

## **Water Privatization in Latin America**

**By Carmelo Ruiz Marrero | October 18, 2005**

The drive to privatize water distribution and resources is gaining steam in Latin America. Although transnational water companies have suffered setbacks in places like Puerto Rico, Bolivia, and Uruguay, they continue with plans to appropriate the region's hydrological resources—rivers, aquifers, wells, and aqueduct systems. While “privatization” has become a loaded term in the water business, companies prefer a softer discourse, employing concepts such as “decentralization,” “civil society participation,” and “sustainable development.”

In April, over 400 participants from Mexico and countries throughout the hemisphere met in Mexico City at the First People's Workshop in Defense of Water. Organized by the Mexican Center for Social Analysis, Information, and Training (CASIFOP) and Center for Study of Rural Change (CECCAM), the ETC Group, and the Polaris Institute of Canada, the workshop brought together small farmers, indigenous peoples, labor union representatives, members of urban movements, researchers, students, and civil society groups to compare notes and share their experiences with privatized water services and attempts to transfer water management to transnational companies. Participants also discussed possible pathways toward consolidating and furthering the defense of the liquid as a human right for everyone, managed in a sustainable, democratic, and responsible manner.

### **New ways to privatize water**

In the course of nearly a hundred brief presentations, workshop participants discussed privatization of water services currently being promoted in their cities and communities and described their communities' reactions. Tony Clarke laid the groundwork by identifying six modalities of water privatization:

- \* Privatization of municipal services in urban zones. In this modality, transnational corporations appropriate distribution networks and purifying facilities with the help of new
- legislation on water that permits participation of private contractors.
- \* Privatization of territories and bioregions. To quote a CASIFOP document: “The companies that trade and/or need bulk water for their activities seek the privatization of territories and entire bioregions to guarantee monopoly control over the resource, protected by legislative changes.”
- \* Privatization through diverting existing sources. Abundant water is provided to industrial users and agribusinesses through canals that divert whole rivers from their natural courses, and through the construction of infrastructure megaprojects like waterways and dams, at the expense of millions of traditional users including indigenous peoples and small farmers.
- \* Privatization by contamination. When major corporate users pollute the resource through use and abuse (for example mining, oil drilling, paper pulp, electricity generation, and toxic agrochemical-intensive industrial monocultures) they make it impossible for less-privileged sectors to use it.
- \* Privatization by bottling. Four transnationals (Coca Cola, Pepsico, Nestle, and Danone) control most of this prosperous business activity. These companies and their subsidiaries obtain water at extremely low cost and often in addition receive state subsidies to establish bottling plants. They then sell it for over a thousand times what it cost them to get it.



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\* Monopoly of technologies. Big industries not only squander and pollute water—a resource that belongs to all—but also control the technologies for its extraction and purification.

## **Justifications for Water Privatization**

Workshop participants who have fought privatization in their cities in Nicaragua, Bolivia, and Ecuador, among others, stressed some of the fallacies behind the justifications for privatizing water services and resources.

In sum, they noted that the arguments for privatizing traditionally public and communal water resources rest on three questionable assumptions:

1. Population growth: “Every day there are more and more people who need access to water resources that are becoming scarce and overexploited, which causes social tensions and conflicts.”

This argument tends to grossly simplify the complex social dynamics surrounding use of natural resources by assuming that extreme economic inequalities and differences in consumption patterns do not exist, and if they do, they are of no consequence.

2. The need to assign economic value to water: “Water is wasted because people get it for free or for artificially low prices. Therefore, if its price reflected its true ecological and economic cost, people would avoid its abuse and overuse.”

Private water company executives say the prices they charge are high because water is a costly and risky business and their companies must make a profit in order to remain competitive. But the high prices these corporations charge are not based on market rationality or ecologically sustainable criteria. The apparently independent companies that operate municipal aqueducts are for the most part subsidiaries of a half dozen transnational corporations that collude with each other and divide global markets among themselves. The money they get from the rate payers is not invested in maintenance and expansion of the existing networks but

on their overseas expansion plans and on bountiful dividends and executive salaries.

3. The failure of the state: “The state has failed as administrator of the resource, not only because of its corruption, incapacity, and lack of investment in the infrastructure but also through its promotion of a paternalistic cheap water for all culture that has resulted in waste and overexploitation.”

Recent studies show that the apparent failure of the state in the countries of the South is due to numerous external factors, including the weight of the unpayable external debt and structural adjustment policies imposed by multilateral banks that practically require the dismantlement of the state and restrict public investment.

“The transnationals manipulate crisis data to justify taking over (water services) and increasing privatization; they blame common people, peasants, and public services for poor use and administration,” said Silvia Ribeiro of the Action Group on Erosion, Technology, and Concentration (ETC). “For this reason it is imperative for us to construct our own maps of the crisis and alternatives to confronting it.”

## **Mexico, a paradigm for privatization**

One of the conclusions reached at the workshop was that Mexico is a beachhead for privatization throughout the region. While other Latin American countries have seen major grassroots struggles in defense of water and even obtained some victories—as in Cochabamba, Bolivia—in Mexico, “water privatization is spreading throughout the country, while resistance or protest against it has been dispersed since most cases are perceived as local problems,” said CASIFOP researchers Karina Atayde and Thais Vega.

The trend toward water privatization in Mexico dates back to 1983 when then-President Miguel de la Madrid made changes in Article 115 of the country’s Constitution which made the water supply the responsibility of municipal governments.

At first glance, such legal changes would seem like a move toward a genuine decentralization and

local and democratic control over the resource. But according to CASIFOP, “By transferring the responsibility of supply to municipal authorities, the federal government not only gave them the infrastructure networks, but also it bequeathed all the problems of its management, piled up during decades: leaks, obsolete and poor networks, corrupt and irregular administration, among others, within a context of uncontrolled urbanization.”

In 1992 the privatization process accelerated under a new Law of National Waters, which led numerous municipalities—including the capital cities of Aguascalientes, Saltillo, and Mexico City—to contract their water management to subsidiaries of transnational corporations like the France-based Vivendi.

In his initial intervention in the Workshop in Defense of Water, Andrés Barreda of Mexico’s National Autonomous University, described the consequences of the government’s water policy:

“The path of compartmentalization distinguishes between three main types of water use: urban, rural, and industrial. It breaks down urban uses for privatization through a strategy of local management, contracting, and creating small-scale water markets ... It atomizes rural uses for privatization by locating them within different irrigation systems.

“The process of water privatization thus shows a complex strategy of spatial advance: to atomize scenes of conflict and negotiation over water, with the management of urban water in the hands of

municipalities while rural water use is managed in dispersed irrigation systems throughout the country. This permits the huge transnational water companies to negotiate with political entities of small territorial scale. Since the resulting enterprises

are so small, people think that in their municipalities they are dealing with local companies without realizing that these are actually one of the thousand faces of some gigantic transnational services corporation that uses subcontracting to distance itself when social problems arise caused frequently by poor service.”



Participants in the “Defense of Water” Workshop, Mexico City, April 26, 2005

## Problems with water privatization in Mexico

The cities of Cancun, Saltillo, and Aguascalientes show the dangers of water privatization in the urban context. In Cancun, a tourist resort on the Caribbean coast, the first private company that administered the water system was Azurix, a subsidiary of the famous and disgraced U.S.-based Enron Corporation. After its scandalous bankruptcy came Odebrecht, a subsidiary of the French Suez corporation, which financed its purchase with a loan from the Mexican Public Works and Services National Bank (Banobras). According to the American NGO *Public Citizen*, “the investments that were promised have yet to materialize and therefore residual waters are discharged into the Caribbean Sea.”

In Saltillo, in the state of Coahuila, the water system was contracted to a company jointly owned by the municipality and a Spanish corporation, Aguas

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de Barcelona. During the concession's first two years rates went up between 32% and 68%, in direct violation of the accorded terms, which established that rate hikes should not exceed inflation. Members of the board of directors from the municipality have not been able to prevail over the decisions made by the board's Spanish members, informed *Public Citizen*.

In Aguascalientes, the water system was contracted to a subsidiary of French transnational Vivendi and rates soared to among the highest in Mexico. But these high tariffs have not resulted in a sustainable management of the resource; the aquifer that the city depends on is on the verge of collapse. The municipality is currently considering rescinding the contract.

These three cases contrast with the Monterrey city water system, which is controlled by a public agency. "Like several others in the north of the country, this public entity has been successful in assuring a broad availability of service while it reduces leaks through client networks and collectors," according to the daily newspaper *La Jornada*.

In 2001 the Program for the Modernization of Providers of Water Services and Treatment (Promagua) was created to fund municipalities to maintain their water systems. But Promagua's aid, which was funded with a World Bank loan, states as a condition that the municipalities must facilitate private capital participation.

The private sector also imposes conditions of its own. According to CASIFOP, "private companies refuse to establish any type of agreement with municipal authorities if these do not commit themselves to amend deficiencies in infrastructure by way of state investment (public debt, that is), raise rates before the entrance of private capital, absorb costs to 'eliminate uncertainty' regarding property rights, guarantee the concession's continuity, and assume responsibility for extending the infrastructure network, again by means of more foreign debt."

According to Luis Hernández Navarro, many of the World Bank's loans to Mexico have had as a condition the privatization and full cost recovery of water. "In their language, 'cost recovery' refers as much to the elimination of government subsidies

as to the increase in payments that consumers will have to make to have access to the service. This means that operating entities in charge of providing drinking water must cover all the operating and maintenance costs through fees to communities, without receiving government subsidies."

The most recent Law of National Waters, passed by the Congress in 2004, was a substantial step toward the privatization of the infrastructure and supply of drinking water. According to the World Bank, "the new legal framework constitutes a unique opportunity to deepen the reform process" of the sector. "The new legislation fine-tunes the mechanisms to achieve the population's exclusion from the decision-making process regarding water policies and management, to transfer it to large businesses," states Hernández-Navarro.

## **Toward the World Water Forum 2006: Civil society alternatives**

Civil society organizations have already begun to articulate alternatives to the prevailing model of water privatization. "As an alternative to privatizing trends on the one hand and centralizing ones on the other, when it comes to water management, we propose a model of local and participatory management in which communities devise and execute, in coordination with the pertinent public sector entities, policies aimed at the protection, conservation, and sustainable and equitable use of the resource," declared the participants of the Central American Civil Society Forum on Water, which took place in the summer of 2005.

The declaration goes on to state that, "We demand opening forums to facilitate social organizations' participation in the elaboration and implementation of said policies, which will have to be established in legislation with the relevant normative entities to make this management model effective, as the only means to guarantee respect for the human right to water."

Participants at the Defense of Water workshop plan to continue to analyze the situation, develop alternatives, and monitor situations in their own communities.

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One of the main objectives of the Workshop in Defense of Water held in Mexico was to start preparing civil society for the next World Water Forum, scheduled to take place in Mexico City in March 2006. This Forum, which is held every three years since 1997, gathers the main parties responsible for global water-use decisions: representatives of two thirds of the world's governments, companies whose businesses are water-related, non-governmental organizations, members of the scientific community, and UN agencies. The Forum works to diagnose the situation of water resources on the planet and develop efficient use. It came into existence as an initiative of the World Water Council, an institution founded in 1996 together with the Global Water Partnership. Historically, there has been a bias toward private-sector options in the proceedings.

The Mexico City meeting was a sign that grass-roots and civil society organizations and indigenous peoples are beginning to carry out their own diagnosis of the problems. They plan to prepare analysis and experiences to present to delegates at the Fourth World Water Forum next summer. Based on testimonies at the Defense of Water gathering, many reject the processes of privatization as illegitimate and inefficient in solving the problems of water supply, and argue that real alternatives exist to provide the liquid at a reasonable cost, without environmental destruction and without the involvement of transnational corporations.

Maude Barlow, Canadian activist and co-author of "Blue Gold," participated in the Workshop and in an interview with Radio Mundo Real she sent a message to Latin American governments: "I understand that the states of Latin America are going through difficulties in financing the public system of water supply and I know that they have also a huge debt with the First World. But they are making a big mistake by allowing these corporations to enter their communities and administer the water system just for the profits it generates. This would cause even more poverty, more pollution. The corporations do not take on any risk, but obtain all the benefits. It is local people who bear the risk, and it's the World Bank that pays for the corporations to be risk-free. It is very important for governments to say 'no' to these corporations. In

short, they are not there to get water to the people, they are not there out of a concern for the people, or to help the governments. They are there to make money. When they stop making it they will leave."

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## FOR MORE INFORMATION

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