business Council on Sustainable Development (WSCSD)
European Services Forum (ESF)
Transatlantic Business Dialogue (TABD)
European Roundtable of Industrialists (ERI)
World Bank Staff Exchange Program
World Water Council
World Economic Forum
International Office for Water
International Chamber of Commerce
World Commission on Water for the 21st Century
Global Water Partnership
World Panel on Water Infrastructure Financing (Camdessus report)
WaterAid

APPENDIX 2

Suez Connections and Revolving Doors

Gérard Mestrallet

Mestrallet was Civil administrator in the Treasury and Advisor on Industrial Affairs to Jacques Delors when he served as the French Finance Minister under President Mitterrand (1981-83). In 1984 he went on to become Advisor to the Chairman of Compagnie de Suez. In 1986 he was then appointed Senior Executive Vice President in charge of Industrial Affairs. In 1991 Gérard Mestrallet became Chief Executive Officer and Chairman of the Management Committee of Société Générale de Belgique, he held this position until 1995. In July 1995 Gérard Mestrallet was appointed Chairman and Chief Executive Officer of Suez.

Concurrently Mestrallet serves as
Chairman of the Board of Tractebel (Suez energy division)
Director of the Board of Saint-Gobain and Ecole Polytechnique
Member of the Supervisory Board of AXA, Casino, Crédit Agricole SA and Société du Louvre,

Advisor to the Mayor of the Shanghai,
Advisor to the Mayor of Seoul
Member of the Chief Executive's Council of International Advisers, Hong Kong
Member of the European Round Table of Industrialists[77]

Jérôme Monod

Former chairman and managing director of Suez. Former counselor for Michel Camdessus, former director of the IMF. Monod is a life-long friend of the current French President Jacques Chirac and was chief in Chirac's cabinet in 1970 when he was the Prime Minister of France. Monod has been the secretary-general of the rightwing Gaullist party (RPR) that dissolved in 2002. Monod served as a special adviser to Chirac's 2002 presidential election campaign.

He has served as special advisor to World Bank chairman James Wolfensohn and been influential in pushing the Bank to use its loans as vehicles for forcing acceptance of the French public-private model. The World Bank now conditions private participation in most of the water sector loans – in Monod, Suez, indeed, has a friend at the World Bank.[78]

Margaret Catley-Carlson

Chair of the Global Water Partnership, The Center for Agriculture and Bioscience in Wallingford UK, and chairwoman on The Water Resources Advisory Committee for Suez. She is the former President of the Population Council 1991-1999. She has been the Deputy Minister of Health and Welfare Canada, President of the Canadian International Development Agency (CIDA) 1983-1989, and Deputy Executive Director (Operations) of UNICEF. She was appointed to the board Trustees of International Institute for Environment and Development (IIED) in 2003.[79]

Gerard Payen

Until January 2001 chairman and CEO of Ondeo, but appointed to Senior-Executive Vice-President of Suez. He is in charge of relations with institutional water-related organizations and all actions related to the company's campaign for universal access to water, known as "The Water Truce."

Jacques Petry

Formerly chairman and CEO of SITA, was appointed chairman and CEO of Ondeo in January 2001. Member of the board of directors of SITA

Jérôme Tolot

Former Senior Executive Vice President and Member of the Board of Vinci, replaced Jacques Petry as Chairman and CEO of SITA. Jérôme Tolot also becomes Executive Vice President of SUEZ and member of the Management Committee. Jérôme has worked for Suez for two decades.

Yves-Thibault de Silguy

From 1976-81 he worked in the Ministry of Foreign Affairs and then became advisor to the Deputy Chef de cabinet, to Mr. Ortoli, Vice President of the Commission with responsibility for economic and monetary affairs. From 1985-86 he was stationed at the French Embassy in Washington as a counselor on economic affairs. From 1986-88 he worked in the Prime Ministers Office as an advisor on European affairs. From 1988-93 he choice to the private sector and worked for number industrial boards. In 1993 he became the secretary-general of the Interdepartmental Committee for Questions of Economic Cooperation in Europe while also working in the private office of Prime Minister Edouard Balladur as a counselor on European affairs. From 1995-1999 he became a member of the European Commission as the European Commissioner for Economic and Financial Affairs.

Member of the board of directors of SITA
Since January 2000 he has been a member of the Executive Board of Suez, since 2001 as the Senior Executive Vice President in charge of International Affairs, Corporate Relations and European affairs.[80]

Rene Coulomb

Former director of ethics in Suez and Vice President of the World Water Council and sits on the steering committee of the Global Water Partnership.

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