

# DOWN THE PLUGHOLE



Why bringing water  
into WTO services  
negotiations would  
unleash a  
development  
disaster

“

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”

# Summary

Poor countries are under intense pressure in the World Trade Organization GATS negotiations to open their service markets and 'progressively liberalise' key sectors – such as water delivery – to foreign corporations. Ensuring access to affordable basic services like water and sanitation for poor people, however, is crucial for poverty reduction and experience shows that the logic of the profit motive that underpins liberalised water delivery has reduced access to water for many poor communities worldwide. New research from South Africa shows that recent water privatisations involving two multinationals – UK-based Bewater and French-based Suez – are having a disastrous impact on the rights of poor people. Price hikes and disconnections have hit poor families and many vulnerable people have lost access to adequate water supplies. This research adds further weight to ActionAid's call that rich countries should withdraw their demands that poor countries make new commitments to liberalise sensitive services in the current round of global trade talks which come to a head at the WTO Hong Kong ministerial meeting in December 2005.

## Key findings

Recent water privatisation schemes involving multinationals Bewater and Suez in three South African townships, Kanyamazane, Phiri and Orange Farm, in Johannesburg and Mpumalanga province, have been disastrous for poor communities and for their rights to access water supplies.

New research for ActionAid's Trade Justice Campaign found:

Hard choices:

**“You think twice if you have 5 Rand, whether to buy a loaf of bread or save it to buy water,”**

**Jennifer Makoatsane from Phiri**

Prepay water meters, disconnections, unaffordable prices:

**“We had to start paying higher amounts for water, and if you did not pay then they would disconnect you,”**

**Henry Nkuna from Kanyamazane**

Household water shortages:

**“The (free) 6,000 litres is not enough for our needs. In our household of nine we run out after two weeks,”**

**Jennifer Makoatsane from Phiri**

Disease outbreaks:

**“I attended to a number of children who were brought to me with severe cases of diarrhoea, vomiting and gastro-enteritis,”**

**Dr Mabaso from Matulu.<sup>2</sup>**

## ActionAid recommends:

- The EU should drop its water liberalisation requests in the GATS talks at the WTO.
- Poor countries should make no new commitments to liberalise sensitive service sectors until full impact assessments are made of their likely effect on poverty issues.
- Key sensitive service sectors – such as water, health and education – should be withdrawn from GATS altogether.
- The WTO must function as an open, all-inclusive and democratic organisation and members should refrain from using threats and power politics in all negotiations.

<sup>1</sup>GATS' stands for General Agreement on Trade in Services

<sup>2</sup> Dr McKinley, D (2005) 'Experiences of water privatization in South-Africa: a snapshot', South-Africa. Background research for ActionAid.

### 1) What is GATS?

The majority of WTO agreements concern the trade in goods and products. Adopted in 1995, the General Agreement on Trade in Services (GATS) extends WTO rules to services, which includes anything from banking to rubbish collection, tourism to transport services, water delivery to the setting up of retail stores.

Services currently represent two thirds of world gross domestic product (GDP). The service industry represents on average 69% of GDP in industrialised countries and 44-55% in developing countries.<sup>3</sup> The trade in services totals around 25% of world trade, and is growing rapidly.<sup>4</sup>

The purpose of GATS is liberalisation; it aims progressively to remove any restrictions that are considered 'barriers to trade' in services, and in the process create conditions for multinational corporations to gain greater access to foreign markets.

The GATS rules list how governments cannot intervene in the market. These include the right of governments to discriminate between local and foreign companies in the provision of services and the use of regulations to ensure foreign companies benefit local economies and poor communities.

Alongside a set of generally applied disciplines – rules that apply to all 160 services sub sectors – GATS includes much more specific rules on liberalisation that only apply once a country decides to nominate a service sector under the GATS remit.

'Positive listing' approach:

GATS contains optional 'specific commitments' that only apply to those service sectors in which a country chooses to make commitments. This is referred to as the 'positive listing' approach.

Once nominated the rules of 'market access' and 'national treatment' apply and commitments are considered as 'bound' – and effectively irreversible and 'locked in' – in that it is extremely difficult for a country to go back on its commitments due to the enforcement of such commitments by the WTO dispute settlement procedures.

- **Market access:** these rules restrict the ability of governments to put limits on the number of suppliers in a given service sector, both local and foreign
- **National treatment:** ensures that foreign companies are treated at least as well as domestic firms in the delivery of a service.

Governments can choose not to include a service sector for 'specific commitments' if they wish, although other WTO members apply pressure in bilateral negotiations or can formally ask or 'request' that sectors are liberalised under a 'request-and-offer' process at the WTO.

### Right to water

The United Nations Committee on Economic, Social and Cultural Rights issued a declaration in 2002 stating that access to water is a human right and that water is a public commodity fundamental to life and health.<sup>5</sup> Signatory governments are obliged to respect, protect and fulfil the progressive and full realisation of such rights.

Under GATS and through negotiations, governments can be prevented from using a range of measures that ensure that foreign investment benefits local economies and local people, eg:

- requirements that foreign investors form joint ventures with local firms
- caps on equity stakes for foreign corporations buying into local service companies
- conditions of minimum capital investment
- tax breaks for local companies
- performance requirements, such as ensuring technology transfer, public service provisions, gender and local employment quotas and targets, or training of local staff.<sup>6</sup>

3 WTO (2003) 'Measuring Trade in Services'. World Trade Organization, Geneva. See: [www.wto.org/english/res\\_e/statis\\_e/services\\_training\\_module\\_e.pdf](http://www.wto.org/english/res_e/statis_e/services_training_module_e.pdf)

4 South Centre (2004) 'The WTO services negotiations: an analysis of the GATS and issues of interest for least developed countries'. South Centre, Geneva. See: [www.southcentre.org/tadp\\_webpage/research\\_papers/services\\_project/trade\\_wp23\\_dec04.pdf](http://www.southcentre.org/tadp_webpage/research_papers/services_project/trade_wp23_dec04.pdf)

5 CESCR (2002) 'Substantive issues arising in the implementation of the International Covenant on Economic, Social and Cultural rights. General comment no. 15: The right to water'. Document E/C.12/2002/11. Committee on Economic, Social and Cultural Rights. United Nations, Geneva. See: <http://www.unhcr.ch/html/menu2/6/gc15.doc>

6 South Centre (2004)

The GATS agreement also defines four ‘modes’ of supplying services:

**Mode 1: Cross border supply.**

This type of trade involves services crossing national frontiers ie medical prescription or laboratory test results.

**Mode 2: Consumption abroad.**

Services supplied to a citizen of one WTO member in another WTO member country ie foreign tourism or education.

**Mode 3: Commercial presence.**

Services supplied by a company (or its subsidiary) of one WTO member, through a commercial presence in the territory of any other member.

**Mode 4: Movement of natural persons.**

Services supplied by citizens of one WTO member working in the services sector of another WTO member ie an engineer working abroad to supervise a project overseas.

Overall, however, no poor countries have voluntarily made offers to liberalise their water delivery sectors to date.

To add to the pressure, poor countries are also now being pushed by the EU, Japan and Australia to commit to liberalise a minimum and mandatory number of specified service sectors under a proposed new system known as ‘benchmarking’ and ‘complimentary methods’.

This proposed system would also ‘benchmark’ or rate and grade poor countries in their commitment to liberalise service sectors under GATS.

Many of the poorest countries at the WTO say this mandatory approach turns upside down the optional basis of GATS and would eradicate its current flexibilities that are intended to ensure poor countries can – in theory – choose to opt to liberalise service sectors at their own pace and according to their development needs.

**ActionAid’s Trade Justice Campaign lobbies and campaigns against GATS on four main grounds:**

- i) its in-built liberalisation rules – which once enacted are effectively irreversible and ‘locked in’ – that close down policy space for national governments to pursue pro-poor policies.
- ii) our belief that GATS rules undermines access to basic rights in key service sectors essential for poverty reduction, including water, health and education.
- iii) the fact that detailed impact assessments on the likely impact of liberalising key service sectors are not made before they are committed to GATS.
- iv) the unfair power politics at the WTO that aggressively forces an inappropriate liberalisation agenda on poorer countries and restricts the use of flexibilities allowed under the rules.

2) Current GATS negotiations:

Water is one of the 160 service sectors included under GATS, even though no WTO member has yet made GATS liberalisation commitments for water distribution.

The EU is seeking to change this and, at the behest of corporate lobbying groups, the EU recently adopted a much more aggressive stance in GATS negotiations and has asked 72 other WTO members – including developing and least developed countries – to commit their water sectors to binding liberalisation.<sup>7</sup>

The EU GATS negotiating agenda is explicit in that it ‘seeks better access for European service exporters in foreign markets,’ such as for its globally dominant private water companies, which include Vivendi, Suez, RWE, SAUR, United Utilities and Biwater.<sup>8</sup>

Some 69 countries have now put forward initial ‘offers’ on a host of their service sectors for liberalisation at the WTO (27 countries made revised offers by September 2005),<sup>9</sup> although dozens of poor countries are yet to table offers – despite intensified pressure to do so.

7 Hilary, J (2003) ‘GATS and water: the threat of services negotiations at the WTO’, Save the Children, London

8 *ibid*

9 Communication with Trade in Services Division, World Trade Organization, 22 September 2005

### 3) Human price of water privatisation

Although only 5% of the world's people (about 300million) receive their water from private companies,<sup>10</sup> opening up water distribution to competition from foreign corporations during the 1990s has largely been disastrous for poor communities. Research shows that poor people have lost access to basic water services through sharp price rises, and many public-private partnerships were overturned due to local protests.

Research from Argentina, Bolivia, Chile, Colombia, Guinea, Indonesia and Philippines show that the privatisation of municipal water systems involving foreign multinationals (almost all European) resulted in prices rising well beyond the means of poor families.

As prices rose, many poor people were forced to resort to self-provision from untreated sources, such as wells and rivers, exposing themselves to water-borne diseases. It is often children – especially girls – who face the added burden of collecting water from more distant sources, sometimes resulting in withdrawing from school.<sup>11</sup>

#### Water and sanitation: key facts

over 1.1 billion people worldwide lack access to safe drinking water<sup>12</sup>

2.4 billion people lack adequate sanitation<sup>13</sup>

2 million children die each year from sanitation-related diseases<sup>14</sup>

a child dies every 15 seconds from diarrhoea, caused largely by poor sanitation and water supply<sup>15</sup>

the UN Millennium Development Goals commit to halving the proportion of people without access to affordable and safe water by 2015<sup>16</sup>

the UN identified 'unaffordable increases in the price of water' as a human rights violation in 2002<sup>17</sup>

there were 2,350 public-private partnerships in water and sanitation worldwide in 2003<sup>18</sup>

10 Human Development Report (2003), 'Millennium Development Goals: A compact among nations to end human poverty', United Nations Development Programme, New York. See: <http://hdr.undp.org/reports/global/2003>

11 Hilary, J (2003) *op cit*

12 WHO (2003) 'The Right to Water', World Health Organization, Geneva. See: [www.who.int/water\\_sanitation\\_health/rightwater/en](http://www.who.int/water_sanitation_health/rightwater/en)

13 WHO and UNICEF (2000) 'Global water supply and sanitation assessment 2000 report', World Health Organization, Geneva, and UNICEF, New York

14 *ibid*

15 WHO (2003) *op cit*

16 See [www.un.org/millenniumgoals/goals.html](http://www.un.org/millenniumgoals/goals.html)

17 CESCR (2002) *op cit*

18 Human Development Report (2003) *op cit*

#### 4) Water privatisation in South Africa

Research shows the privatisation of water services is having disastrous consequences for many poor households in numerous parts of South Africa – and township communities are fighting back through non-payment of bills, boycotts, resistance and protest (the most recent protests this year were dubbed ‘the service delivery riots’.)

South Africa’s ANC government has pursued water liberalisation strategies since 1996, after taking advice from the World Bank and IMF. While the South Africa constitution and Bill of Rights protect the right to water as a basic human right, the Water Services Act (1997) allowed corporate interests to enter into water provision for the first time and in the process has jeopardised these rights.

EU companies such as Vivendi (operating as Veolia Environment), SAUR (Siza Water), Suez and Biwater now manage the supply of water – in partnership with government – of more than five million people in Johannesburg and the Eastern Cape.

While overall access to basic services has substantially increased in South Africa since 1994, the introduction of ‘cost recovery’ and higher water bills in the context of chronic unemployment and increasing poverty has led to water being unaffordable for many poorer households.

Despite the government providing 6,000 litres of free water per household per month, this is insufficient for many larger households and many have struggled with connection fees and higher water bills and approximately 500,000 people were cut off for non-payment in 2001.

In many areas access to this 6,000 litres is now restricted for households with outstanding debt and the introduction of i) water tricklers that restrict the flow of water to households ii) restricted periods of water supply during the day and iii) the introduction of prepaid meters that cut off water supply after the delivery of the free amount has led to havoc and undue suffering for thousands of poor households.

ActionAid interviewed local residents from poor communities about the impact of water privatisation in August 2005.

#### **Biwater in Kanyamazane and Matsulu townships, Mpumalanga:** <sup>20</sup>

Residents of Kanyamazane township near Nelspruit in Mpumalanga province have protested ever since they realised the UK-based firm Biwater had struck a 30-year public-private

partnership with the local authority to supply water in 1999 – South Africa’s first such municipal deal in the water sector.

After Biwater installed new water meters in 2001, household water bills rose dramatically from a previous flat rate of 7 Rand to 300 Rand a month – a rise of 4,185% – and many poor residents soon found themselves in arrears and were disconnected.

“We had to start paying higher amounts for water, and if you did not pay then they would disconnect you,” says Henry Nkuna, a 36-year resident of Kanyamazane. “They did not even consider whether the person was working or not.”

Angry residents responded with a local campaign of clandestine water pipe reconnections, public marches and non-payment of bills, but the police were called in and 800 households were threatened with eviction for water arrears. “It was obvious to us that all they [Biwater] wanted was money and they did not care what our crises were,” Nkuna says.

In 2003 Biwater – renamed locally as Isilulu Amanzi – stopped sending residents water bills, but at the same time access to basic water services was severely restricted. Henry Nkuna says: “The water will come in the morning and maybe again in the evening. We are maybe getting water for a total of two days out of seven days in a week.

“If there is no water then our flush toilets will not work and people must go and relieve themselves nearby. People are afraid to go into the bush because of crime, so they will relieve themselves very close to their houses – this makes it easy for people to pick up diseases.”

In nearby Matsulu township, also covered by Biwater, there were reports of a cholera outbreak in January 2004 after a shortage of water forced poor families to draw water for themselves from the Crocodile river. A medical practitioner, Dr Bright Mabaso, treated many of the sufferers and he believes the outbreak occurred because residents were cut off from their regular water supply and used water from contaminated streams and rivers.

“I attended to a number of children who were brought to me with severe cases of diarrhoea, vomiting and gastro-enteritis,” Dr Mabaso says. “On this occasion the numbers per day were averaging between five and ten – that by definition is an outbreak. It involved the whole community. Diarrhoea is a serious problem when it affects children – it can be fatal within hours. From those who were referred to hospital, the number who died were two or three.”

<sup>19</sup> All research in this section, Dr McKinley, D (2005) *op cit*

<sup>20</sup> All research in this section, Dr McKinley, D (2005) *op cit*

### Suez in Phiri township, Soweto, Johannesburg:

Thirty-four-year old Jennifer Makoatsane lives in a four-roomed house with eight unemployed family members in Block A of Phiri in Soweto township in Johannesburg and she says she has suffered considerably since the privatisation of local water services in 2001 by Johannesburg Water Management, a joint venture involving subsidiaries of French water company Suez.

She says residents essentially had to choose between open standpipes or prepaid water meters – some costing up to 1000 Rand to install, with tariffs of up to 272 Rand for 50 extra kilolitres of water per month – and that the introduction of meters has severely reduced her household's daily access to water. "This has affected us so much," says Makoatsane, who relies on her mothers' pension as the household's main source of income. "The [free] 6,000 litres is not enough for our needs. In our household of nine we run out after two weeks."

"We have to use less water because we cannot afford to pay. We use the same water for different things. We adults will wash with the same water that the children wash in. You think twice if you have 5 Rand, whether to buy a loaf of bread or save it to buy water."

Jennifer Makoatsane says 27 local families in Block A were cut off from water supplies for refusing to sign up for prepaid water meters and she describes how the lack of access to water impacts on community relations and on wider cultural life.

"Funerals and weddings are becoming really difficult for us as we cannot afford to buy the large amounts of water that are needed," she says. "And neighbours are no longer sharing water. In some cases, neighbours are stealing from their neighbours. In fact the 'pre-paids' have brought war to our community."

Johannesburg Water Management say 98% of Phiri residents have agreed to the prepaid system, but overall Jennifer says "apartheid is still here" in Soweto and that she will continue to campaign as part of the Coalition Against Water Privatisation because she believes access to "water is a human right."

### Suez in Orange Farm township, Soweto, Johannesburg:

Only 14,000 out of the 1.5million residents of Orange Farm township outside Soweto in Johannesburg are formally employed, and the majority live in shacks and have access only to outside yard taps, communal stand pipes and pit latrines. Bricks Mokolo chairs the Orange Farm Water Crisis Committee and he is livid about the impact of local water privatisation by Johannesburg Water, a company under management contract to subsidiaries of Suez.

"Once the prepaid meters were installed, those affected began to experience hardships because they could not afford additional water," says Bricks. "They had to take buckets, often over long distances, and go borrow water from their neighbours. Some also began to steal water from others."

Bricks says surveys confirm residents of Orange Farm's Stretford Extension 4 were told by Johannesburg Water that they had to pay 500 Rand for prepaid water meters in order to receive flush toilets, and the community has now adopted a position of non-payment, which seems to have stopped the spread of prepaid meters outside of Stretford Extension 4.

"We never mandated our government to privatise water or any basic service," says Bricks. "Suez and Johannesburg Water were not there to empower poor people but were just interested in coming and making money off the people who had been destroyed by the previous apartheid government."

## Conclusion

These snapshots from Henry Nkuna, Dr Mabaso, Jennifer Makoatsane and Bricks Mokolo tell some of the stories of the disastrous impact of water privatisations involving multinational corporations in South Africa. Poor communities in Kanyamazane, Phiri and Orange Farm townships have all experienced the havoc of losing access to basic sanitation and water services. The introduction of prepaid meters and of sudden prices hikes has led to deprivation and the loss of access to water supplies – a basic human right. Overall, about 500,000 people have had water supplies cut off for non-payment and more suffer daily indignities and threats to their health.

This new evidence from South Africa reaffirms the experience of similar disastrous water privatisations in Argentina, Bolivia, Chile, Colombia, Guinea, Indonesia and Philippines. South Africa is currently free to reverse its liberalisation policies if it wishes, however, other poor countries that committed their water sectors under binding GATS rules would be 'locked in' to a liberalised regime and would find it virtually impossible to reverse things in equivalent circumstances. This research adds further weight to ActionAid's call that rich countries should withdraw their demands that poor countries make new commitments to liberalise sensitive service sectors in the current round of global trade talks which come to a head at the WTO Hong Kong ministerial in December 2005.

## ActionAid recommends that:

- The EU should drop its water liberalisation requests in the GATS talks at the WTO.
- Poor countries should make no new commitments to liberalise sensitive service sectors until full impact assessments are made of their likely effect on poverty issues.
- Key sensitive service sectors– such as water, health and education – should be withdrawn from GATS altogether.
- The WTO must function as an open, all-inclusive and democratic organisation and members should refrain from using threats and power politics in all negotiations.

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October 2005

ActionAid International is a unique partnership of people who are fighting for a better world – a world without poverty.

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Actionaid International is registered as a foundation in Haaglanden, the Netherlands, under file number 27264198

Design: mcreative