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Don't tap into the private sector

Publicly owned is wiser than flush with profits, say academics KAREN BAKKER and DAVID CAMERON, and ADELE HURLEY, a former International Joint Commission co-chair

Since the release of Ontario's Walkerton inquiry report, the need to address the security of Canada's drinking water has become more obvious and urgent. Cities such as Halifax and Moncton have already privatized the operation of their water systems. Is this the solution?

The multinational water-service firms that dominate the global water-supply contract market actively seek such contracts. Two French companies, Lyonnaise des Eaux and Vivendi, are among the largest in the world, with tens of millions of customers. But most water-supply systems around the world, and in Canada, remain in public hands.

Tapping into multinational expertise brings clear advantages, but also higher risks. Hamilton, Ont., signed a 10-year contract in 1994 with Philip Services, which ran into financial difficulty. So did the next owner, an Enron subsidiary. Hamilton has dealt with four operators of its water-supply system in eight years.

Municipal debates about water-supply management focus on the need for accountability and oversight -- which is why citizens opposed Vancouver's plans to involve private companies in building and operating a water filtration plant. Accountability was also a factor in Toronto City Council's recent decision to retain direct control of its water-supply system through a council committee, rather than an autonomous municipal services board or stand-alone municipal corporation.

One real fear is that private companies will promise optimistic savings, and then try to renegotiate once the contract is under way. Last month, Atlanta, Ga., cancelled its 20-year contract with United Water, a subsidiary of Suez-Lyonnaise des Eaux, citing failure to deliver on promised cost savings.

So how should citizens, governments and private corporations participate in water-supply management decisions? The University of Toronto Munk Centre's Program on Water Issues has identified seven models: direct-managed municipal service; autonomous board or commission; co-operative management; Crown corporation; a private corporation, government-owned; delegated management; and a private company.

After considering its options, Washington, D.C., retained public ownership and developed a system to increase efficiency and match private-sector performance standards. A Welsh water and wastewater company, privatized in 1989, was restructured in 2001 as a not-for-profit corporation. Now owned by "members" and prohibited from diversifying, the company's risk rating has dropped and its credit rating has improved, giving consumers lower water bills.

Other municipalities combine commercial management practices and public ownership.

Dutch public water companies operate with no subsidies, widespread metering and full cost-recovery pricing. The Dutch system uses incentives rather than ownership to manage water, supported by stringent regulation.

Private companies want to maximize profit; if effectively regulated, they may also increase efficiency -- but not necessarily at a lower cost to consumers. After the 1989 water privatization in England and Wales, water prices increased substantially. So did disconnections of residences for non-payment of bills, raising fears about public health. Concerned about dysentery and other water-related illnesses, the government banned residential disconnections.

The English case shows how involving private companies in water supply without effective regulation may have an environmental impact. The English also found increased leakage from water-supply pipes. When questioned, company managers argued that to go below an "economic level of leakage" would reduce their profits. To protect the infrastructure, the government had to impose leakage limits.

The English experience underlines the importance of strict regulation for effective water management. But private companies aren't keen on strict regulation. English regulators have found it difficult to maintain affordable prices and high environmental standards, while ensuring levels of profit acceptable to private companies and their shareholders. The world's largest water-supply company, Suez-Lyonnaise des Eaux, recently told the Philippine government that it wanted to end a 25-year contract only five years after it was signed because of disputes with regulators.

As the Walkerton tragedy reminded us, robust regulation is necessary for effective water-supply management, whether it is under public or private ownership. Experience shows that when private companies cannot earn a healthy profit, they retreat. The resulting ownership changes and contract cancellations can be prolonged and expensive, with risks to public health. When it comes to a resource that is essential for life and health, why expose Canadians to such risks?

Karen Bakker is an environmental geography professor at the University of British Columbia. David Cameron, a political science professor at the University of Toronto, was an author of Report of the Walkerton Inquiry: A Strategy for Safe Drinking Water Part II. Adèle Hurley is a former Canadian co-chair of the International Joint Commission.