Corporate actors

A global review of multinational corporations in the water and electricity sectors

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International privatisation represents a double expansion of the potential market of private companies. It involves opening up business opportunities in sectors historically controlled by the state, which are typically large essential services with very secure levels of demand. It also involves opening markets in new countries. Their economic interest in this process has been reflected by their prominence as lobbyists and advisors to the international institutions, notably the World Bank (WB) and the European Union (EU).

Multinational companies based in countries of the Organisation for Economic Co-operation and Development (OECD) have been at the centre of the drive to privatise public services since 1990. This chapter presents an overview of the operations of multinational companies in the water and electricity sectors. It provides a description of the major companies active in the sector, their activities in different regions, and how the patterns of these activities have changed. It then discusses some of the main themes that emerge from this survey. The information is drawn from a series of reports and a database commissioned by Public Services International <www.world-psi.org>, which can be found on the PSIRU website <www.psiru.org>.

Corporate actors in the water sector

The private water sector is dominated globally by two French multinationals, Suez and Veolia, who hold over two-thirds of global private water operations. The water multinationals have faced a number of problems since 2000, including strong public resistance to price rises and privatisation, the termination or non-performance of a number of contracts, such as in Manila and Jakarta, and heavy losses on contracts in Argentina. The expected growth in north America has not happened, and there has been a regulatory squeeze on profits in the UK. The corporate strategies continue to focus on reducing their exposure in developing or non-performing countries and reducing the debts accumulated as a result of past acquisitions. Suez formally announced a target of reducing its investments in developing countries by a third, and Veolia is also cutting back. They continue to seek expansion in China and in the EU neighbourhood countries in North Africa, Middle East and Eastern Europe, as well as in the EU itself.

The next largest international operators have all been sold, or are in the process of being sold, by parent companies. The German group RWE has announced that it wishes to sell Thames Water, which has already been selling its international operations; the French construction company Bouygues sold most of the international operations of SAUR, the third largest French water company, to financial investors; the US company Bechtel and the Italian company Montedison sold their holdings in International Water; and Anglian Water Group of the UK sold its international operations. Some smaller OECD operators remain internationally active, notably Biwater (UK).

Some public sector companies have begun operating outside their home country. The long-delayed private management contract in Ghana has been awarded to a consortium of three such countries: Vitens (Netherlands), Rand Water of South Africa, and the National State Water Corporation (NSWC) of Uganda. An Austrian utility, EVN, has begun expanding into Eastern and South-Eastern Europe.

Private companies have been formed in Hong Kong (China) and Malaysia, but so far have not been very active outside their own countries, except in partnership with Suez or Veolia. Cheung Kong Infrastructure, a Hong Kong company, and YTL, a Malaysian energy company, have each bought control of a UK water company (Cambridge Water and Wessex Water respectively), but neither is internationally active in water otherwise. In Russia, there is a wave of private investment in water utilities, which is in effect dominated by subsidiaries of the two major energy companies, UES and Gazprom, but with no activity outside the country so far. In Latin America, especially Argentina, local private companies and financial investors are emerging as potential buyers of the water contracts being sold by the multinationals, but the results are not yet clear.

Corporate actors in the electricity sector

Multinational activity in electricity in developing countries has slowed down considerably since the 1990s. Many OECD-based companies entered Latin America and Asia in the 1990s, but the economic crisis in Argentina, and more general resistance to price increases and privatisation, has made the ventures less profitable than expected. Spanish and French companies continue to be active in Latin America. The most active companies internationally are now financial investors such as CDC Globaleq.

In the last 5 years a large number of electricity com-

Table 1. Table 1. OECD-based water companies active outside home country

Company	P= Public sector majority, F=financial parent	Home country	EU	EE/MENA	Asia-Pacific	Latin America	Africa
Suez		France					
Veolia		France					
Thames Water/RWE		Germany/ UK					
SAUR	F	France					
Biwater		UK					
United Utilities		UK					
EVN		Austria					
Acea		Italy					
Vitens	P	Netherlands					
Aguas do Portugal	P	Portugal					

Source: PSIRU reports and database.
*EE/MENA = Eastern Europe outside EU, Russia, other former Soviet Union, Middle East, and North Africa.

Table 2. Table 2. Non-OECD water companies active outside home country

Region	Company	Home country	P= Public sector majority, F=finance owned
Africa	**Rand Water**	South Africa	P
	NSWC	Uganda	P
Asia	**Cheung Kong Infrastructure**	Hong Kong/China	
	YTL	Malaysia	

Source: PSIRU reports and database

panies have retreated from international activities. Nearly all the USA companies have withdrawn, from Europe as well as from developing countries: the list includes PSEG, TXU, Edison, NRG, AEP, Aquila, CMS, Duke Energy (and Hydro Quebec of Canada), and most of the holdings of Enron are for sale. AES remains pres-

Table 3. OECD-based electricity companies active outside home country

Company	P= Public sector majority, F=financial parent	Home country (italics = not active in home country)	EU	EE/MENA	Asia-Pacific	Latin America	Africa
EDF	P	France					
RWE		Germany					
E.on		Germany					
Enel		Italy					
Suez /Electrabel		France/Belgium					
Vattenfall	P	Sweden					
Endesa		Spain					
Iberdrola		Spain					
Unión Fenosa		Spain					
EdP	P	Portugal					
CEZ	P	Czech Republic					
EVN	P	Austria					
International Power		*UK*					
CDC Globaleq	PF	*UK*					
AES		*USA*					
Mirant		USA					
Enron		USA					
Goldman Sachs	F	*USA*					
Intergen	F	*Canada*					
Transalta		Canada					

Source: PSIRU reports and database
*EE/MENA = Eastern Europe outside EU, Russia, other former Soviet Union, Middle East, and North Africa.

Table 4. Non-OECD electricity companies active outside home country

Region	Company	Home country	P= Public sector majority, F=finance owned
EE/MENA	**RAO-UES**	Russia	P
Africa	**Eskom**	South Africa	P
Asia	**Cheung Kong**	Hong Kong/China	
	China Light	Hong Kong/China	
	J-Power	Japan	
	KEPCO	North Korea	P
	Meiya Power	Hong Kong	F
	SingaporePower	Singapore	P
	YTL	Malaysia	
	Ranhill Power	Malaysia	
Latin America	**Petrobras**	Brazil	P

Source: PSIRU reports and database

ent in many countries, but has sold many operations and undergone near-bankruptcy. The European companies now have more conservative strategies: the German, Italian and Swedish companies do not operate outside the EU or neighbouring countries, and EdF has reduced its presence in developing countries.

The OECD companies have also had mixed experiences in their home markets. The EU has liberalised electricity in all member states, and this has resulted in a growing concentration of electricity operations under a few dominant companies, notably RWE and E.on (Germany) and EdF (France). Some of the EU companies are also taking advantage of the liberalisation and privatisation encouraged in neighbouring countries by the EU, especially south-east Europe. In the USA, the value of electricity investments was hit following the crisis in California and the Enron scandal in 2001.

There are a few companies in non-OECD countries that have become internationally active in their regions, including companies which are still majority-owned by their states. The largest of these is the Russian electricity company RAO UES, which has purchased companies in countries bordering Russia. In Africa, the South African electricity company Eskom is one of the most internationally active operators, along with CDC Globaleq.

Key themes in the current debate

Withdrawals and selective expansion

As a result of public opposition, currency and other risks, and failure to achieve reliable rates of return, the corporations have had to seek to reduce their losses and risks by reducing investment in developing countries. This withdrawal is required by shareholders, who will not accept a low or risky return. If the companies are to continue in business in the sector, and in particular expand their markets, however, they cannot cease activities altogether. In addition, selling existing badly performing operations is not easy at a time that all companies in the sector are selling. And the problems are not confined to developing countries – electricity companies in the USA and UK have also experienced problems, water privatisation has been resisted in most of the EU (outside UK and France) and North America, and even in the UK water profits have been severely squeezed.

One strategy for the companies is, therefore, to withdraw from international activity, and become utilities restricted largely to their home country. In effect, this is what has been done by most of the USA electricity companies, and the same was done in the 1990s by most of the UK private water companies. The German electricity groups RWE and E.on have adopted a European version of the same strategy, without having the bad experience of global expansion – they operate only in the EU and its immediate neighbourhood (RWE is attempting to get rid of Thames Water outside continental Europe, which has been the only exception to this position).

The other option is to find ways of continuing to be active in world markets. This is not easy in water: even EU countries are proving very resistant to expansion, outside the established countries of the UK, France and Czech Republic, and the companies are not yet prepared to risk activity in the opening market in Russia. The EU neighbourhood continues to provide opportunities, for example in Romania and in North African countries. They would have liked to see north America as an expanding market, but are effectively giving up on that too, due to resistance and insufficient profitability to justify their investment. Suez and Veolia are currently placing great emphasis on China, because it is such a great potential market, though evidence of failures already suggests that they may encounter similar problems to elsewhere. India may have similar status in their thinking – they have expressed positive interest in the proposed concession for south Delhi, unlike their avoidance of such contracts elsewhere.

However, any such expansion must reassure shareholders that the growth is not risky. One way of doing this is to minimise the multinational's own exposure, by seeking to use loan finance or capital from local investors, avoiding as far as possible investing capital of their own shareholders: Veolia for example insists that in China it will invest no Veolia shareholder capital. Another way is to undertake operations which do not involve investment: in the water sector, this means looking for management contracts, or possibly affermage/lease contracts, but not concessions. This has already been reflected in the pattern of water privatisations in Africa, where most contracts since 2000 have been management of affermage; it is also reflected in the explicit policies of Thames Water, for example, to seek consultancy or management business rather than major operating contracts.

The electricity companies' strategic options are more limited. The Spanish electricity companies remain in Latin America, depending on renegotiations to restore

profitability. Otherwise, few companies remain interested in developing countries - the main example is AES – and those that do remain are effectively dependent on political support from the IFIs.

The emergence of international activity by some public sector operators, such as Rand Water of South Africa, may reflect a different set of shareholder pressures. Governments may support such expansion as a form of national economic expansion, with less concern for the short-term returns than commercial shareholders. At the same time, it may reflect the relative inexperience of these public sector operators in assessing the commercial risks of engaging in such activities.

Political strategies

Developing profitable business in water and electricity (and other public services) involves political activity, because of the need to structure the services into markets which the companies can enter with the prospect of profitable activity and minimal exposure to risks. Without this active support, it is possible that there would be very little interest from multinational companies in these sectors.

Globally, the companies continue to seek and receive support from international financial institutions (IFIs), aid agencies, and the EU, for creating, securing and developing market opportunities. Funding from aid agencies of Norway, Netherlands, Sweden and the UK is used to promote privatisation projects (see Hall et al, 2003). Despite the public statements of even-handedness, the World Bank continues to make privatisation and liberalisation conditionality. The World Bank's country assistance strategy for India, laid down in late 2004, contains repeated emphasis on privatisation, especially in electricity:

> *Bank engagement in the power sector at the state level is premised on the view that…… its lending….must be linked to real progress in reform - both in terms o f improved financial performance, and in terms of irreversible structural and governance changes. …. Eventually, in states that move forward with well-designed privatization transactions and the facilitation of new entry - the Bank Group would be able to offer a variety of forms of support, depending on local needs and conditions and the response of private investors.*

Protecting investors by reducing risks is another function of the IFIs. The Camdessus report on water financing in 2003 concentrated on ways of providing public guarantees for private returns, either through the IFIs or through government guarantees. In 2005 the World Bank led demands that potential infrastructure investors in Indonesia should be guaranteed returns of 15 and 23 percent (Unidjaja and Hakim, 2005).

The EU continues to provide a favourable environment. In electricity (and gas), the EU itself has been made into a huge area with compulsory liberalisation, and so is a politically very secure market for the foreseeable future. The EU is also creating opportunities, with electricity liberalisations enforced in Southeast Europe, and water and electricity privatisation and liberalisation heavily encouraged in neighbourhood countries, including North Africa and the Middle East. EU aid policies on water continue to emphasise privatisation; it continues to promote requests for both water and electricity sectors to be opened up under the GATS process; and the EU and its member states provide substantial diplomatic pressure in favour of multinationals, for example in negotiations with Argentina over compensation, and in Indonesia over allowing the water multinationals with contracts in Jakarta to increase prices.

At local level, the companies continue to invest in relationships with politicians. Legal funding of political parties is a key vehicle for this influence: Enron was an outstanding example of this, achieving massive influence with the Bush administration as a result. Influence has also been achieved through bribery: executives and politicians in France, Italy and the USA have been convicted of corruption involving subsidiaries of Suez and Veolia. Another form of political influence-building is in 'advisory' connections developed between the companies and political authorities in cities. According to information posted on Veolia's website, Beijing is one focus of this activity: Henri Proglio, Chairman and CEO of Veolia Environnement, is a *"permanent economic advisor to the Mayor of Beijing"*, as a member of the city's International Business Leaders Advisory Council (IBLAC), which provides *"advice and proposals for the economic and social development of Beijing"*. EdF is also a member of IBLAC.

Companies are also paying more attention to relations with NGOs, to minimise the political risk that companies have experienced as a result of the widespread opposition to privatisation in these sectors. Since 2003, Thames Water has sought to distance itself from criticism by NGOs in the north and south, using conferences to dissociate itself from the use of conditionalities, and from the EC's initiative to request water services to be opened under the GATS provisions of the World Trade Organisation. The UK Department of Trade and Industry is also dissociating itself from the water initiative in GATS, which may be connected to the Thames position, an equally surprising move. Thames has also developed a business model based on the idea of an international joint venture with NGOs, which would channel aid to projects run by subsidiary joint organisations in developing countries.

Compensation claims

The high number of failed privatisations means that the corporations have to spend an increasing amount of time focussing on legal action to renegotiate contracts or to reduce losses by claims for compensation, frequently making use of the World Bank's arbitration panel, ICSID. The compensation claims can be huge, because they concern the loss of profits expected over the next 20 years or more. These claims are effectively part of a negotiating process by which companies threaten countries with high costs and risks of legal decisions – the result may be agreed compensation, an arbitration award, or renegotiated contracts.

Argentina has faced compensation claims for over USD 20 billion, following the impact of its economic crisis in 2001 on the viability of numerous water and electricity privatisations (*Latin America News Digest*, 2005). The Argentinean government is allowing more time for renegotiation, on condition that companies drop arbitration cases for compensation.

Bolivia faces a compensation claim for over USD 200m from Suez, after the termination of the water concession in La Paz: in this case, Suez does not appear interested in renegotiating the contract.

In India, the government settled to pay USD 361million in compensation to two American multinationals (GE and Bechtel) and the USA export credit agency because of the collapse of an electricity project (Dabhol), originally set up by Enron. OPIC, GE, and Bechtel had claimed compensation for over USD 6,000 million (for further details see Hall and Corral, 2005).

In Indonesia, the threat of compensation claims forced the Indonesian government to agree to the renegotiation and continuation of electricity power purchase agreements (PPAs) between multinational power producers and the Suharto dictatorship. Two multinationals - MidAmerican Energy and Florida Power and Light - won claims for a total of USD 814million; the World Bank insurance arm, MIGA, demanded USD 15m to compensate Enron; and the USA government pressured Indonesia to renegotiate the other contracts and abandon prosecutions for corruption against the companies. The cost was a 24 percent increase in electricity prices for Indonesians in 2001. Two multinationals continue to pursue a claim for USD 285 million compensation (Hall and Corral, 2005).

Takeovers by private/finance capital

Both water and electricity multinationals have been trying to sell many of their operations since 2002 because of perceived risk and failure to make expected returns. There have been very few companies willing to buy these operations, however, and there have been a number of cases where the assets have been purchased by financial investors. It is unclear whether this type of ownership has different implications for the services and employees of the water and electricity providers.

Most of the international operations of SAUR, the third largest French water company, have been sold to financial investors. Its operations in the UK were sold to Macquarie, an Australian investment bank; its European and Asian operations, outside France and Italy, were later sold to the French finance company Paribas. The Ontario Teachers' Pension Fund bought the electricity company Intergen from Shell and Bechtel. The US-based Goldman Sachs bought the electricity investments of the Cogentrix group, including a power station in the Dominican Republic.

In some cases the financial investor is a public sector body. In electricity, the most active international investor since 2002 has been Globaleq, the energy arm of CDC, an investment company which is 100 percent owned by the UK government. In water, the European Bank for Reconstruction and Development (EBRD), wholly owned by the European Union, bought International Water's shares in water companies in Eastern Europe. In Latin America, Petrobras Energia, owned by the Brazilian (state-owned) company Petrobras, now holds investments in electricity in Argentina.

These sales may still prove difficult. In 2005 Thames Water announced the sale of its Chilean operations to a group of financial investors headed by Southern Cross; in November 2005 the deal was cancelled, because Southern Cross was not willing to pay the USD 300 million which Thames was demanding (*Business News Americas*, 2005).

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