Veolia Environnement

A Profile of the World’s Largest Water Service Corporation
About Food & Water Europe

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Executive Summary

Veolia Environnement is the largest water service company in the world. From its headquarters in Paris, Veolia operates hundreds of subsidiaries under many names in dozens of countries. Despite its international presence, the core of its operations remains in France.

A Failed Corporate Strategy

Veolia’s corporate profits plummeted in 2008 and remained languid through 2010. In the water division, the company has suffered major losses from municipalizations and has struggled to obtain new long-term privatizations. Despite its disappointing performance, the company continued many of the same strategies in 2011 that it had used over the preceding five years:

*Seek long-term control of water services.* It sought long-term, complex contracts to control entire municipal water and sewer systems. Such arrangements, however, seem to be increasingly rare for the company.

*Dodge competition.* For Veolia, complex deals were appealing because they involved less competition. The company and several of its peers have come under the scrutiny of anti-trust regulators in the European Union.

*Target Europe and Asia.* Veolia has focused half of its new growth investments in Europe, particularly Eastern Europe, where it has the financial backing of multilateral lending institutions. The company is also targeting China.

A Growing Movement for Public Water

Consumers worldwide report similar problems when Veolia runs their water and sewer systems. They say the company charges high rates, provides poor service and fails to make promised improvements.

Many municipalities across France and the United States have taken back their water systems from Veolia to improve service and lower costs. Even its home city of Paris ended its privatization deal with the company and resumed public operation to save money for consumers. Elsewhere, the fight for public water continues. Communities from Germany to Morocco are seeking to remove Veolia and restore public control of their water resources.

Facts and Figures: Veolia Environnement

| Headquarters: | Paris, France |
| Divisions: | Water, Environmental, Energy and Transportation Services¹ |
| Chief Executive Officer: | Antoine Frérot² |
| Employees: | 312,590³ |
| Financials (year-end 2010) |
| Revenue: | €34.8 billion ($46.5 billion) |
| Net Profit: | €581 million ($776 million) |
| Net Financial Debt: | €15.2 billion ($20.3 billion)⁴ |
| Veolia Water |
| Locations: | 66 countries |
| Population Served: | 95 million with drinking water service 68 million with wastewater service⁵ |
As of December 2009, its water division operated at least 728 different entities in 66 countries. Because of this, people know the company by a variety of names, including United Water in Australia and New Zealand, PVK in the Czech Republic, and Apa Nova in Romania. No matter what they call it, their stories are similar. Consumers worldwide have reported high rates, poor service and inadequate investment after Veolia took over their water and sewer systems.

A Brief History: From Regional Water Company to Media Conglomerate

Veolia’s roots are firmly French. In 1853, the company took form under the name Compagnie Générale des Eaux to manage water systems in France. In the 1980s, after more than a century as mainly a regional water provider, the company began a period of marked international expansion. By the end of the 20th century, it had transformed into a multinational media conglomerate called Vivendi.

Jean-Marie Messier became chief executive officer in 1996 and led the company on a massive buying spree, culminating in 2000 with a $34 billion takeover of the beverage giant Seagram’s entertainment division, whose notable assets included Universal Studios and Universal Music. By 2002, after six years of hasty and overpriced acquisitions, the company had accrued €33 billion in debt. Its bonds were downgraded to “junk” status, banks refused to extend any more credit and its stock price plummeted 60 percent. Confronted with the company’s ever-weakening financial situation, the board of directors ousted Messier.

The disgraced former executive soon found himself in legal trouble over claims that he disguised the company’s financial problems and misled investors. In 2003, the U.S. Securities and Exchange Commission fined him $1 million and ordered him to relinquish his €21 million severance package. In 2011, a Paris court levied an additional €150,000 fine and gave him a three-year suspended sentence for misusing company funds.

Introduction

Veolia Environnement is the world’s largest water and sewer service corporation, serving 95 million people with drinking water and 68 million people with sewer service globally. In 2010, the Paris-based multinational made €35 billion in revenue — more than a third of which came from its water operations — amounting to €581 million in net profit for its owners.
The Veolia Brand: From Recovery to Relapse

Vivendi spun off its water and environmental services division as Vivendi Environnement in 2000.14 The media conglomerate no longer held a controlling stake in the water company by 200215 and had completely divested from it by 2006.16 Vivendi Environnement adopted the moniker Veolia Environnement in 2003,17 in what seemed to be an attempt to distance itself from its disreputable former owner.

Henri Proglio became head of the new company in 2000 and launched a program to rid it of Messier’s more unwieldy purchases. For example, he auctioned off, piece by piece, most of U.S. Filter, a large U.S. water treatment company that Vivendi had acquired for $6.2 billion in 1999.18 It lost $4 billion when it sold most of U.S. Filter to Siemens in 2004.19

After recovering from some of Vivendi’s excesses, Veolia began a new expansion program, buying assorted environmental service companies.20 In 2007 and 2008, Veolia spent about €4 billion on acquisitions, including deleterious takeovers of large German and Italian waste management firms.21 The company’s 2008 returns were a wake-up call; because of the economic downturn and a €430 million loss in the value of its waste management business, the company’s profit fell by half and its market value dropped 70 percent.22

“We’re no longer really interested in building [build-operate-transfer] contracts for water treatment plants.” – Antoine Frérot, on complex privatizations

In 2009, Veolia made a volte-face on its acquisition strategy and started pruning its businesses. Proglio assured investors, “For 2009, we have one priority, which is to improve profitability.”23 It aimed to trim operating costs by €280 million and cut its net investments by at least 40 percent.24 From 2009 to 2010, the company sold off €2.5 billion in assets. It planned another €4 billion in divestments through 2013.25

Proglio, who led the company through both recovery and relapse, resigned as chief executive officer at the end of 2009, although he controversially remained chair of its board of directors for another year. French President Nicolas Sarkozy, a personal friend of his, had appointed him to head Électricité de France, the giant state-controlled power company.26 Antoine Frérot was his replacement. Frérot had led Veolia’s water division for six years and was “the most loyal” of the company’s four divisional heads, according to one board member. An analyst at Exane BNP told Reuters that, among other things, Frérot also seemed unlikely to “go on a mad acquisition spree.”27

A Failed Corporate Water Strategy

Pursuing Long-Term Control to Little Avail

In the water sector, Veolia aimed for concessions that gave it long-term control of municipal water and sewer systems.28 It sought, in Frérot’s words, “much more complex contracts where we manage the entire water chain” and lengthy contracts because “you can’t create wealth in these complex deals in the short term.”29 The company wanted greater control, but without the financial responsibilities that usually came with it. It continued to shun investing its own money in projects.30

For Veolia, new large privatizations have become rare. From 2005 to 2009, the company’s principal new contracts with public authorities became smaller in value, shorter in length and narrower in scope. As a result, the major new privatization deals it signed in 2009 were worth 97 percent less than those signed in 2005.31

As its privatization prospects dwindled, building and operating treatment plants became an increasingly important source of new revenue. These deals tended to be less valuable than concession contracts.32 Perhaps because of that, Frérot told investors in 2010, “We’re no longer really interested in building [build-operate-transfer] contracts for water treatment plants.”33 The company wanted to do more than just build and operate individual treatment plants; it wanted to run entire water utilities, from treatment to distribution to billing.
For 2010, this water strategy was a bust. Of its main new water contracts, none were long-term concessions of entire water utilities. The company obtained no new construction project that could replace three major plants completed in West Asia, and it was unable to offset the revenue it lost when Paris remunicipalized its water system. Its declining profitability reflected these failures; Veolia Water’s adjusted operating income fell 11 percent from the preceding year.

As a result, Veolia recalibrated its water strategy slightly in 2011. It decided to resume targeting treatment deals, specifically for industrial plants in Brazil, Russia, India and China. Nonetheless, it also continued to prioritize large municipal concessions. Frérot explained the appeal of these complex contracts to investors in 2010: “It’s in this kind of business that we get the best margins, because we have few competitors.”

**Dodging Competition**

Competition in the water service sector is limited. For example, during 2001, one-third of French water contracts that came up for renewal received a bid from only one company. Globally, Veolia and fellow Parisian company Suez Environnement dominate the water market. In France, they served four out of five consumers who had privatized water service in 2008, and anti-trust regulators have called into question certain interactions between these two companies.

Veolia and Suez had jointly owned at least nine companies that served communities in France, but in 2002, the French Competition Council ruled that the ventures constituted a “collective dominant position” and ordered their dismantlement. In March 2010, after a lengthy legal fight, the companies finally completed unwinding them, with Veolia selling its stake in six firms and assuming full control of three.

A month later, in April 2010, the European Commission raided the offices of several French water companies, including Veolia, looking for evidence of violations of EU competition law. The commission said that it had reason to believe that the firms might be colluding on bids for French water management contracts and imposing prices that are “unfair to local communities and ultimately to consumers.”

The investigation examined at least two of Veolia’s contracts, notably including its arrangement with Syndicat des Eaux d’Île de France (SEDIF), which according to Frérot, was a “flagship contract” used “as a reference for winning other contracts.” The French consumer group UFC-Que Choisir has cast doubt on the deal’s merit. It found in 2008 that the company overcharged SEDIF by €80 million to €90 million.

Veolia had to agree to cut its profit in half to renew its contract with SEDIF in 2010. The 12-year, €3 billion deal was the largest of its kind in Europe. Even though Suez was its only real rival, Frérot told the water industry trade journal *Global Water Intelligence*, “The competition for SEDIF was the most competitive we have had in the past 20 years in France and elsewhere.”

**Veolia Water’s Regional Targets**

Veolia’s water privatization plans centered on two continents:

- Europe, particularly France, Germany and the United Kingdom, as well as Eastern European countries
- Asia, predominately China.
For 2011 to 2013, the company directed half of its growth activity to Europe and about one-fifth to “emerging countries,” with China being the dominant target.\(^{31}\)

With this focus, the company sought to exploit the fiscal hardships that many governments face, as well as their increasingly stringent environmental regulations.\(^{32}\) Frérot seemed to welcome the public sector’s financial problems, telling a conference call in 2011:

“Looking on the plus side, we have public finance constraints, which drive the need for economic efficiency. This is bringing in more business for us because there is more and more of an openness to concessions, private management, etc. And also, despite the crisis, there are more and more stringent environmental regulations being introduced, and that plays in our favor.”\(^{53}\)

Although budget shortfalls have provided some public officials with a smokescreen for their privatization schemes, they have also inspired a number of other local governments to reassess and end existing water contracts to save money. In addition to declining water use, Frérot cited “public sector competition” as the company’s major challenge in the water sector, notably in France.\(^{54}\)

The following is an account of Veolia Water’s activities and shortcomings in various countries and settings. In some cases, the company’s failures to provide adequate and safe water to its customers are particularly grievous.

### Eurocentric with a French Epicenter

Despite its international presence, during 2010, Veolia made more than three-quarters of its revenue in Europe,\(^{55}\) with 60 percent of its operating cash flow from the western part of the continent.\(^{56}\) Nonetheless, it sought further expansion in the region. In a 2010 interview with the Dow Jones Newswire, Frérot said, “I’m convinced that Europe, the European Union, will offer substantial growth opportunities.”\(^{57}\) Much of its new privatization activity targeted Eastern Europe.\(^{58}\)

### France: Problems on the Home Front

Veolia has retained a strong French identity. Its single largest shareholder, as of December 2010, was Caisse des Dépôts et Consignations, a financial institution controlled by the French government.\(^{59}\) Caisse des Dépôts et Consignations held a seat on Veolia’s board of directors, and together with state-controlled Électricité de France, owned 13 percent of the company.\(^{60}\)

Veolia was the largest private water operator in France, controlling 39 percent of the market in 2008.\(^{61}\) It served 25 million people with drinking water and 16 million with wastewater service throughout France.\(^{62}\) Although the company sought to expand there,\(^{63}\) it was having a hard enough time keeping the contracts it already had.

### The Fight for Public Water

**Paris:** Veolia lost the water management deal for its home city of Paris at the end of 2009 when its contract expired. The city decided to bring the operation in-house to save money and stabilize water rates.\(^{64}\) The company had operated part of the Parisian water system, which served 2 million people, for nearly 25 years.\(^{65}\) In 2011, a year after taking over the water services, the new public utility projected €35 million in annual savings and the mayor announced plans to reduce water prices by 8 percent.\(^{66}\)

**Cherbourg Urban Community:** In 2005, the Cherbourg Urban Community municipalized its water system, ending a management deal with Veolia to lower rates and improve services.\(^{67}\)

**Montbéliard:** In 2010, Montbéliard decided to terminate its 30-year management contract with Veolia seven years early because of high rates. The community intended to begin public operation of the system in 2015.\(^{68}\)

**Saint-Malo:** In February 2011, the mayor of Saint-Malo in Brittany, France, announced that he wanted to municipalize the water system when the city’s lease with Veolia expired the following year.\(^{69}\)

**Olivet:** In 2009, Veolia lost the last of a series of court hearings to activist group le Groupe d’Action Municipale.
d’Olivet (GAMO). The French State Council decided that a law regulating contract terms applied to preexisting privatizations and thus limited their length to 20 years from when the law went into effect in 1995.70 In France, where it is estimated that four-fifths of the population is served by private water systems, this has huge consequences, potentially affecting hundreds of contracts.71

GAMO had been fighting Veolia and its high rates since 1997.72 The company first took control of the Olivet water system in 1933 with a 99-year concession contract. Originally the contract was set to run until 2032,73 but the latest ruling stipulates that it — along with other long-term contracts — must be economically justified in 2015 to run to maturity.74 While this means that for the time being Olivet is stuck with Veolia, it also means that many private water companies in France will now feel pressure to shape up their behavior.75

**Toulouse:** In 2010, following an audit of its contract, Toulouse negotiated with Veolia to cut water prices by 25 percent.76 Since 1990, when the 30-year concession contract was signed, water rates had risen at twice the rate of inflation.77 The mayor of Toulouse indicated that the city would consider public operation of the system when the contract expires in 2020,78 but community group Eau Secours 31 called for more immediate action.79

**Elsewhere in Western Europe**

**Dubious Sewage Shutdown in Brussels, Belgium**

In December 2009, Veolia subsidiary Aquiris unilaterally shut down its North Brussels wastewater treatment plant, allowing raw sewage from 1.4 million inhabitants to flow into the Senne, Scheldt and Rupel Rivers for 10 days. A report by a panel of independent experts concluded that the company had no legitimate reason for the shutdown.80 Aquiris won a contract to build and operate this plant in 2001 with a proposal to use a wet air oxidation process known as Athos, a relatively new technology that had never before been tested on urban wastewater of such a large scale.81 It has yet to be determined who will pay the estimated €80 million of required improvements.82

**Seeking Public Water in Berlin, Germany**

In a nearly unanimous referendum in February 2011, the people of Berlin voted to expose secret details of the city-state’s water privatization deal with Veolia and German utility RWE.83 In 2004, the government had clandestinely agreed to contract provisions that guaranteed profit to the private companies, circumventing a 1999 court decision that found profit guarantees unconstitutional.84 Berlin partially privatized its water and sewer systems in 1999, when Veolia and RWE bought a 49.9 percent stake in the Berlin Waterworks (Berliner Wasserbetriebe) and received a 30-year management contract.85 Since then, the utility has downsized the workforce by nearly 1,000 jobs and increased water rates by 25 percent.86

Talk of public reacquisition of the utility has been growing in the city.87 “I consider this backing for the goal of the senate to buy back formerly privatized parts of the water works,” Mayor Klaus Wowereit said of the referendum in The Local.88 Before the local referendum, the government had decided to negotiate with RWE to purchase the company’s share in the water utility.89

Veolia, however, hindered a remunicipalization by refusing to relinquish its stake.90 Michael Cunnac, the head of the company’s Berlin branch, told the Inter Press Service News Agency in 2010, “An end to the concession is out of [the] question.”91
The Gaze Shifts Eastward

Over the last decade, Veolia has aggressively expanded through Central and Eastern Europe and China. For “these two major geographical platforms,” Frérot expected “double-digit growth” over the next few years. For these two major geographical platforms,” Frérot expected “double-digit growth” over the next few years.

Targeting Eastern Europe

For 2011 to 2013, Veolia’s principal geographic target was Eastern Europe, with 30 percent of its new investments directed there. Frérot told investors in early 2011, “We have a strong presence in Western Europe, and we are going to have a strong presence in Central and Eastern Europe.” In 2010, Veolia served 9.5 million people with drinking water and 8.9 million people with wastewater treatment in Central and Eastern Europe, making €873 million in revenue. Its presence was particularly strong in the Czech Republic, Slovakia and Hungary.

International financial institutions have backed Veolia Water’s privatization efforts in the region. The European Bank for Reconstruction and Development has invested €175 million into Veolia Voda, Veolia Water’s Eastern European arm, since 2007. In June 2010, the World Bank Group’s International Finance Corporation announced that it too would invest as much as €100 million into the company. That month, the company signed a deal to buy United Utilities’ water operations in Sofia, Bulgaria; Tallinn, Estonia; and Bielsko Biała, Poland.

Despite the subsidies, failure has followed the company. It has lost a number of privatization contracts, including in Russia; Tbilisi, Georgia; Almaty, Kazakhstan; and Bukhara and Smarkand, Uzbekistan.

A Harmful Contract in Bucharest, Romania

Bucharest has encountered many problems since Veolia subsidiary Apa Nova took over its water and sewer services in 2000. Within three years, 350,000 people — about 20 percent of the consumer base — had complained about the company’s prices and billing practices, causing the deal to come under the scrutiny of national regulators. By 2007, because of ongoing invoice irregularities and inadequate service, the general mayor at the time was calling the contract harmful.

In 2008, the European Court of Human Rights ordered Romania to pay €10,000 in damages to a Bucharest family who had lacked drinking water for seven years. It found that the government failed to enforce a local court ruling that required Apa Nova to restore the household’s service. The next year, Neculai Onganu, local mayor of Sector 2 in the city, asked the city to terminate or modify the contract, accusing Apa Nova of refusing to extend service to areas in his district. Later that year, the city amended the 25-year concession contract after the company conceded to waive the city’s debts and to make additional investments.

Anger over Rate Hikes in Sofia, Bulgaria

In February 2011, just three months after being taken over by Veolia, the company’s local subsidiary, Sofiyska Voda, increased water rates by 9 percent in Sofia and threatened to shut off the water service of customers who failed to pay their bills. Sofiyska Voda had operated the water system in the Bulgarian capital since 2000 when it received the country’s only water service concession. By 2011, critics were accusing the private company of underinvestment, poor upkeep and excessive water loss. It was losing an average of 60 percent of its water and as much as 90 percent in some areas.

Treatment Deals in China

Frérot said that Veolia was targeting China because its environmental regulations and urban issues were similar to Europe’s. The government planned to invest 2 trillion yuan ($304 billion) on water projects from 2011 to 2015, and Veolia presumably wanted a piece of the action.

According to World Bank data, since 1997, Veolia has had 20 major water privatization deals in China, mostly to build and operate treatment plants. At first the company struggled to persuade Chinese municipalities to privatize an entire water and sewer utility, but in 2002, Veolia obtained the country’s first full-service water concession. Through a 50-year contract, the company took over the water services for 2.65 million people in the Shanghai-Pudong District. By 2010, Veolia served drinking water to 40 million people in the country.
“When we began in China, it began through BOTs [build-operate-transfer contracts],” Frérot told Global Water Intelligence. “It has taken six years to convince one municipality to outsource the global service in Shanghai. In other parts of the world, it takes longer. It takes ten years. That will be the case in the Middle East.”

Uncertainty in the Face of Democratic Uprisings in Western Asia and North Africa

Veolia had sought to expand in Northern Africa and Western Asia, particularly the Persian Gulf states, but by March 2011, as protests for political reform surged across the region, the company no longer specifically listed the area as a target.

A year before, in 2010, the company entered into a long-term strategic partnership with Qatari Diar, a sovereign wealth fund of the state of Qatar, to work on infrastructure and utility projects in Western Asia and Northern Africa. As part of the deal, the fund acquired a 5 percent stake in Veolia and obtained a seat on its Board of Directors.

At the time, the company didn’t expect an immediate surge of activity in the region but viewed its long-term prospects favorably. It planned to get a foothold through desalination projects. It had several contracts with the Sultanate of Oman, including one it obtained in January 2011 to help run the water system in the Port of Sohar.

Because of its relationships with authoritarian regimes, the company may revisit its involvement in certain countries as pro-democracy movements gain momentum. In early 2011, youth-led demonstrations toppled long-standing leaders in Tunisia and Egypt and invigorated a wave of popular uprisings. Protests for jobs and reform had erupted even in Port of Sohar, Oman.

Trying to Shake Off Water Privatization in Morocco

On February 19, 2011, a day before but not directly related to massive nationwide protests for democratic reform, citizen group Attac Maroc held a sit-in at Tangiers city hall to demand the termination of the city’s privatization contract with Veolia subsidiary Amendis. Hundreds of protesters, fed up with high utility rates, then marched to and attacked offices associated with the French firm. The company obtained a 25-year concession to run the electricity and water distribution systems in Tangiers and Tetouan in 2001.

A month before the sit-in, a group of Moroccan NGOs called for greater transparency, lower prices and better control of the water services of Redal, Veolia’s subsidiary in Rabat. Veolia (then Vivendi) bought Redal from foreign investors in 2002 and took over the remaining 26 years of a concession contract to run the water, wastewater and electricity services in the Moroccan capital. By 2010, the company claimed it was owed 760 million Moroccan dirham ($94 million), and intended to use this debt as leverage to renegotiate its investment commitments.

In an open letter to the mayor of Rabat, the organizations asserted that water rates in Rabat were notably higher than comparable cities, and the government made unauthorized transfers of large sums to Veolia. According to these groups, Veolia was lagging 25 percent — three years behind — in promised infrastructure work, which included improving the sewer system.

Failure in Australia

In addition to the Persian Gulf, Australia had been a target for Veolia’s desalination — as well as general water privatization — efforts, but experiences there should serve as a warning.

A White Elephant in Tugun

In Australia’s Gold Coast region, many critics are calling Veolia’s newly finished but now unnecessary $1.2 billion desalination plant a “white elephant.” The plant — the most expensive of its kind in Australia — is a drain of public resources. In March 2010, when reservoirs in the region were nearly full, the desalination plant still had to operate at a minimum of one-third capacity, costing $32,000 a day. The desalinated water costs more than three times as much as reservoir water.

Veolia obtained a contract to design, build and operate the plant in 2006. Soon after the plant opened, concrete cracked and other components corroded due to the use of substandard steel. An interview with an anonymous
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Rough Waters in North America

Veolia Water North America, headquartered in Chicago, Ill., is the largest private operator of public water and sewer systems in North America. In the early 2000s, after high-profile failures in major cities, the company shifted its strategy and set its sights on smaller contracts that involved less public opposition and private competition. By 2010, the company had refocused its efforts back to larger deals to capitalize on the daunting fiscal crisis afflicting many cities in the wake of the recent recession.

Public Operation Works Better in the United States

Veolia’s growth in the United States has been lackluster. In 2009, despite obtaining seven new contracts, Veolia Water North America lost a net of three public-sector clients, according to data compiled by industry publication Public Works Financing. Over the five-year period from 2005 to 2009, the number of its governmental clients fell slightly, from 173 to 166.

A number of cities and towns have ended arrangements with the company and resumed public operation of their systems to save money or improve service. This includes deals in Coxsackie, N.Y., and Overton, Texas, as well as Petaluma, Calif., and Burley, Idaho.

The company hasn’t given up. It saw opportunity in the water supply issues facing California and the state has become the front line of its fight to privatize U.S. water systems. Laurent Auguste, head of Veolia Water Americas, wanted to take on consumer organizations that support public control of water services. With this confrontational approach, in 2010, it launched an aggressive campaign against a community group that sought to prevent it from taking over their wastewater treatment plant in Novato, California. Veolia narrowly won a public vote on the issue after spending $240,000 electioneering.

Indianapolis, Indiana: Sinking the Flagship

Veolia lost its largest water contract in the United States in 2010 when Indianapolis terminated it more than a decade early.

The company received a 20-year, $1.5 billion deal to manage the city’s water system in 2002. Since then, workers, consumers and government officials alike have all had problems:

- Employees claimed the company cut their benefits by more than $50 million.
- Residents accused the company of using unfair billing practices and overcharging them.

former contractor from the plant revealed that over-chlorinated water caused an additional $6 million in damage. “This is a major project and this sort of stuff should never have happened,” he told the Courier Mail.

Removed from Adelaide

In 2011, Veolia-owned United Water lost its contract in Adelaide and had to repay $14 million that it overbilled taxpayers from 2001 to 2006. The company took over Adelaide’s water and wastewater services in 1995, when it obtained a 15-year, $1.5 billion deal. The South Australian government, which sued United Water to recoup the overcharges, decided against keeping the company when its contract expired in 2011.

Billing issues were not the only problem. United Water came under fire in February 2004 after nearly a million liters of raw sewage overflowed into a creek and onto a local beach. There were another two spills later that year, angering South Australian Environment Minister John Hill. “I’m sick of the excuses about why it’s happened,” Hill told ABC News. “It’s just not acceptable.”

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- Employees claimed the company cut their benefits by more than $50 million.
- Residents accused the company of using unfair billing practices and overcharging them.
A city councilmember criticized the company for cutting back on staffing, water testing, treatment chemicals and maintenance, and other members questioned whether the company had a financial incentive to fudge quality tests.\textsuperscript{153}

The company apparently lowballed its bid to win the deal, but after several years of multimillion-dollar losses,\textsuperscript{154} the company finagled major concessions from the city. A controversial contract amendment signed in 2007 shifted millions of dollars in liabilities from the company to the city while increasing city’s annual payment to the company by $1.9 million.\textsuperscript{155} In total, the amendment cost the city more than $144 million.\textsuperscript{156} State regulators refused to allow the city to recoup some of these additional expenses in a rate increase.\textsuperscript{157}

By 2010, with infrastructure needs mounting, the city opted to wash its hands of the water utility altogether and decided to sell it, along with the sewer system, to the non-profit Citizens Energy Group.\textsuperscript{158} As part of the transfer, the city agreed to pay Veolia $29 million to terminate the deal early. Citizens Energy believed it could realize savings not possible within the constraints of the contract.\textsuperscript{159}

Petaluma, Calif.: In 2007, after nearly 30 years of private operation of its wastewater treatment plant, the city council unanimously voted to take back the system from Veolia, expecting to save 10 percent ($1.6 million) in the first three years of public operation.\textsuperscript{160}

Burley, Idaho: In 2009, after cancelling its wastewater contract with Veolia, the city had to make thousands of dollars in repairs to the treatment plant, blaming the company’s neglect and poor maintenance.\textsuperscript{161}

Tama, Iowa: In 2011, after nearly 20 years of private operation of its water and sewer systems, Tama, Iowa, sought to terminate its contract with Veolia, believing it could save money with public operation.\textsuperscript{162}

In Conflict with the Human Right to Water

The experiences of communities across the planet show that Veolia does not offer a solution to the world’s water problems. Indeed, underlying its corporate strategy is a tacit recognition that water privatization in general does not work for the poor and conflicts with the human right to water. The company seems to want to hide this fact and often presents a different public face from the one it shows investors.

In a March 2010 letter, Veolia Water told the U.N. Human Rights Council’s independent expert on the issue of human rights and water that the core of its job as a water operator was to “bring water to those who need it most.”\textsuperscript{163} In reality, however, the company has avoided places with the greatest water needs. In 2010, Veolia Water did not have offices in countries with the least access to safe drinking water (see map on inside cover).\textsuperscript{164} This is partly because public resistance to privatization and opposition to high water bills made it unprofitable for the company to run water systems in many places in the Global South.\textsuperscript{165}

In its letter to the Human Rights Council’s independent expert, the company boasted about how it has expanded water access, “particularly to those living in remote areas.”\textsuperscript{166} Nevertheless, that same month, it told credit analysts on Wall Street that it prioritized “financially sound clients” in dense urban areas.\textsuperscript{167} The rural poor thus were of little concern to Veolia, despite its pretenses.

For these communities, Veolia’s absence is beneficial. The rate hikes needed to generate corporate profit could price struggling households out of safe water service. When low-income neighborhoods cannot afford to pay their bills, private companies often focus improvements in wealthier areas where they can recoup their investments and grow stockholder value.\textsuperscript{168}

Veolia does operate in certain low- and middle-income countries, but Frérot told Dow Jones Newswires, “we won’t give them the priority in terms of investments.”\textsuperscript{169} Veolia’s customers in Libreville, Gabon, know all too well the human consequences of underinvesting in water resources.

Africa: “Not a priority”

Half of Veolia’s major water operations in Africa were linked to loans from international financial institutions, according to World Bank data. In 2010, Veolia ran water systems in five African countries: Gabon, Morocco, Namibia, Niger and South Africa. A loan from the European Investment Bank backed the privatization in Namibia and one from the World Bank’s financial arm backed the deal in Niger. Since the mid-1990s, Chad, Comoros and Gambia have terminated deals with the company. All three contracts were associated with World Bank loans.\textsuperscript{170}
The company is not prioritizing new privatizations in the region, but it is not leaving the places where it already operates. In 2010, when an investor asked about the company’s plans for Africa, Frérot responded: “…Africa is not a priority for the Group, but we do not intend to withdraw from Africa though; we want to work with partnerships and not just with our own money.”

Even when the company takes over water services, it avoids investing in the system unless it can hike water prices to earn a sizable return. Insufficient investment can impair water quality and leave some households without service. It can be deadly.

Running Dry in Gabon

In 2011, after an independent audit documented serious failures with the concessionaire, the government of Gabon ordered Veolia-run Société d’Energie et d’Eau du Gabon (SEEG) to improve its water and electricity systems to stop the blackouts and water shortages plaguing Libreville. The audit found that the company had failed to properly maintain the systems and had difficulty providing the required level of service. Some districts of the capital city had no water service at all and others faced daily outages that lasted as long as eight hours.

In 1997, Veolia obtained a 20-year concession to provide water, wastewater and electricity services to 1 million people in Gabon. In 2011, it planned to sell half of its 51 percent stake in SEEG to Électricité de France, the French-state electric company headed by former Veolia CEO Proglio.

Not long after the 1997 privatization, problems began to surface. “The water distribution system faces shortages going back to 2003 as a result of obsolescence and saturation of the transport system for treated water,” Seraphin Moundounga, a government spokesman told Reuters. At the end of 2009, after years of prolonged and repeated service interruptions in Libreville, the government decided to revise its contract with SEEG.

In January 2011, a family of five died in Libreville when a candle — necessary because of power outages — set their house alight. “We all tried to extinguish the fire and save the lives of victims, but things were not easy, especially as water taps were dry in the district,” neighbors reported to the newspaper Afrik.

A Growing Movement for Public Water

A close examination of the world’s largest water corporation reveals basic problems with water privatization. Consumers worldwide have seen their bills skyrocket and their service worsen after Veolia took over their water and sewer systems. In the face of strong public opposition, the company’s privatization prospects are diminishing. It is struggling just to hold ground.

A growing movement is afoot to reclaim water services for the public. Many communities across France and the United States have ended deals with Veolia and resumed public operation to save money and improve service. Elsewhere, the fight for public water continues. From Germany to Morocco, communities are seeking to remove Veolia and restore public control of their water resources.

Kicked Out Across South America

Organized public resistance wrecked Veolia’s water privatization vision for South America. Public opposition to price increases and inadequate service forced the company out of deals in Argentina and Brazil, and threatened to do the same in Guayaquil, Ecuador, and Tibitoc, Colombia. As of 2010, according to World Bank data, the company had only three “operational” privatization contracts on the continent; all were in Colombia and two involved fixed government payments to the company.


168 For example, see Lobina, Emanuele and David Hall. Public Services International Research Unit. “Problems with private water concessions: a review of experience.” June 2003 at 29 to 31.


