

## **GERMANY: PUBLIC WATER SERVICES IN CONTINUAL RETREAT?**

*By Hans-Werner Krüger*

The freshwater and wastewater services in Germany are some of the best examples of well-organised and efficient public services in Europe. Their development and the degree of performance compares favourably to neighbouring countries like Austria, Switzerland and Denmark.

The rise of a technically modern water and sewerage system in the second half of the nineteenth century included some private companies, for example in Berlin, but mostly municipal waterworks made up the administration. The rapid growth and industrialisation of the cities demanded too much of private companies, who often failed to establish a constant supply and acceptable price system. These developments strengthened the position of municipal waterworks and several long-distance freshwater supply systems were established that still exist today. Municipal waterworks are normally organised under public law as associations between cities and other communities.

In 1909, of 1,291 communities 96% had their own waterworks, a figure which remained almost constant for many generations. Even the limited company Gelsenwasser, founded in 1887 and for a long time the only major example of a private water (and gas) company, included several cities in the Ruhr region as shareholders. In 2002 the cities Dortmund and Bochum bought the 81% stock package from the multi-utility giant EON, a move criticised as re-socialisation by right-wing newspapers.

Today there are still 6,700 waterworks and 7,000 sewage treatment companies with individual owners, most of them in public hands. Most waterworks are small and represent the typical village supply system in the rural area. They are normally well adapted to the local hydrological situation and able to guarantee their clients good or even excellent water quality. As a rule, the villages and small water associations tend to keep waterworks as their property and have municipal independence. Their water and sewage services can often profit from low prime costs, compared to costs in unfavourable locations like the middle and lower Rhine area which are much higher.

An international comparison of water prices has Germany at the top. The waterworks refer to their high quality, the same applies to the standard of the sewage treatment, and to very different conditions of price setting, for example taxes and direct or indirect subsidisation in the European countries. The requirement of the European Water Framework Directive that the water prices shall have a full cost calculation, which is reasonable in rich countries, is not usually fulfilled. A realistic, multi-factor analysis will put German water prices in the middle of the scale.

The generally suitable structure and the high quality of public water supply systems are partly the result of well-educated engineers and their specific sense of responsibility for water as a common good and a basic foodstuff. The professional association of water and gas engineers has, for more than 125 years, developed an incomparably elaborate and comprehensive body of technical and organisational rules and standards. It is hard to imagine that this successful model could have developed under competitive market conditions. And there are severe doubts whether it will be still be applied with the same sense of responsibility under the growing pressure of liberalised markets in the public services.

In Germany the municipalities, with their high degree of self-government and political and economic independence, have mostly organised their public services, electricity, gas, water and traffic in the form of *Stadtwerke* (municipal utilities), the public equivalent for the great private multi-utility groups. The latter, after a process of mergers and acquisitions, are now prominently RWE, EON and, in the energy sector, the Swedish-dominated Vattenfall and EnBW.

The *Stadtwerke* generally have the right to make use of cross-subsidising between more or less profitable public services. In this way they may guarantee an efficient infrastructure and basic provisions under more or less public control. There is no participation by citizens in the public companies, except for the representation of trade unions, in this case for the public service, in some supervisory boards is seen as a certain substitute. The way in which the municipalities exact control of their public enterprises is sometimes questionable but has seldom been subjected to public criticism or alternative proposals.

The whole system, widely guaranteed by law and, up to the 1970s, politically supported by all parties, should be considered as a public good. The consensus that the state, and especially state-owned enterprises, play a fundamental role as a regulative force in the economy has diminished more and more, not only as a consequence of neo-liberal ideology. The state itself has produced the fundamental crisis in public finances by tax cuts for companies and wealthy citizens. Cities, especially, are the main victims of a misleading and misunderstood fiscal policy.

This and their own illusive assumptions about permanent economic growth have made the utilities easy targets for economic takeovers by the big private multinationals. The VKU, the association of the communal enterprises, (unofficially) has counted among its 1,400 members more than 500 which

already have private shareholders. They mostly bought parts of the Stadtwerke who generally are the owners of the local fresh-water and sewage services.

The leader in this process is the EON subsidiary, Thüga, with 130 interests in municipal enterprises. Thüga in most cases acquires about 25%, but gets the right to manage the operative business and, consequently, dominance. In this way political control of public enterprises often is reduced to tokenism.

Private owners try to keep the whole system of shares and crossover investments as invisible as possible. The Federal Cartel Office has seldom intervened in this process of concentration and widespread monopolistic or duopolistic power play. The Federal Government supported this development in favour of building up internationally competitive units.

This argument also occurred during the discussion about liberalisation and privatisation in German water services. The announcement of neo-liberal office-bearers in the ministries was and still is that the 6,700 existing water enterprises and 7,000 sewage plants, out of date, pre-modern, non-competitive and inefficient as they are said to be, have to change their structure and have to reduce their number down to 300 or 500. Even the Bundestag (parliament) in the petition “Sustainable water services in Germany” in 2001 gave a clear market-oriented statement.

No doubt many people, flanked by the interested companies, banks and management consultants which work as a lobby for privatisation, ignore the specialties of water supply. This was one of the main results of the so-called Ewers experts’ opinion about market opening of the water and sewerage services, initiated by the economics ministry in 2001. Ewers seriously claimed in a hearing that the “water industry” (water services are by no way an industry) has to “submit to the

discipline of the capital market”.

After the harsh criticism of such mental aberration, the liberalisation express slowed down and officially changed its destination into “modernisation” of the water services.

This new label policy has reached the European Commission and the European Parliament and is also supported by the different organisations of the water services in Germany. Probably they are misunderstanding what they think is their tactical refinement to get the train under control. Modernisation so far shall be the result of a nationwide process of benchmarking. It is not clear whether it shall be made obligatory or not.

The process of selling public property already started during the 1970s, accompanied by a continuous change in the interpretation of the role of the state in general and of the particular significance of the public enterprises. The promoted market orientation as an all-out mechanism of public and individual conduct replaced the specificity and the understanding of public services and common goods. The citizen turned into the customer with his well-trained sense for prices.

The public, respectively the local citizens/consumers, seldom take care of changes in their local Stadtwerke or waterworks. Privatisation has become a somewhat normal process. As a rule, people are not informed in advance about privatisation or one of the numerous cross-border leasing treaties in their cities. In several cases, administrations directly hid their intentions or lied to the public.

#### **HIGH-PROFILE PRIVATISATION: BERLIN**

Nationwide attention was only given in 1999 to the 49,9% privatisation of Berliner Wasserbetriebe (BWB), which have freshwater and sewerage in one hand, although the parliament

only got very little knowledge of the treaty. It favoured RWE, Vivendi (later renamed Veolia) and the insurance company Allianz, which sold its share some years later, in a hitherto unknown manner. The group got a guaranteed 9% payment of interest upon the capital invested, irrespective of the actual economic performance. The investment of €1,6 billion was overpaid, but a so-called strategic investment into the emerging water markets in Eastern Europe. BWB has lifted the water price 15% higher in 2005 and the private investors are striving for further increases.

Following the figures of the dominating multinationals, they supply 27 million people through companies that are partly privatised or have engaged the big companies or their numerous subsidiaries as operators. EON as a holding is engaged in 138 companies, RWE in 84 and 11 are shared by both. The next in the number of shares are Gelsenwasser (21), EnBW (19), the French Veolia (5) and the French Suez/Ondeo (2). The influence of the French big two still is limited to the eastern parts of Germany.

Since privatisation has become more controversial, and sometimes too expensive, the official policy from Berlin to Brussels prefers the term public private partnership (PPP). It is designed as a more elegant way to take private profit from public subsidies of all kind and to rely upon the guaranteed security of municipal services. Public enterprises, which see themselves as integral part of capitalist market movements, sometimes feel proud to blow the PPP horn.

The Stadtwerke, 850 of which are producers of energy, are involved in the new energy market competition. Water is still protected in its monopolistic structure by cartel law. But as a part of the whole Stadtwerke system between the pressures of fiscal poverty and the efforts to improve the efficiency, they are undergoing a silent commercialisation. The water-only compa-

nies in public property are not exempted from this policy of “efficiency”.

This means less investment in new installations, plants and pipelines, less means for maintenance, fewer employees, less training, less know-how and, in the long run, the loss of a specific professional sense of responsibility. It is a corporate quality and may be seen as the equivalent of an involvement by civil society in public enterprises – at least as long as it works.

### **ANTI-PRIVATISATION CAMPAIGNS**

People normally do not realise the transformation in the public services and until now only a minority has learned that all citizens are directly affected by privatisation, which takes away their public goods. But there is a growing consciousness that some things are going wrong and people are learning that they can differ from authorities, most of the mass media and the ideology of competition. People are also beginning to learn from successful opposition to privatisation in their own and in others' cities.

In Germany, citizens have fairly good opportunities to exact political influence, especially in local affairs, through the referendum. It comprises two or three steps with commitment for the local authorities. In 2001, in the large town of Düsseldorf, about 90% of the votes were against the privatisation of the Stadtwerke AG. In about a dozen referendums concerning water services, no one favoured privatisation. The last one took place in Hamburg during August 2004 against the threat of privatisation of the oldest municipal waterworks in continental Europe. The local initiative collected 147,000 votes, two times more than necessary. Following the vote, the city council on November 24<sup>th</sup> 2004 accepted a resolution banning any kind of privatisation, which will be transformed into law in

2005. This will resemble the decision which Vienna (Austria) made in 2003.

Local initiatives from big and middle-sized cities like Munich, Stuttgart, Augsburg and Kassel in 2003 started co-operation in a network against water privatisation named "Wasser in Bürgerhand" (water in citizens' hands). It is supported by environmentalist groups, the trade union of public sector workers, ecclesiastical and developmental aid groups and some people from public enterprises. But the co-operation is only loose and has not reached practical, mutual support or a nationwide bundling of public address.

In Munich there is a remarkable unison between the local government, the sewerage services and the anti-privatisation initiative. The Stuttgart Water Forum has tried to stir the public mind to make the privatisation of the municipal shares in the two water distribution systems undone. The Augsburg Water Alliance, after a referendum and negotiations with the municipality, got the municipal council on March 25<sup>th</sup> 2004 to refuse to privatise any of the water and sewerage services. Moreover, they fixed a target to use profits only for the maintenance of the water systems and for water protection.

The website [www.privatisierungswahn.de](http://www.privatisierungswahn.de) gives support against neo-liberal policy and Attac Germany has adopted the subject on its website as well.

A completely different approach to possible privatisation has been practiced in the small town Herten, with a debt of €75 million. Starting in 2002, the local Stadtwerk, which makes a profit, has sold personal bearer loans of between €1,000 and €20,000 to customers with a fixed interest rate of 5%. They can be terminated after one year and are somewhat similar to normal fixed investments.

Meanwhile, about 950 people have brought €10 million into the municipal coffers to finance infrastructure measures such

as the modernisation of the local bath. This now closed investment raises the public interest for municipal affairs but does not give any right to exact control over the public enterprise. The model, although prominent, has not found a successor.

Another idea is derived from the pension funds in the steel and chemical industry. The so-called blue pension fund shall combine the property of parts of waterworks with the guarantee of safe old-age insurance. Starting with the employees of a company who give their private insurance rates into the company, other people also may invest in public waterworks, the return on investment paid in fixed interests. This would mean "ethical" investment and the security of a company that is independent from private market uncertainties and failures. The idea till now has not been further developed.

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