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»Imagine ...
clean drinking water for everyone?«



**RWE Thames water –
a german player on the
global water market**

*by
Frank Kürschner-Pelkmann
and Peter Schnabel*

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Content

2	Imprint
4	Preface
5	Introduction
6	The international water market
10	The RWE AG
10	The history of RWE
11	Expansion in the core businesses of the concern: electricity - gas - environmental services
13	The new concern structure
14	RWE and the local authorities in Germany
16	Profit interests and awareness of responsibility
16	The current debate
18	Profit interests and awareness of responsibility at RWE
18	The corporate philosophy of RWE Thames Water
21	Corporate identity?
22	The water business
22	Involvement in water in Germany
22	The "Berliner Wasserbetriebe"
24	RWE expands in Europe
25	RWE Thames Water
25	The take-over of Thames Water by RWE
26	RWE Thames Water in America
27	The involvement of RWE Thames Water in Asia-Pacific
33	Involvement in other regions of the world
34	American Water
35	Lesotho – a dam project in the headlines
37	Imagine – the responsibility of a global player
40	Major Shareholdings of RWE

Preface

Within the space of only a few years the concern RWE Thames Water has advanced to become number three among the global players on the international water market. Four large multinational groups of companies and about a dozen smaller water companies have been taking over public water utilities worldwide in recent years. The global water market has become an interesting field of activity for private investors. Despite this trend the share of water which is supplied by private companies worldwide is only 5%. 95% of water consumers are still supplied by public utilities.

On the other hand, 1.2 billion people worldwide do not have access to clean drinking water. Since water is a key to development, access to water has been declared the millenium development objective: by the year 2015 the number of people without access to clean drinking water is to be halved. The necessary large investments in expensive infrastructure, together with empty public purses, have led since the end of the 1990s to the hopes of many development politicians being placed in the international companies. Within the framework of "public-private partnerships" the private sector is to make a contribution towards supplying the poor of the world with water. There are now many examples of such private sector involvement.

Most of them have come under criticism, primarily because the promises of the multinational companies to invest in the supplying of the poor have not been kept but instead the water prices have shown unimagined rates of growth.

RWE Thames Water is making efforts to achieve a better image than its French competitors. But whether RWE and its profit interests in the water sector can in fact be brought into line with the interests of the poor sections of the population in the southern hemisphere is something which this volume attempts to clarify. It presents a summary of two studies on the RWE company's international water business with different focal points. The study "Imagine ... clean drinking water for everyone?" by Frank Kürschner-Pelkmann was published by the Koordination Südliches Afrika (Coordination Southern Africa) in Bielefeld. It takes the history of the RWE company with its strong ties to local government in Germany as its starting-point for confronting the corporate philosophy and corporate identity of the concern with its actual business behaviour in different regions of the

world. The study "From the Ruhrpott to Shanghai" by Peter Schnabel was published by Asienhaus (Asia House) in Essen. It analyses particularly how RWE found its way into Asia's cities and describes the experiences of the Asian involvement of RWE Thames Water using many examples. This study is also available in the internet: www.asienhaus.de/publikat/focus14/bestell14.htm.

In order to make the results of these studies available to more people, they have both been summarised here and translated into English, in the hope that they will be of use to all those who – wherever they are in the world – are confronted with the privatisation of their water supply.

Monika Scheffler

Introduction

“Water will be the oil of the 21st century,” wrote the German business newspaper “Handelsblatt” on 19th June 2002. The precious good, drinking water, is becoming scarcer in many regions of the world, and that leads increasingly to conflicts, but also to efforts to turn drinking water into a commodity and to sell it at as high a price as possible. In most of the world’s cultures and religions, in contrast, water is regarded as holy and as a gift of God or the gods to humanity, to which everyone has a right. In Europe and in North America, too, there is a long tradition of regarding water as a common good and of perceiving the supplying of water as a communal task.

In recent years this has begun – scarcely noticed by many – to change. Even although worldwide only five per cent of drinking water supplies are provided by private enterprise, this share is rapidly grow-

ing, and thus the influence of the largest international water concerns is also growing. In the 1990s these were primarily three French concerns and several British firms. Within only a few years the German concern RWE has worked its way into the top group of private water suppliers and has attained third place as far as turnover and the number of households supplied are concerned. RWE achieved its advancement to “global player” in the water business above all by buying up large water suppliers in England and the USA for sums running into billions.

RWE is making obvious efforts to achieve a better image than some of its competitors who have suffered criticism following the privatisation of water supplies in cities from Buenos Aires to Manila. The concern from the West German steel metropolis, Essen, has learned from the negative experiences of its com-

petitors who entered into the private water business earlier, hoping for quick profits.

This study presents an overview of the concern and its diverse involvement in the water business. A focal point of the study is Asia. It will become clear that a debate should be taken up with RWE on its role in the international water business, and how this should be done. In this process the local authorities in Germany have an important role to play because they own more than 30 per cent of the RWE’s shares and the domestic activities of the concern are greatly dependent on cooperation with the towns and local communities. Until now these opportunities to exert an influence on the RWE’s international water activities have been used too little. The present phase of the re-orientation of the concern’s policies presents an opportunity here.

The international water market

“Water will become increasingly valuable for investors,” wrote the “Financial Times Deutschland” on 1st October 2001. The sale of drinking water has been propagated in recent years as a lucrative business for international concerns and capital investors. The dramatic predictions of the United Nations on the growing scarcity of water in many regions of the world have awakened the interest of businesses and investors: where there is such a great scarcity, it must be possible to make profitable transactions. In an almost cynical fashion the reports about more than one billion people without clean drinking water are brought into relation to the expected business deals to the tune of billions. In the article in “Handelsblatt” mentioned above, it says, “Experts assume that in 2025 one third of humanity will no longer have access to clean drinking water. For investors it is therefore worthwhile looking at companies which earn their money from the supply, treatment, purification and waste-disposal of water.”

In the International Year of Freshwater 2003 there was an intensive debate on the ways in which the global water problems could be solved. New impulses were to be found for the solution of the most urgent problems facing local communities throughout the world with re-

gard to the supply of the population with clean drinking water. One major forum for this debate was the World Water Forum in Kyoto in March 2003. The organiser, the “World Water Council”, an association of public institutions and private enterprises, wished to debate the proposals for solutions which private enterprise had to show particularly for the metropolises of the South. In contrast to the previous meeting in Den Haag in 2000, at which the possibilities of private initiatives for solving the global drinking water crisis were celebrated euphorically, in Kyoto voices were a great deal less optimistic, even those from the large enterprises.

Four large international company groups and about a dozen smaller water companies have tried in recent years to acquire water utilities around the world. The branch’s larger companies are Veolia (previously Vivendi Environnement), Suez (with its water subsidiary Ondeo), RWE and Saur. In 2002 the French concerns Vivendi and Suez together controlled 70 per cent of the worldwide privatised water business. They offer a wide range of services, from the construction of waterworks through the operation of wastewater plants to the efficient collection of rates. This gives them a large competitive advantage over small-

er competitors and enables them at the same time to supply other subsidiaries of the parent concern with orders following the conclusion of a contract. When for example a management contract for the supplying of water to a large town or city is concluded, a firm belonging to the same concern which specialises in the construction of water treatment plants can be appointed to construct the new waterworks. Or vice versa, the contract for the construction of a waterworks can be combined with an offer to take on the management of the plant for the next 25 years. In order to have a chance internationally, reference projects are also of great importance, i.e. projects of a similar kind in the same or another country which are already finished and functioning. This brief description is sufficient to explain why local firms in the southern hemisphere hardly have a chance to compete successfully for contracts against the international water concerns and that at best all that remains to them is the role of junior partner in joint ventures.

The water concerns are supported in their global expansion by the World Bank, the International Monetary

Fund, the European Union and western governments which also place their faith in the market in the question of water supplies. Investments to the tune of billions are needed annually to reduce markedly the number of people without a connection to a water supply or sewerage. Actual investments have until now remained far behind this and the gap is to be closed by private investors. Furthermore, the World Bank and many representatives of western governments are of the opinion that private enterprises work more efficiently than local authority public utilities.

The concepts and ideological convictions of the supporters of privatisation are debatable but they nevertheless determine the water policies of many countries. Poor countries have often been forced to privatise the water supply and other previously public areas if they wish to receive new loans. In the western industrial countries, too, beginning with England under Margaret Thatcher and followed by central and eastern Europe there has been a wave of privatisation in the area of water. The high-flying expectations of huge profits from the privatisation of the water supply ignore reality, however. The internationally active water companies have now become very much more cautious about becoming involved to a large extent and over long periods of time in poorer countries, because in the meantime the results of many of the larger privatisation projects which had caused a sensation in the past are sobering: Cochabamba, Manila, Jakarta have become buzz-words which have more than clearly shown the inadequacy of private attempts at solutions.

The end of the illusions about quick money

At the same time it became clear that the large utility companies operating worldwide, particularly the highly indebted concerns Vivendi and Suez, would hardly be able to cover the huge worldwide investment requirements from their own funds. Thus two of the main arguments of the supporters of widespread privatisation – additional capital and better know-how – were at least relativised. The representatives of Thames Water and other larger drinking water companies were reticent at the World Water Forum in Kyoto about the possibilities of making large investments in the southern hemisphere. At the present moment, at least, water is no longer purely and simply the “blue gold” or the “oil of the 21st century” which permanently promises “effervescent profits”. The globally active water concerns had to accept that there are no great business deals to be made with the poor, because they simply lack buying power. Although the private actors have limited themselves only to those municipal regions which appeared to be lucrative, it is proving to be difficult even there to achieve a lasting coverage of costs and profits. Where there is no money, the market has lost its very foundation.

The necessary maintenance and investment costs in the water business were also often underestimated. This is true even for England and Wales. Since the 1980s the new owners had regarded the ten privatised water utilities as a source of money which seemed to effervesce incessantly, and not much was invested. That is taking its toll now. The mains in regions such as Yorkshire are so rotten that the customers suffer from disruptions in supply and

the operators have to appear before the courts more and more frequently because of environmental offences. In Yorkshire the private operator had such great financial problems in recent years that the company suggested that the state should buy back the mains. It wanted to limit itself to the (profitable) operation of the water supply.

In many Southern countries the distribution network is already so rotten at the time of the privatisation of supply that the private water concerns are not in the least interested in buying it, but limit themselves to management contracts. The distribution network and the waterworks remain in the hands of the state or of state enterprises, which often also continue to be responsible for investments. This reduces the risk of the foreign enterprise and also does not require large capital investments. But foreign capital, in addition to know-how, was a main argument for the privatisation.

It has also proved to be a considerable difficulty that the private operators are hesitant to implement the promised expansion of the area supplied. The residential districts of the rich and well-off have been connected up to the distribution network for decades. The inclusion of the quarters where the poor live into the distribution network is not worthwhile economically for a profit-oriented company. The laying of pipes in densely populated, unplanned suburbs is expensive, the pipes can be expected to be tapped illegally and the collection of the water rates from people who have hardly any money is difficult to impossible. The coverage of costs for the supply of water demanded by the World Bank simply cannot be achieved under

conditions of intense poverty and pauperisation. Where private operators have made considerable efforts at all to supply the residential areas of the poor with water, this usually took place in connection with the deployment of substantial development aid. The World Bank and some western governments are prepared to make large sums of money available for subsidising private operators in order to prove how successful the privatisation of the water supply can be.

The readiness of the local population to put up resistance to the privatisation of the water supply has been underestimated by the World Bank and by the private water companies. In many places the conviction is firmly established that water is a common good of the people and the people correspondingly reject the attempts to make water into a commodity like any other. It is also feared that following privatisation prices will rise dramatically and that there will be layoffs in the water utilities. The mass protests against the privatisation and the resulting dramatic price increases in the Bolivian provincial town of Cochabamba have become famous. But also in South Africa, Ghana, Indonesia and other countries resistance is growing. Thanks to the internet and international meetings such as the World Social Forum in Porto Alegre a global network of the opponents of the privatisation of water has been established which, with the "Public Services International Research Unit" in London, has at its disposal a research institution which systematically evaluates experiences with privatisation and publishes the results (www.psiiru.org)

A further problem of the large water concerns is the fact that they have invested very large sums of money in the take-over of electricity, gas and water companies in England, the USA and several other countries and that these "shopping trips" were primarily funded by loans. Under the management of the dynamic and at first celebrated concern boss Jean-Marie Messier, in the 1990s Vivendi conducted an aggressive expansion policy, primarily in media companies. This conglomerate collapsed like a house of cards when the media subsidiaries failed to make the expected profits and the interest for the loans of far more than € 30 billion could no longer be paid. Messier was forced to leave and it was only possible with a great deal of effort to salvage the water and environmental businesses by setting up a new independent company, Vivendi Environnement, which is now under the control of French banks and has been given a new name, Veolia.

Also the Suez concern, the second large French actor on the water market, has taken up large loans for company take-overs outside of its core area of water and must now attempt to repay € 33 billion in debts (April 2002). In May 2003 for example 75 per cent of its shares in a private British water utility company were sold.

The third "global player", the German energy and water concern RWE, has expanded considerably in recent years through the acquisition of companies at home and abroad. This contributed to the relatively high indebtedness of RWE of more than € 25 billion at the beginning of 2003 and made it advisable to enter a period of consolidation.

The large water companies, in spite of all these problems, are confronted with the considerable expectations of the supporters of a solution to global water problems from private actors. The background to this is that at the Millennium Summit of the heads of state and government in 2000 in New York and at the World Summit on Sustainable Development in 2002 in Johannesburg two objectives were formulated with regard to water: the number of people without a guaranteed supply of clean water should be halved from the present approximately 1.2 billion people by the year 2015. In addition, the number of people without sanitation should also be halved. The fact that institutions such as the World Bank and many western governments are placing great expectations in private involvement and private capital to provide the funds for this, is apparently disquieting responsible managers of the water concerns. They know only too well that it is simply not economically worthwhile to make huge investments to connect up many millions of poor people around the world to the water supply. The managers of large water companies have therefore been making efforts for months to dampen the expectations of private involvement in the solution of these problems.

The expectations of the World Bank and western development policy

If private commitment to the supplying of water to the poor of the world is to be expanded – this is the message of the companies – then only with a massive supplementary deployment of development aid. If the investments are funded with state money and the risks are reduced, then the large water companies will

continue to be prepared to be active in the supplying of drinking water to the poor. But this means that all expectations are disappearing that the private sector would provide the many billions of euros which would be necessary to achieve the political objectives.

In Federal German politics the efforts to support the German water companies in their international expansion continue to play a major role. In June 2001 experts from the Federal Ministry of Economics formulated this position in a paper on the opening up of the market for water supplies as follows: "It appears that the market share of German water supply and wastewater disposal companies – measured by turnover – is small compared to French and British enterprises. Various parties therefore emphasise the necessity of improving the international competitiveness of German water supply companies and of expanding their business opportunities."

The Federal Ministry for Economic Cooperation and Development propagates "public private partnership" projects (PPP), i.e. projects in which entrepreneurial involvement and state support complement each other in order to realise projects in the southern hemisphere. This PPP-concept could, however, prove in the field of water to be a futile attempt to assist the "market" to a breakthrough using large amounts of the taxpayers' money in an area where due to a lack of purchasing power no real market exists. What is the sense of private participation when a large share of the capital is provided and a large share of the risk is borne by the public partner? The PPP-projects are also dubious with regard to the fact that increasingly money flows

into water projects in more or less lucrative regions in the South and is then no longer available in poor, rural areas. If in future even more "development aid" is to be supplied to private enterprises for their involvement in the South, this can lead to a disastrous skewness. The growing reticence of the concerns concerning their involvement in the poor regions of the world could only be overcome with particularly generous flows of public money. But is this a concept for state development aid which is fit for the future?

Among the executives of the water concerns really big business is increasingly not seen in management contracts for twenty or thirty years with many incalculable risks, but in orders for the construction of waterworks, purification plants, dams, turbines etc. Thanks to state export guarantees the risks here are small and profits can be realised quickly. In addition, there are no disputes with opponents of privatisation and no losses of reputation due to demonstrations and protest meetings. In view of the large investments which are to be expected in water and sewerage in order to achieve at least some of the objectives by 2015, lucrative contracts for consulting, engineering and construction are to be expected, which the concerns do not wish to jeopardise by becoming the focus of international criticism due to conflicts over privatisation.

The changed strategy of the international water concerns in the meantime also has an effect on the negotiations on the "General Agreement on Trade in Services" (GATS). While until one or two years ago they were among the actors most actively in favour of the opening of the service markets within the framework of the

World Trade Organisation WTO, companies such as Thames Water have now become much more reticent. Due to the massive public criticism of the GATS efforts at liberalisation and as a result of the privatisation of vital areas such as the water supply they do not wish to be placed in the dock in front of the world public.

The large water concerns will have to let themselves be judged according to their contribution to the establishment of the right to water. RWE is one of the large actors in the controversies as to whether water will become a commodity like any other, which only those receive, who possess sufficient purchasing power. This means a great responsibility for those who are responsible within the company, for the shareholders, but also for the social actors in our society. But what company is behind the three letters?

The RWE AG

The history of RWE

In 1998 RWE celebrated its 100th anniversary, as the Rheinisch-Westfälische Elektrizitätswerk AG was founded on 25th April 1898. At that time the advance of electricity for industry and households had only just begun and only six years previously the first public electricity plant had been built in New York. The seat of the new firm in Essen proved to be very advantageous for the construction of a large distribution network and for utilising the coal of the Ruhr area for the production of electricity.

The founding of RWE went back to the electrical engineer Wilhelm Lahmeyer, who had set up a company for the construction of electrical machines from 1890 onward in Frankfurt am Main and who created the basis for the commercial use of electricity using powerful generators. The electricity company W. Lahmeyer & Co. also took on the setting up of the electricity supply in larger towns in Germany. The contract on the setting up of the supply in Essen was the occasion of the founding of the RWE, first as a subsidiary of Lahmeyer's company and of financial institutions. The well-known industrialist Hugo Stinnes was a member of the company's first board of trustees. Erich Schweigert, the Lord Mayor of

Essen, was also a member. Cooperation with leading personalities from the business community and from local politics was characteristic of the RWE from the beginning and has remained so until the present day. Its intensive cooperation with industry and with local government became RWE's "recipe for success".

Already in 1902 the ownership of the company changed hands as the original main shareholder Lahmeyer was forced to sell due to financial difficulties. The consortium of the industrialists Hugo Stinnes and August Thyssen then bought the majority share in the company. They adopted a course of systematic expansion. The company concluded contracts with mining companies, aimed systematically for cooperation agreements with the local authorities and often at the same time also agreed to operate their gas supplies. Furthermore, local authorities which were willing to cooperate were given RWE shares and the mayor was made a member of the board of trustees. The local governments soon gained the majority of the company's shares. The area of distribution could be expanded to many large towns in the vicinity of Essen. The fact that a company with a monopoly for a whole region thus arose gave rise to protest but the expansion of RWE's activities could not

be prevented. By the outbreak of the First World War RWE had grown to become the largest producer of electricity in the western part of the German Empire. The supply of drinking water played a secondary role for the company, and this was to remain the case until the 1990s.

In the period of crisis following the First World War the close ties to coal suppliers and local authorities continued to build a solid foundation for the concern's activities. In order to tie the local governments to RWE, they were each given a seat in the board of trustees, with the result that that body grew temporarily to 112 members. The later German Chancellor Konrad Adenauer, as the Lord Mayor of Cologne, was a member of the RWE board of trustees from 1920 to 1932.

The phase of expansion came to an abrupt end with the world depression in 1929. The coming to power of the National Socialists shortly after at first placed RWE in a difficult position, because the group of companies was criticised by the economic ideologues of the NSDAP as an example of the anonymous power of share capital. But RWE and other large energy enterprises came to an agreement with the new rulers, the majority of the executive board became members of the NSDAP and the Lord

Mayors of towns such as Essen and Cologne, who were appointed by the National Socialists, were members of the board of trustees. For their increased preparations for war as of 1936 the National Socialists needed the cooperation of concerns such as RWE. During the war the energy distribution systems in Belgium, France and the Netherlands were connected up to the RWE network in order to allow the use of increased capacity for the German war economy. But the bombing attacks of the Allies increased and led to the destruction of numerous RWE plants.

The expansion of the concern after the Second World War

RWE nevertheless succeeded in rapidly reconstructing and expanding its distribution networks in the post-war period. In order to continue its ties with the municipalities, leading local politicians were again made members of the company's boards. RWE put its stakes on an integrated system for the production of electricity from coal and hydroelectric plants. There were considerable reservations in the concern in the 1950s and 1960s with regard to atomic power stations, because managers were not convinced of the profitability of the production of atomic energy and in addition large amounts of capital had been invested in coal power stations, which still had to pay for itself. After some hesitation in 1958 the construction of a small atomic reactor was begun in Kahl, which caused many conflicts and problems and never produced a profit. The next atomic reactors in which RWE participated also confirmed the position of the sceptics in the concern that there was no money to be made with atomic energy. In addition, with its atomic power stations RWE created expensive overca-

capacity at a time when households and industry had begun increasingly to save energy. RWE received a negative image as an "atomic giant".

Its negative experiences with its involvement in atomic energy and the growing environmental awareness in society and in the concern itself led in the 1980s and 1990s to a certain rethinking at RWE. Even solar power now became a subject of discussion, and at the same time RWE attempted to strengthen its activities outside of the energy field. Here, the area of drinking water supplies was at first still not a priority. The focus was on refuse incineration, the oil sector, the construction sector and the production of printing machines.

Step by step the international expansion of the concern began. In 1986 foreign turnover was only 3.5 per cent; one decade later this figure was approaching the 20 per cent mark. German reunification in 1989/90 then opened up new possibilities of expansion at home, particularly in the energy industry. But the policy of the EU and of the German government on the liberalisation of the electricity market led RWE to expect that profit margins in this area would fall. RWE therefore systematically continued its policy of diversification. Since the second half of the 1990s the supplying of drinking water and the disposal of wastewater have become central fields of expansion.

In 2000 the energy business in the concern was strengthened by the fusion with its previous competitor Vereinigte Elektrizitätswerke Westfalen AG (VEW). RWE is presently number 43 among the world's concerns with the greatest turnover, several places before the French

Suez concern, one of the world's two largest water suppliers. In Germany RWE is number 6 among the firms with the largest turnover. At the end of 2002 7.55 per cent of the RWE shares were owned by the Allianz insurance group and 5.8 per cent by a second insurance company, the Münchner Rück. Local authority owners possessed a good third of the shares, and ownership of the rest was scattered. RWE share prices have been hard hit in recent years by the general drop in prices on the stock exchanges. According to the spokesman of the German investment society DWS, Ralf Oberbannscheidt, the share price fell from July 2001 to May 2003 by about 50 per cent, while the share price of RWE's competitor EON had only fallen by about 20 per cent in the same period. The "Börsen-Zeitung" (stock exchange newspaper) wrote on 16.5.2003 on the criticism of the DWS spokesman at the shareholders' general meeting in 2003: "He criticised that the three-year worldwide shopping trip to the value of € 30 billion had not yet produced revenue which was greater than the capital costs." In order to justify its purchases the RWE management is extremely dependent on higher revenue in all areas of business. Current information can be obtained at www.rwe.com

Expansion in the core areas: electricity – gas – environmental services

RWE describes itself in its annual business report for 2002 as follows: "With 132,000 employees and annual net sales exceeding € 46 billion, RWE ranks among Europe's largest industrial corporations. In implementing our multi-utility strate-

gy, we concentrate on our four core businesses in the fields of electricity, gas, water and environmental services. We are one of the leading players in these industries in Germany, Great Britain, central Eastern Europe and the USA. Moreover, our activities give us a portfolio that enables stability just as much as it does growth. More than 20 million customers have opted for electricity and gas from RWE. Over 16 million households utilize our waste-disposal services. And we supply 70 million people worldwide with drinking water and wastewater services." In 2003 the number of employees fell due to rationalisation and the sale of parts of the concern to 127,000 and turnover was reduced to € 44 billion. Operational profits increased, however, by 23 per cent, and in the core businesses even by 27 per cent.

In recent years RWE has systematically expanded its national and international position in its core businesses. One central focus continues to be the energy industry, i.e. the production and marketing of electricity and gas. In 2002 the gas producer Highland Energy in Scotland and the energy supplier Innogy in England were taken over. RWE paid approx. € 8.5 billion for the third-largest English energy supplier. Shareholders were paid a premium of 31 per cent above the share price on the stock exchange before the takeover bid became known. In the business section of the "Süddeutsche Zeitung" on 15.7.2003 this generous offer to the shareholders was commented upon as follows: "Both (RWE and EON) have taken over British energy suppliers for enormous sums – € 10.6 and 8.5 billion – in 2002. Shortly afterwards in the course of the bankruptcy of British Energy it came to light that the wholesale prices for electricity are too low for

power stations to function profitably – due to overcapacity ... In the case of wage increases there is haggling over one tenth of one per cent. In the case of take-overs calculations are all the more generous ..."

With the purchase of Innogy the possibility of synergy effects was opened up for RWE for the first time outside of Germany, following the fact that the concern had taken over the water supplier Thames Water a year previously. The objective is to realise the "multi-utility" concept: one concern, many services in fields such as electricity, gas and water. The regional areas of distribution of the two subsidiaries are not identical, however, so that the savings will probably be limited.

Among the international take-overs by RWE the purchase of the Czech gas company Transgas for € 4.1 billion at the end of 2001 should also be mentioned. As a part of its policy of concentrating on its core businesses, RWE sold the greatest part of its oil business to Shell. In September 2003 the sale of RWE's shares in the US coal company CONSOL Energy Inc. was announced. In the energy business RWE wishes to concentrate on Europe. In 2004 RWE saw that the time had come to part from its shares in the internationally active construction firm HOCHTIEF as well as from shares in Heidelberger Druck, a printing machine factory with a long-standing tradition. These sales enabled the debt burden to be reduced to clearly below € 20 billion.

In addition to the water business, which we shall deal with in more detail below, the environmental business was also a field of expansion for RWE in recent years. But the fact that several hundred environ-

mental companies were integrated into the concern also created risks. This became dramatically apparent in the refuse scandal in the city of Cologne, which involved the payment of bribes in connection with the construction of a refuse incinerator. RWE owned 50 per cent of the shares in the company under criticism, Trienekens AG. RWE reacted to the scandal by buying up the company which was under public criticism to 100 per cent and thus bringing it completely under the control of the concern's management. The environmental business within the concern with its more than 400 subsidiaries was streamlined in order to prevent a repeat of the scandal. In 2004 a whole number of foreign interests in the environmental field were sold, and in Germany too this field may be disposed of. It is not considered to be sufficiently profitable because although it represents five per cent of the turnover it only contributes one per cent of the profits. However, there are 12,000 employees in this business, and trade union resistance to its sale is correspondingly great.

The concern's "multi-utility" concept

Today, RWE is a multinational concern, a player in the great game of the dividing up of the global utility markets. This is due, above all, to the previous chairman Dietmar Kuhnt, who retired in February 2003. Mr. Kuhnt carefully consolidated the role of RWE on the utility markets in an alliance with several major banks. With loans to the tune of many billions he acquired an empire which was able to operate worldwide and which was itself too large to be swallowed by others. 32 billion are claimed to have been spent on this expansion strategy, which was pos-

sible due to the RWE's good relationships with diverse financial institutions, some of which are also shareholders. RWE has particularly good contacts to the Dresdner Bank, where Dietmar Kuhnt also has a seat in the board of trustees. In recent years the Dresdner Bank has participated in numerous drinking water projects throughout the world, e.g. in the Thames investment in Shanghai. RWE also has relationships to the Commerzbank and connections to three large insurance companies. Allianz, for example, was a partner of RWE in Berlinwasser.

These loans made a new company policy possible for RWE. Dietmar Kuhnt's strategy for making his company fit for the future consisted of a "three-stage plan". This comprised developing RWE's strong position on the German and European electricity markets, placing the water and gas businesses on a broad international basis and focusing business on a core area which was connected with utilities: electricity, gas, water and sewerage. This "multi-utility" concept was to make it possible to offer customers a complete package of utility services and to enable savings from synergy effects.

The ambitious aim of this concept, to become one of the leading utility companies in the world, has meanwhile been achieved. Since 1999 RWE is the largest German water supplier, the third-largest in the world. Also in the USA and the United Kingdom RWE with its subsidiaries is the number one on the water market. For electricity RWE is number three in Europe, and is the market leader in Germany for environmental services.

Following this phase of expansion RWE now has other objectives for the present. On this the "Frankfurter Allgemeine Zeitung" had the following headline on 27th March 2002: "RWE's purchasing frenzy is followed by consolidation". The debt burden, which had soared to € 22 billion following the end of the expansion phase, was to be reduced to under € 20 billion by 2005. But RWE maintains its international concept, although it is noticeable that now it is no longer the "global" ambitions which are emphasised, but the concentration on lucrative markets in Germany, the UK, central Europe and the United States. The "Frankfurter Allgemeine Zeitung" entitled a contribution on the strategy of the new concern boss Roels on 18th March 2003 "RWE renounces global ambitions".

The new concern structure

The desperate financial situation of the Vivendi concern is a warning to RWE that a policy of expansion which is to a large extent financed by loans can lead to disaster if the profits turn out to be lower than was hoped or considerable losses are made in major business areas of the concern. RWE has been endeavouring for years to sell loss-bringing subsidiaries and to sink costs in all areas of the concern. These reductions in costs very often involve cuts in the number of jobs.

RWE did not confine itself to offering older employees early retirement, however, but also developed and established a new concern structure, the aim of which was a tightening up at the management level. This also causes the loss of about 1,000 jobs, particularly in management. The ori-

entation of the project was summarised by "Manager-Magazin" in February 2003 as follows: "The hard-up energy supplier is to be radically restructured. A secret plan for reorganisation involves the selling of entire branches and the cutting of thousands of jobs." The plans did not stay secret for long, but as of spring 2003 energetic steps were taken to implement the concept, accompanied by a power struggle within the leadership of the concern and with the local authority shareholders. Among other things this was about the location of leading companies, because large municipalities in the Ruhr area such as Dortmund did not wish to lose their income from tax.

The restructuring of the concern took place at the same time as a change in the top management. Harry Roels was appointed as the head of the corporation as successor to Dietmar Kuhnt. The Netherlander Roels had previously worked for the Shell concern for three decades. In an interview with the news magazine "Spiegel" he described his central objective as: "RWE must become and remain competitive. The era of great expansion is completed. Now we must grow organically. I am less concerned about questions of location than about orientation towards our customers. For that, it is even an advantage that about 30 per cent of our shares are in the hand of local authorities. For me, RWE means quality, reliability, transparency and good standing."

It is a crucial aspect of the new structure that the distribution of electricity, gas and water in Germany and continental Europe is to be concentrated in the company RWE Energy. The customers are to be served

by one person (“one face to the customer”). Similarly, the production of energy is to be concentrated in one company. RWE Power is responsible for the abstraction of energy raw materials and for the production of electricity for the whole of continental Europe. This company combines the activities of the largest German electricity producer with the production of energy from lignite, bituminous coal, atomic power, natural gas and regenerative energies. RWE Trading is in charge of the energy wholesale market. RWE Innogy is responsible for the concern’s energy business in the United Kingdom and RWE Thames Water for the concern’s worldwide water business. RWE Umwelt manages the area of environmental services (primarily waste disposal and recycling). RWE Systems is above all responsible for internal company tasks such as real estate, concern purchases and personnel services. The water business in Germany and continental Europe was until recently under the management of Thames Water in London, but is now included in RWE Energy.

RWE and the local authorities in Germany

The local authority share of RWE’s capital stocks is presently about one third and will probably decline in the future. Their difficult financial situation will make it impossible for the municipalities to participate in increases in capital. Rather, there will be a tendency to sell shares in order to realise short-term financial relief for municipal budgets. Various towns have already given to understand that they wish to part with some of their shares. The only hindrance seems to be the present low

price of shares, which makes selling them appear less advisable.

In its cooperation with municipal utilities RWE is in direct competition with the EON concern, which participates in about 130 municipal utilities. In contrast, RWE has only about 30 involvements, but wishes to reduce the gap between it and its competitor. RWE offers services to small and medium-sized municipal utilities. At RWE partnership meetings municipal suppliers are spoken to, whom RWE intends to win or maintain as customers. Here, RWE likes to remind them of its own municipal roots and its long-term cooperation partnerships. For example, Werner Ufer, the chairman of RWE Plus, explained at a partnership meeting at the beginning of November 2002 in Duisburg: “The municipal utilities are an important customer group for us. Our cooperation with the municipal utilities is based traditionally on equal partnership. There are good reasons for the idea of partnership because the strengths of the municipal utilities are undisputed. These are based in particular in their regional embeddedness and in the resulting customer commitment.” The journalist Ralf Köpke commented at the end of the meeting: “Among all the services packages which the RWE has developed as a module system for municipal utilities, one thing was conspicuous in Duisburg: in none of the statements by the gentlemen from RWE did we hear anything about sustainable, decentral and fit-for-the-future energy supplies.” (Energie & Management, 15.1.2003)

The fact that the restructuring of the RWE means the loss of jobs is not good news for the local communities of the Ruhr area, which already suf-

fers from high unemployment and serious structural problems. The fusion of RWE and VEW in 2000 already made approximately 12,500 jobs “superfluous”. In the year 2002 alone RWE cut 6,000 jobs, of which 2,174 were in Germany. Reporting on the situation in the town of Essen, the headquarters of RWE, the “Süddeutsche Zeitung” wrote on 28.8.2003: “In 1970 Essen still had 720,000 inhabitants, and today it has less than 600,000. By the year 2015 the town will probably shrink by several further tens of thousands. But not only Essen, the entire Ruhr area is bleeding to death ... With ever fewer funds the hard-up local communities of the Ruhr area are fighting against losses which will soon spill over into the whole of Germany due to the rise in the ratio of older people in society ... But if nothing is done, many municipal quarters in the area will become ghost towns, worse than in eastern Germany, forecasts Volker Eichener, head of the Bochum Institute for housing, real estate and regional development.” (Our translation.) That towns in the Ruhr area fight to preserve each single job and to retain each single euro of trade tax is understandable under these circumstances.

The debate on the influence of the local authorities and the trade unions

The participation of local authorities in decisions in the RWE concern is repeatedly negatively commented on by the economics editors of the German press. One example of this is a commentary by Werner Sturbeck in the “Frankfurter Allgemeine Zeitung” of 13.12.2002 with the headline “Public Utility RWE”. This article comments on the debates over the restructuring plans of the concern,

and on local authority participation we read: "Through the extravagantly cared for skin of an international utility concern the old municipal public utility from monopoly times is now shining: a company which is familiar with the tasks of utilities, whose capacities are of course also used elsewhere by the municipality. Without taking the costs into account, which are simply passed on to the customer." Despite all the criticism which could be made of the way in which local authorities deal with their public utilities, it is an exaggeration to assume that they have managed without taking costs into account, or that they do so today. In order to understand what the commentary is about it must be mentioned that, concerning the trade unions, it states that they "see a threat to the interests of their clientele". Specifically, the issue is one of the maintenance of thousands of jobs which are threatened by the restructuring. These existential interests are devalued as the interests of a "clientele". The commentary calls upon the chairman of the board of trustees to act "for the good of the entire enterprise" and differentiates between this and the interests of the local authority shareholders and the trade unions. In an article in the "Börsen-Zeitung" of 16 May 2003 in a similar tone the gist of the argument is: "The shareholders now want a clear focusing on cash flow and profitability."

In the commentary quoted above from the "Frankfurter Allgemeine Zeitung" it then says: "The most recent report shows how necessary determined cost-cutting is. The rapid increase in indebtedness and depreciations of all kinds have com-

pletely melted away the profits from electricity and water." These debts undoubtedly stem from expensive acquisitions by the concern in different parts of the world, and the "determined cost-cutting" means that jobs are to be cut on a large scale.

These questions are of great importance with regard to the issue of water because the negative presentation of public utilities and local authority waterworks in Germany and even more so in other parts of the world is used without being questioned as an argument for the privatisation of water utilities. The debate on the role of the local authority shareholders of the RWE is thus part of a global debate on the role of the state and the local governments in the economy. The neo-liberal creed states that the state is not qualified to manage businesses economically and that it therefore should sell them as quickly as possible, including hospitals and waterworks. This is an article of faith and its prophets do not allow themselves to be irritated by the numerous disasters of privatised enterprises.

The debate must be conducted all the more urgently because it appears that the local authorities are giving in to the pressure and reducing their influence in the concern. On 15 June 2002 the "Börsen-Zeitung" published an article on the decreasing influence of the local governments on the RWE, in which it was stated: "In a concern which now has an international orientation the local authority shareholders no long-

er wish to take part in the discussion of strategic questions, in particular concerning participation abroad, explained Burkhard Drescher, the chairman of the Verband der Kommunalen RWE-Aktionäre GmbH (Association of Local Authority RWE Shareholders Ltd) ... " The local authorities would however continue to pay attention to the efficiency of the concern and thus the efficiency of the regional locations. The article goes on to explain that this means that the local authority owners of course have an interest in the flourishing of the concern as a whole, without getting greatly involved, unless locations, plants and jobs in their own area are threatened. The realisation of such a concept would in fact reduce the participation of local authorities in RWE to the active defence of their individual local interests and passive support for a concern policy which guaranteed high profitability. The opposite position is that all owners, including local authorities, have a high degree of responsibility for what is done with their money, particularly as regard foreign business, because in many countries there are lower standards with regard to worker participation, protection against dismissal, environmental laws, safety at work etc., and therefore an even greater awareness of responsibility on the part of the concern and the control of the observance of such standards are necessary.

Profit interests and awareness of responsibility

The current debate

In view of the growing economic globalisation the debate has gained in importance as to whether international norms are to be applied which must be observed by internationally active companies. The actor which has been active longest in this field is the International Labour Organisation ILO, which has existed since 1919 and in which the cooperation of governments, enterprises and trade unions is aimed for.

The ILO (www.ilo.org) passed a "Declaration on fundamental principles and rights at work" in 1998. This names the following fundamental rights:

- freedom of association and the right to collective bargaining
- elimination of forced or compulsory labour
- effective abolition of child labour
- elimination of discrimination in respect of employment and occupation.

The 175 ILO member countries passed this declaration without a single vote against, so that it is internationally binding. In the declaration the eight core agreements are included which had been concluded within the framework of the ILO in previous decades. These concern, among other things, freedom of as-

sociation, the elimination of forced or compulsory labour and the abolition of child labour. The ILO advises and supports the member countries in translating the agreement into reality. The ILO does not have any sanctioning mechanisms, however, and the agreement may not be used for purposes of trade protectionism. With regard to the RWE the ILO norms are important because they have been included in the "Global Compact" of the United Nations, which the Essen concern has signed (see below).

Other international organisations have also been increasingly concerned with questions of the social responsibility of enterprises and social standards in recent years, for example the "Organisation for Economic Cooperation and Development" (OECD, www.oecd.org), a federation of western industrial countries. In 2000 the OECD passed its "Guidelines for multinational enterprises". These apply not only in the OECD countries themselves but are also applied to the activities in other parts of the world of multinational enterprises with their seat in an OECD country. The guidelines cover all the core labour norms as they were formulated by the ILO. The OECD even goes further in certain points, for example with regard to the obligation of the enterprises to

make information on the situation of the enterprise available to the employees and their representatives. In addition, the guidelines also deal with subjects such as corruption and consumer protection. The multinational concerns are called upon to demand that their suppliers also observe the guidelines.

It is one of the strengths of the OECD codex that in all the member countries national contacts have been set up with the purpose of supporting the observation of the guidelines. In addition, in Germany and in other countries there is a national contact group in which representatives of the government, employers, employees and non-governmental organisations participate. The guidelines are not legally binding but they are also not without obligation. The non-observation of the guidelines can cause a multinational enterprise to be the focus of debate and criticism in its home country and internationally.

In a speech to the World Economic Forum at Davos on 31 January 1999 the Secretary General of the United Nations Kofi Annan proposed to the top managers gathered there that they should participate in a "Global Compact" (www.unglobalcompact.org). Together with UN organisations, trade unions and civil societies they

should support nine principles in the fields of human rights, work and the environment. The hope is that enterprises will be able to contribute to a sustainable economy in which everyone can participate through behaviour in cooperation with other social actors which shows awareness of responsibility. More than 1,200 enterprises worldwide have by now agreed to participate in this initiative, of which there are about two dozen in Germany, including RWE.

The nine principles state, among other things, that enterprises support the protection of internationally recognised human rights in their sphere of influence and that they do not participate in the infringement of human rights. The principles also concern the protection of freedom of association and freedom of collective bargaining. With regard to the protection of the environment, preventive measures, responsible behaviour and the development and spreading of environmentally friendly technology is demanded. The Global Compact is not about the establishment of certain norms under threat of sanctions, but about enterprises, trade unions and civil society initiating and making known effective projects which, properly understood, are in their own interest, and which are based on the nine principles. On RWE at the beginning of November 2003 on the website of Global Compact the following was noted: "Case studies: 0; Examples: 0; Projects: 0".

RWE is also among the companies which strive to attain the translation into practice of the recommendations of the "Governmental Commission German Corporate Governance Codex" (www.corporate-governance-code.de). This codex was worked out

for the German government by experts in order to achieve a better management and control of the companies in Germany. In line with this codex, RWE now publishes, for example, the earnings of each individual member of the board including special payments. The project is more explosive than it at first appeared because it also touches for example on the rights of employees to have a say in the management of the company. The chairman of the commission Gerhard Cromme expressed himself on this issue according to the "Handelsblatt" of 25.6.2003 in the following words: "In the globalised world of today everything, even the right of employees to have a say in management, has to adjust to changing conditions, for otherwise it has no future." Even blunter was a representative of the "Deutsche Schutzgemeinschaft für Wertpapierbesitz" (German Association for the Protection of the Ownership of Bonds). "Workers' co-management leads to over-large boards of trustees in which some of the members are not equal to the tasks", Jürgen Kurz is quoted as saying. In Germany after the Second World War a workers' co-management which is very far-reaching compared to other countries was introduced in large enterprises. The workers are, for example, strongly represented in the boards of trustees. This is a thorn in the side of the opponents of strong trade unions and they attempt to limit this co-management. It is important to fend off these attempts to undermine or eliminate the co-management of the employees with meaningful objectives such as the effective control of the board by the board of trustees. In these debates companies such as RWE also have a social responsibility.

The extent to which the World Trade Organisation WTO should concern itself with norms and social standards in a liberalised world economy continues to be controversial. Many western governments and companies wish within the framework of the WTO above all to further liberalise world trade and to remove barriers to trade. With regard to multinational enterprises they negotiate primarily over the question as to how their foreign investment can be protected from state restrictions in the countries in which they invest, not over norms which place social issues and the environment in the forefront.

A whole number of internationally operating companies has introduced their own standards, adherence to which is expected of their suppliers worldwide. These norms often include the renunciation of child labour. Most of the worldwide many more than 250 codices were adopted by concerns without the cooperation of trade unions and without an independent control over adherence to them.

The trade unions, as a further actor in this debate, push for social standards which are drawn up under broad participation and adherence to which is controlled by independent instances. There must also be the possibility of sanctions against companies which infringe the norms. This position is shared by many non-governmental organisations from Greenpeace to amnesty international. In the non-governmental organisations the struggle for binding and actionable social standards is growing.

Profit interests and awareness of responsibility at RWE

RWE is proud of its achievements in environmental protection. In 2002 according to its own account the concern invested € 416 million in environmental protection. RWE however, as the operator of several atomic power stations, continues to have problems in being regarded as a good example in environmental questions by ecologically committed people. RWE is therefore putting all the more effort into improving its environmental balance-sheet in various fields and to convey this to the public in an effective way. The "concern guidelines on sustainability" are intended to provide an orientation for sustainable management in the numerous plants in every region of the world. They state:

1. The key to ensuring stable economic development in our Group is long-term planning.
2. By promoting developments in the energy industry using innovative technology and new products, we are contributing to improvements in environmental protection.
3. We contribute to efficient resource planning by applying closed loop economic models.
4. We are bringing our product policy in line with environmental factors.
5. We take our social responsibility very seriously.
6. We place importance on the skills and participation of our employees.
7. We promote sustainable development worldwide by transferring our know-how."

With regard to guideline 7 on the promotion of sustainable development by the transfer of know-how the concern explains, "A great deal

can be achieved in the area of sustainable development if know-how and standards are transferred to countries whose infrastructure and economies have not yet reached our standards. We can contribute in two ways: through our subsidiaries and affiliates and by providing advice and support for development projects." On this subject there are, among other things, internal, international concern seminars and Thames Water participates in the implementation of various development projects and provides experts for advising projects. Measured against the guidelines this commitment could certainly be extended further, not least with regard to the advising and supporting of local public water utilities in the southern hemisphere.

RWE has developed a differentiated programme of environmental management which includes, for example, the development of environmental programmes in the individual business areas of the enterprise and report, control and management systems. Nevertheless, even for RWE there is still a long way to go until all the standards have in fact been implemented. That RWE will soon become one of the favourite firms of the Eco-fund is, however, not to be expected. With remarkable obstinacy it sticks to its policy with regard to atomic power, although this has been anything but a success story for the RWE concern.

The fact that RWE is making efforts to obtain a better image in environmental issues and sustainability is also due to changes on the international capital markets. If a concern is publicly attacked as an environmental offender and falls into disrepute because of environmental scan-

dals, this frightens off investors and causes investment firms to be reticent about including the shares of such companies in their securities. It is, not least, a success of the international environmental movement that, today, awareness of ecological and social responsibility makes itself paid on the international financial markets.

The corporate philosophy of RWE Thames Water

The RWE subsidiary Thames Water is among the water companies which have drawn conclusions from the negative experiences of the private water industry and which are making efforts towards a more positive image of their business activities. Both in Essen and in the Thames Water headquarters in Reading near London there is an awareness that a company which does business with the natural foundations of life and nature, particularly great attention must necessarily be paid to ecological questions. This may be appraised as recognition of the facts and not only as a reaction to criticism from environmental organisations in the past. Thames Water in particular is making efforts to display social and environmental commitment to the public. In its business report 2/2001 it stated, „As the water business of the RWE Group, we recognise that the way we carry out our business can be an influence on and should bring a positive benefit to society. We are committed to conducting our business in a socially responsible way ..." Under the headings "Corporate Social Responsibility" and "Sustainable Development" environmental projects and social programmes are supported. For example, it gives funds to the aid organisation Wat-

erAid, to aid projects in Africa and Asia, and a large nature reserve in Sabah, Malaysia.

The taking charge of the water supply and sewerage is understood as a long-term commitment, in contrast to temporarily limited projects such as the building of dams or water treatment plants which are to be operated by others. Concessions for the operation of water supply systems often run for a period of 20 or 30 years. This requires long-term cooperation with the authorities and with customers based on mutual trust, and this has a multitude of consequences for the activities of the international water companies.

In 2002/2003 in its publication "Planet Water – Liquid thinking, practical solutions" (www.rwethameswater.com, under "Publications & Downloads") Thames Water presented its concept of what the company understands by sustainable development. Reading this, it is noticeable that Thames Water conducts an analysis of the problems similar in many respects to those which can be found in the publications of ecologically active non-governmental organisations. This is not only an expression of the fact that the international debate on global water problems in recent years has led to problem analyses which are similar in many respects but it also shows clearly that Thames Water wishes to present itself as a company which is aware of the global water crisis and which wishes to work on solutions. The introduction "Working in partnership, delivering sustainable solutions" already shows the way. It states, "Thames Water, the water business of RWE, is committed to playing its full part in meeting the water and sanitation targets

that the world community has set for itself ... " The reader's attention is drawn here to the company's tradition of "public service culture".

In its definition of what is to be understood by sustainable development, Thames Water places itself in the tradition of international analyses such as that of the Brundtland Commission of the 1980s. The company is also guided by a definition of the International Chamber of Commerce in which sustainable development is described as follows: "At its heart is the simple idea of ensuring a better quality of life for everyone, now and for generations to come."

The debate on the human right to water

In the brochure we are reminded that at the World Summit on Sustainable Development in Johannesburg in 2002 partnerships between companies, governments and civil society were advocated. But in view of the scepticism of many groups in civil society towards the international water concerns it then states with regard to the meeting in Johannesburg: "Yet it was also clear that public trust in business was as low as public expectations of business were high." Why the public trust is so low is not analysed in the brochure, but great efforts are made to improve the company's image. At the same time it is attempted to contradict too great expectations. Companies such as Thames Water have long recognised that they cannot take on the main responsibility for solving the global water problems simply because they cannot, and do not wish to, provide the huge sums of investment which are required for the development of water utilities and sewerage in the poor countries of the world so that the number of

people without access to water supplies and sanitary waste disposal can be halved by 2015.

Part of the social and ecological responsibility of the company is its active commitment for an "Integrated Water Resource Management" within the framework of the "Global Water Partnership". This concerns the coordinated development and management of water and other related resources in order to combine economic and social welfare with the sustainable handling of ecosystems.

In this connection there is an interesting sentence in the brochure: "Water is vital to sustain life, and access to safe water is considered a basic human right for all." This statement is surprising in that supporters of privatisation concepts at international water and environmental conferences such as the World Summit in Johannesburg have vehemently fought against the declaration of water to be a human right. The anchoring of this right is primarily fought for by those who recognise water as a common good of humanity and wish to prevent it from becoming a commodity like any other. In the brochure Thames Water does not place itself in confrontation to the concept of the human right to water – but it does draw different consequences, however, for in the same paragraph it says: "As with other vital natural resources optimum use should be made of market-based instruments ..."

Thames Water aims to put these principles into practice in its operations. The management is convinced that the private sector can make a number of useful contributions to water management in developing countries, particularly through the

efficient utilisation of resources, innovations, management capabilities and the strengthening of local capacities.

The “stakeholders” must be involved

In a paragraph on the water infrastructure Thames Water – without explicitly saying so – examines the accusation that the international water companies export expensive, high technology to the countries of the South. In the brochure it says, “Thames Water takes the view that engineering, technological and managerial expertise has a vital role to play in delivering water service solutions, but only if the local cultural, economic and political circumstances are taken into account.”

Thames Water places great value in the brochure on the participation of the local persons concerned in major decisions on water supplies: “In designing and delivering successful services the company works in partnership with key stakeholders including local governments, local workforces and local communities.” This statement can certainly also be interpreted as a reaction to the negative experiences with water privatisation in which other concerns were involved in Bolivia, South Africa and the Philippines, where the lack of participation by the local population led to protests and resistance, in some cases with the result that the international water companies were forced to end their involvement. Thames Water even goes one step further: “Thames Water wants to do business with people who want to do business with us, not with people who are being forced to negotiate with the private sector against their will.” To prevent any misunderstandings, it is then stated:

“Thames Water does not support any moves through the World Trade Organization or other multilateral institutions to force public authorities into liberalizing their public services. Thames Water firmly believes that public authorities alone should decide whether, how and to what extent they invite domestic or foreign private firms to work with them in service delivery.” Even the possibility of supplying poor population groups with free water is in the concern’s line of vision, which does not mean that the principle of cost-covering is questioned as a whole.

Thames Water has great expectations as to the conditions which must be fulfilled for a successful public-private partnership: “Thames Water actively seeks to operate within strong, transparent and well-designed regulatory frameworks established by the public sector.” Such expectations cannot be fulfilled by most African states and their governments. The little developed and often inefficient public administration is one fundamental reason for the fact that many public water utilities in Africa are in such a sorry state. Under such difficult circumstances, it must be concluded from the Thames Water brochure, the concern has no interest in taking on responsibility for the water supply. This judgement is confirmed by the fact that Thames Water has not taken on the management of the water supply in a single town in Africa (although it has done so in other regions of the world which appeared to the concern to be more promising). In view of the fact that many millions of people who are desperately hoping for access to water supplies and sanitation live in countries with unstable political structures and weakly developed public administra-

tive and regulatory structures, the question arises as to what contribution private companies can make to the solution of their problems.

To summarise, it can be stated that Thames Water at least attempts in its concepts to draw consequences from the negative image and the setbacks of international water concerns in the countries of the South. In doing so the concern stands in contrast to attempts to look at the experiences with privatisation through rose-coloured lenses and to see in it a solution to all water problems. Thames Water aims to be perceived as an environmentally conscious, socially responsible and culturally sensitive actor on the global water market. The growing involvement of ecological groups and civil society initiatives has changed the “rules of the game” in the international water business. Incorrect behaviour by a concern is recognised, leads to local conflicts and in the age of the internet has consequences for the image of a concern in other parts of the world – with the result that lucrative business deals can be lost.

The role of the private sector in the solving of global problems

With regard to the poor countries of the South disenchantment has set in at Thames Water (and at other international water concerns). The general conditions which Thames Water names for business activities cannot be fulfilled by many poor countries even in the medium term. The publication “Planet Water” therefore leads us to expect that the solution to the water problems in these countries cannot primarily be achieved through the private sector. What the international water concerns can contribute in these circumstances is the provision of specific serv-

ices within the framework of development cooperation projects. There are many positive examples of this. What is required after a study of the brochure "Planet Water" is a departure from the idea that the introduction of market principles would be able to make a decisive contribution to the solving of water problems in every case. Where purchasing power is lacking, the preconditions for the functioning of the market are also lacking and other solutions are required which have already proved themselves in many countries of the South, in particular solutions which are locally embedded and which live from the participation of the population.

Among the new initiatives by the RWE subsidiary Thames Water in the question of the sustainable handling of water is its participation in the "Multi Stakeholder Review of Private Sector Participation in Water and Sanitation". At the International Conference on Freshwater in Bonn in December 2001 and at other international conferences on water and environmental issues the question has been controversially discussed as to what contribution private companies can make to the solving of the global water problems. An initiative arose out of these discussions with the cooperation of various "stakeholders", i.e. people who were affected or involved in different ways, to examine what effect the privatisation of the water supply had in fact had in various places. RWE Thames Water is the only internationally operating water concern which is participating in this proc-

ess. The five other "stakeholders" in this process are the Brazilian Association of Public Water Utilities, the international association of consumer organisations, the South African non-governmental organisation "Environmental Monitoring Group", the federation of the public services trade unions and the British development organisation WaterAid. It is intended to clarify with what priorities and in what way an evaluation should be made of the experiences up to now with privatisation in the water business. In view of the extent of the global problems and the complexity of solution concepts a great responsibility rests on the organisations and enterprises which are participating in this process – and it is all the more interesting to see how the RWE concern itself operates in the water sector.

Corporate identity?

The image campaign "Imagine", which has been running for some considerable time now and is being conducted at high pressure, is intended to express RWE's new self-image. RWE wishes to present itself as a modern, forward-looking and above all customer-oriented company. A second objective of "Imagine" is to tie the customers emotionally to the company by means of a special "RWE customer feeling" and this is expressed by the song by John Lennon which is used as the musical background: the RWE customer of the future presents him/herself as floating in an all-round looked after, gently cared for and at the

same time very relaxed, happy atmosphere.

At the same time the concern wishes to impart with its campaign that it thinks and acts globally and with environmental awareness. In Germany many people still associate RWE with the smoking chimneys of the Ruhr area. In England, in turn, Thames Water has a negative image as a water polluter and is forced to defend itself in London due to problems with the redevelopment of the distribution networks. Both RWE and Thames Water have attached remarkably great importance to ecological aspects in their recent publications.

The description of the codices by which RWE is guided and the published concepts of the concern and its subsidiary Thames Water for sustainable development have shown that the measuring pole for the international activity of the concern is high. If "corporate identity" is really about identity and not just about a pretty facade for no-nonsense, ruthless business activity, then enterprises such as RWE have to put into practice in their daily activities the noble objectives and concepts which they publish in glossy brochures and on the internet.

The water business

Involvement in water in Germany

Water supply was of secondary importance to RWE compared to other areas of business until the 1990s. RWE had built up certain know-how in this area over a longer period of time through cooperation with public utilities, and this know-how has been systematically expanded since the end of the 1990s. The "Wirtschaftswoche" reported in March 2002 on its ambitions concerning water: "RWE boss Kuhnt is sounding the charge primarily in the water business."

In the German economic press the water involvement of the Essen concern is predominantly presented in a positive light and in recent years gave rise to headlines such as: "At RWE water is a bubbling source of profits", "RWE profits from trade in water", "RWE: growing with water", "Water utilities let the profits effervesce" and "RWE earns good money with water".

In a recent RWE brochure on water we find the following self-confident statement on RWE Aqua: "Today RWE Aqua is the leading German water and sewerage company and offers tailored systems for drinking water supplies and solutions for sewerage far beyond the borders of the state."

RWE cooperates closely in this field with local authority utilities and offers services from the planning of waterworks to advice on the management of the utilities. Where possible, RWE contributes to the capital of the water and sewerage utilities and takes on their management. In one RWE brochure we find the following statement with publicity appeal: "Whether a small town, an entire region or an industrial concern – no task is too big for us, no way too long."

In Germany RWE presently supplies more than nine million people with water and sanitation services (worldwide it is about 70 million). Attention was paid in recent years particularly to its participation in the Berliner Wasserbetriebe (Berlin water utilities).

The "Berliner Wasserbetriebe"

The Berliner Wasserbetriebe were, until the end of the 1990s, the largest local authority water utility in Germany (www.bwb.de). Then the high budgetary deficit of the Berlin Senate caused it to sell the "silver plate", i.e. readily marketable public companies and shares in companies such as the water utilities. The "Berliner Morgenpost" wrote on 16th

August 1997 about the Berlin Senator for Finance: "Annette Fugmann-Heesing will go down in the history of Berlin as the privatisation senator. Ever since the SPD politician took over the finance department in January 1996 the silver plate has no longer been secure. A slide rule is being used to throw old taboos and fundamentals of the Social Democrats overboard."

The consortium of RWE, Vivendi and Allianz was successful despite strong competition. Following the sale of its shares by the Allianz insurance group in June 2002, Vivendi and RWE and the city of Berlin remain as the owners of the Berlinwasser Holding AG. The state of Berlin holds 50.1 per cent of the shares and 49.9 per cent are in the hands of the private owners. The participating private water companies were guaranteed a return of 9 per cent for a period of 28 years.

The holding includes diverse subsidiaries and interests in addition to the water utilities. They are intended to make a profit, but instead they make losses, in some cases huge ones, which have to be paid for by the owners and the water customers. The refuse recycling centre "Schwarze Pumpe" alone made a total loss of € 587 million until it was sold for a symbolic price.

It has proved to be a fundamental problem that the two private actors follow different objectives. When the contracts were negotiated and concluded in the 1990s Vivendi belonged to the top group of international water concerns, whereas RWE as a German utility company did not play any role internationally. In the meantime, however, RWE has taken on the role of a global player and now competes with the Vivendi successor company Veolia over international contracts. This competitive relationship puts a strain on their cooperation in Berlin and has an effect on decisions concerning the activities of their mutual Berlin enterprise. A manager of the Berliner Wasserbetriebe described the situation at the end of 2001 as follows: "Between Vivendi and RWE there is war." (Quoted according to the "Frankfurter Allgemeine Zeitung", 8.12.2001.) An analysis of the conflicts in the same newspaper article came to the following conclusion: "The Berlin water group will not be freed from this paralysis until one of the two rivals pulls out. But there are no signs of this so far: after all, neither of them wishes to leave the field to the other. In addition, the sale of the shares would probably be accompanied by considerable book losses, because today it is known with certainty that the purchasing price at the time of DM 3.3 billion for the minority share in Berlin was greatly exaggerated."

The Berlin customers have been forced to accept a 15 per cent increase in prices from the beginning of 2004, when the contractually guaranteed price stability ended, which for a four-person household means almost € 100 in a year. The price increase would have been twice as high if the city of Berlin had not

forfeited its franchise fee. In comparison it may be mentioned that the local authority run Hamburger Wasserwerke have not increased their prices since 1996. In 2004 they are being increased by 1.46 per cent.

Nor was the partial privatisation a success for the employees of the Berliner Wasserbetriebe. For years the number of employees had been reduced by not filling positions which had become vacant. Although the termination of employment for financial reasons is excluded until 2014 in the contract with the private operators, by 2006 a further 650 of the remaining just under 5,400 jobs (2002) are to be cut back. The balance-sheet of the partial privatisation of the Berliner Wasserbetriebe is therefore correspondingly sobering. According to its annual report for 2002 RWE had to affect lendings to the Berlin water group to the tune of € 622 million. How much of that money the concern will ever see again is not clear. RWE's participation in the Berliner Wasserbetriebe has not turned out to be something to be proud of.

The activities of Berlinwasser International

One of the subsidiaries of the holding is Berlinwasser International (BWI). The objective of BWI is primarily to be active on the East European and Asian markets where there is a great growth potential in the fields of drinking water supplies and the sewerage business. On the basis of the extensive experience of the Berliner Wasserbetriebe, Berlinwasser International offers foreign partners cooperation in the imparting of technical know-how and in the management of water utilities. In individual projects Berlinwasser

International cooperates with the World Bank and the Federal German development aid (represented by the "Kreditanstalt für Wiederaufbau" and the "Gesellschaft für Technische Zusammenarbeit"). If it is taken into account that the shareholders RWE and Vivendi/Veolia had agreed on the occasion of the partial privatisation to support the foreign business of the Wasserbetriebe to the best of their ability, the cooperation between Veolia and Berlinwasser International in a drinking water project in Namibia and a sewage plant in Budapest is a rather modest start. "There has been no talk for a long time of the Berlin water concern as a bridgehead to the East", diagnosed the weekly paper "Die Zeit" in June 2002.

In 2002 BWI was able to achieve a turnover of € 7.8 million. There was a loss of € 0.9 million. The company hopes to reach the profit threshold in 2004. If it is taken into account that the joint-stock company was endowed with € 20 million of its own capital and capital reserves to the same amount, it will take some time before the international involvement of the Berliner Wasserbetriebe is really profitable. Berlinwasser International, just like its competitors, is being forced to realise that the hoped-for profits in the international water business in most cases can at best be achieved in the medium and long term. Without the supporting funds of the World Bank and the German development aid institutions the deficits would have been much higher. Berlinwasser International, according to its own account, has reached seventh place in the branch worldwide.

In Vietnam BWI, the Gesellschaft für Technische Zusammenarbeit and the Hanoi Sewerage and Drainage Company have initiated a cooperative educational project in the form of a public private partnership in order to improve the management of the public sewage system in the Vietnamese capital and to increase the standards of sewerage purification through consulting activities.

In China Berlin Wasser International participated in the construction of a waterworks in Xian in 1998. BWI holds 35 per cent of a cooperative enterprise in which the city of Xian and a Hong Kong company also own shares. The volume of the project is stated to be DM 55 million.

Windhoek and Berlin are partner towns and this has resulted in cooperation in the field of water. BWI participates in two water projects in Namibia. Since July 1999 the company has managed a sewerage system and a sewage purification plant for the municipality of Swakopmund. In Windhoek since 2001 Berlinwasser International has managed a waterworks, which produces drinking water from the purification of non-drinking water and from the water of an artificial lake, in cooperation with the city of Windhoek, Vivendi and a South African partner. Funds for the project were provided by the Kreditanstalt für Wiederaufbau and by the European Development Bank.

In Hungary BWI operates a sewage system for three local communities with a total population of 60,000. In Budapest BWI participates together with Veolia in a company which manages a sewage system, whereby the construction and further development of the plant have remained in the hand of the city. BWI's 30-year concession for the operation of the water supply in the Albanian town of Elbasan (population approx. 128,000) was co-financed by the Kreditanstalt für Wiederaufbau. The project in Elbasan is considered a public private partnership project to be proud of. Berlinwasser International has also been able to conclude contracts in the Ukraine, Azerbaijan and Russia.

RWE expands in Europe

RWE Aqua has been able to conclude a number of contracts in European countries with a focus on central and Eastern Europe. The Spanish company PRIDESA is specialised in techniques for the desalination of sea water, has delivered more than 200 plants worldwide and has branches in Portugal and Italy. In June 2002 RWE acquired majority shares in the company, which is well-known in particular in the field of reversal osmosis. In addition, in 2002 the majority in the Spanish water utility Ondagua, which supplies 300,000 customers, was taken over.

In Croatia RWE Aqua, together with a partner firm, received the order for the construction and operation of a central sewage purification plant for the capital city of Zagreb with a population of more than 900,000. In Hungary in 1997 RWE Aqua participated in a joint venture for the operation of the Budapest waterworks. In Poland RWE Aqua was able to acquire shares in the municipal water utility of the town of Dabrowa Gornicza with 240 employees.

Compared to its international competitors, RWE Aqua has not been able to conclude many contracts in central and eastern Europe. This is probably due both to the in part greater experience of the French concerns and to the fact that it is more difficult than expected to gain entry to markets in the region. It was therefore all the more important for RWE to be able to acquire a company with a large amount of international experience in the form of Thames Water.

RWE Thames Water

www.rwethameswater.com

Thames Water supplies approximately 13 million people with drinking water in the Greater London area. It is the largest of the ten water companies in England and Wales which were privatised in 1989 during Margaret Thatcher's term of office. The circumstances of the privatisation were distinctly favourable for the new owners. Old debts were annulled, new operational capital was made available and regional monopolies were created for the new companies. Water prices can only be increased with the consent of a state regulation authority, but in the early years following privatisation the ten companies found an easy way to bring about price increases. They inserted large sums for investment into the calculation of the costs for the coming year and were able in this way to justify dramatic increases in prices. A large part of the investments were never made, however, and instead the money was given to the shareholders or served to fund high managerial salaries. At the same time the companies expanded at home and worldwide.

In 1994 the British newspaper "Daily Mail" entitled an article on the price increases by the privatised water utilities "The Great Water Robbery". In the early years the regulation authority did not examine the investments which had actual-

ly taken place, but since the fictive investments as a form of the miraculous multiplication of profits have become public knowledge the water prices, and thus also the profits of the water utilities, have been reduced dramatically by the regulation authority. The fact is now also taking its toll that in the past too little was done for the maintenance and repair of the distribution networks and the waterworks. The "Handelsblatt" described the consequences on 26 September 2000 as follows: "Following the privatisation, which was begun ten years ago, in hardly any other European country does so much water seep into the earth as in Great Britain."

The consequences can be seen particularly clearly at Thames Water. The London water distribution network is among the oldest existing modern systems in the world. Here, the inadequate maintenance of the distribution network has particularly disastrous consequences. This led to saddening records. In 1999 and 2000 Thames Water was at the top of the list of British companies which were penalised for environmental offences. Not only that, but about 30 per cent of the drinking water is lost due to leaks before it reaches the customers (in Hamburg for example the figure is less than 4 per cent). Thames Water makes the rapid

renewal of the distribution network dependent on large price increases, but these have not been approved.

The daily water losses of Thames Water would suffice to supply a city with a population of 2.5 million with water. London's sewage system also often gives rise to complaints by customers. Various cases have been documented in which untreated wastewater entered into water courses and Thames Water had to pay penalties for this. Now Thames Water must attempt to eliminate the defects within a relatively short space of time and this in a situation in which the regulatory authority examines all applications for an increase in water prices very carefully and has enforced price reductions. This situation certainly made it easier for the British shareholders of Thames Water to accept the take-over bid by RWE.

The take-over of Thames Water by RWE

For the original investors RWE's interest in a take-over in 2000 was a welcome chance to realise profits. It was therefore very opportune for the British shareholders that RWE was prepared to buy the shares with a supplement of 43 per cent over the average quoted value in the month

before the take-over bid and to pay approx. 4.3 billion pounds for its advancement into the top group of international water concerns. RWE chairman of the board Dietmar Kuhn was quoted by the British broadcaster BBC as saying: "Thames Water will be a driving force in implementing RWE's objectives in the water sector and developing a world class global business." (BBC News, 25.9.2000)

Numerous departments and projects at Thames Water did not have any equivalent, or only a very weakly developed one, in the RWE concern until then, so that the British company could be completely incorporated into the parent concern. This was particularly true of its involvement abroad. One especially good example are the branches and subsidiaries of RWE/Thames Water in Asia-Pacific, where the London firm at the time of the take-over in 2000 already had several million customers. The Essen concern had no independent activities in the supply of drinking water anywhere in the Asia-Pacific region. It was therefore the obvious thing to do to continue to conduct the management of the drinking water business there largely independently using Thames Water's structures and experts.

In the new corporate concept Thames Water has become the international water branch of the parent concern and the employees of Thames Water are now also responsible for all other water supply and sanitation business, even although the German RWE Aqua is no longer directly subordinate to it in the new concern structure. RWE Thames Water has become a major centre of control in the concern, a "partner in leadership". The completely new and impressive business centre, which Thames set up in the English town of

Reading near London following the take-over by RWE, can be taken as a symbol of the importance of the English partner.

Thames Water's business is in the black, in the first six months of 2003 to the tune of € 614 million, of which € 329 million were earned in England and Ireland and the rest in other regions of the world. For RWE the international activities of Thames Water were a very decisive factor in the decision to buy and in the high take-over bid. Thames Water and several other privatised water companies in England and Wales used part of their high profits in the 1990s to become active in the international water business. Thames Water profited among other things from the fact that many indebted countries in the southern hemisphere were put under pressure by the World Bank and the International Monetary Fund to privatise their public water utilities. Privatisation in this connection does not usually mean that the distribution networks and the waterworks were sold. The international water concerns were not the least interested in buying these often deteriorating plants. What it meant was and is the taking over of the management of the water utilities. This requires only a relatively small injection of capital on the part of the companies.

RWE Thames Water in America

RWE Thames Water is active to a limited extent in Latin America, particularly in Chile. Here, the concern profits from a strategic alliance with the Portuguese utility company Electricidade de Portugal. In Chile the privatisation of the water supplies and

sewerage was begun in 1998. Within the framework of a joint venture Thames Water and Electricidade have taken over 51 per cent of the company which is responsible for the supply of water to more than 500,000 people in the region of Rancagua. Two further contracts could also be signed, so that Thames Water advanced to become the second-largest private water utility company in Chile and supplies a total of 2.5 million people.

Thames Water came under criticism when in 2003 the supply to 120 families in Rancagua was cut off because according to the water company they had not paid their bills. Maria Diaz, the chairwoman of the neighbourhood committee, then asked whether the poor must now choose between water and food. Alexis Abarca, the director of the consumer protection organisation ODECU, complained in view of this and other, similar conflicts that the process of privatisation of water was not transparent: "Officially, it is said that in the last three years the rate hikes were 16 to 24 percent in some cases and 24 to 30 percent in others. ODECU reviewed 16,000 water bills and found that in truth the increases were at least 100 percent and even reached 200 percent." (Quoted according to: Terramerica, IPS news agency, 2001)

In Puerto Rico Thames Water has an interest in the water supplies of about two million people. In 1996 the company, together with its partners, received the order to construct and operate a new waterworks and the main distribution network for € 264 million, in order to supply drinking water to the population on the north coast of the island including the capital city San Juan. In

1997 the contract was extended and Thames Water was appointed to construct and operate a network between the towns on the north coast. Among the social projects of the English company in Puerto Rico is a campaign to raise awareness among schoolchildren for subjects connected with water.

In Elizabethtown and other places in New Jersey/USA Thames Water took over the supply of more than one million people by purchasing the local water utility E'town in November 2002. Following the acquisition of American Water Works (see below) RWE Thames Water now supplies 17 million people in North America with water. Additionally, North America is important for Thames Water in order for it to be able to draw level with the French competition in the field of water-related services. Already in 1992 with FB Leopold a leading producer of membrane and filter technology, which is used both in the treatment of drinking water and in sewerage, was taken over. In the same year Thames Water acquired Ashbrook, a company which in den USA is a leader in the field of process optimisation and the production of process components for the water industry. Together with Thames Water research and construction work is being conducted, for example for technologies for drainage and river regulation, for water and sewage treatment.

The involvement of Thames Water in Asia-Pacific

An unmistakable regional focus of the international activities of Thames Water is the Asia-Pacific region. This involvement goes back to the time before the Asia crisis. While

at that time Indonesia was the focus of its involvement, RWE has now considerably expanded its activities in several wealthy Asian states such as Japan and Singapore, as well as China.

Australia

The Australian government already allowed the privatisation of public utilities some time ago, and in 2001 one quarter of the water utilities was already in private hands. Thames Water has been present in Australia and New Zealand for a decade now. In Adelaide/Australia Thames Water participates in the joint venture United Water (www.uwi.com.au), which supplies 1.5 million people with water. Its partners are the Vivendi concern and a smaller company with a share of 5 per cent. It happens relatively often that water concerns such as Vivendi, Suez and Thames Water form a supplier consortium. This reduces the already limited number of competitors for such contracts ever further.

The privatisation in Adelaide met with rejection by the public from the beginning. 54 per cent of the local population was against such a step, and only 8 per cent were definitely in favour. The granting of the 15-year contract in 1995 was also controversial and a parliamentary committee was concerned with it. The contract is certainly lucrative for the operators, who make a profit of almost 10 per cent after tax in relation to the company's capital. The company's employees had less reason to celebrate as following the privatisation one third of the jobs were lost. This is said to have had an effect on the quality of the company's products and led to the fact that for three months in 1997 a sewage treatment plant continually produced consider-

able offensive odours which affected large areas of the town. For Thames Water Australia serves as the starting-point for its expansion into the entire Asia-Pacific region. Thames Water Projects Australia is responsible for the planing and construction of various larger and smaller projects in the region.

China

In view of its growing population and serious ecological problems China is faced with huge capital requirements for water utilities and sewerage, so that investors have to be found quickly. The Chinese government supports privatisation – but on its own conditions. China appears to find itself in a better negotiation position vis-à-vis the “water multitis” than other governments. To begin with the typical way for a foreign enterprise into the Chinese market was that of a “joint venture”. One always has a Chinese public enterprise as partner at one's side and therefore cannot operate freely. Apart from that, Thames Water is subject to strong competitive pressure. The large French water concerns, namely Suez with over one hundred waterworks, are particularly active in the country and can secure contract after contract. Then there are a whole number of smaller foreign enterprises, including Berlinwasser International, and last but not least a domestic industry which is not to be underestimated. Every supplier gets the chance to show what it can do. At the same time the joint venture model guarantees the transfer of technology to the domestic companies.

Thames Water has only been able to acquire one single large project in China: Da Chang, a large waterworks in Pudong, Shanghai, the ap-

parently first privately managed waterworks in the People's Republic of China. Today, with approx. 400,000 cubic metres of drinking water per day it covers 10 to 15 per cent of the city's requirements. Shanghai is often quoted as a model example of successful private investment for general welfare. The plant in Pudong appears to be Thames' largest project in the region and today, following the buying out of its partner Bovis, belongs entirely to RWE. It has been finished since 1997, however. There were no large orders after that. In some cases, such as in that of a further contract in Pudong or in the granting of contracts for the preparation of the Olympics in 2008 in Peking, Thames appears to have come away completely empty-handed. It was not until July 2002 that Thames was again able to involve itself in the Chinese market with an investment of 48 per cent in Hong Kong's China Water Company (www.chinawater.com.hk). The CWC, which is to supply about four million customers in eastern China, has meanwhile received a contract for several small projects in the Greater Shanghai area, which are supported by US \$75 million from the Asian Development Bank. At the end of 2002 a research agreement was concluded with the Ministry for Water Resources.

At the beginning of 2003 RWE Thames Water was able, within the framework of a consortium, to secure a research and development contract for the improvement of the water quality in the south of China. This involves, among other things, the development of techniques for improving the quality of Shanghai's drinking water. As in other countries, Thames Water is also attempting in China to be perceived positively by the public through so-

cial projects and educational programmes. For example, the company is supplying water free of charge to a children's home in Shanghai for a period of five years. A game for learning about subjects connected with water was developed for schools.

India

The situation concerning the supply of drinking water as well as water for agriculture and industry is critical in both the rural areas and the towns. This is particularly true of the huge cities Chennai (Madras), Kolkata (Calcutta), Mumbai (Bombay) and the area of the capital city Delhi. In these cities serious shortages regularly arise, especially in the phase between the monsoons, and there are repeated real emergency situations such as that in Madras in 1993.

On the one hand, drinking water scarcity is a threat in particular to the poor. Some households already spend 25 per cent of their income on water, which they are often forced to buy at greatly excessive prices from street hawkers. On the other hand, the shortage of water is a general hindrance to development and a security risk for the countries which suffer from it.

Since state funds for remedying this crisis are hardly available, those responsible in India had the idea of allowing the private sector to be given a chance. However, because the business climate for foreign investors is less favourable than in other Asian countries, international utility companies have only just begun to get a foothold in southern Asia. The Indian subcontinent has until now not been among Thames Water's favourite investment areas. In the past, the company had one single larger project on the subcontinent, the construction of a sewage

treatment plant in Mahmoodkot, Pakistan. Connections in India have existed since the mid-1980s, however, when Thames participated in the Ganga Action Plan, with which the Indian government attempted to counteract the threatened environmental disaster in the Ganges basin. For some little time now a field experiment with pre-paid meters has been under way in Goa, under the gripping name of SmartCard. This could represent the preparation for entry into urban water supplies on the subcontinent.

In May 2003 Thames Water succeeded in gaining a small, but according to its own account trailblazing, contract for the redevelopment of a section of the municipal water supplies of the city of Bangalore – "against strong competition from other major water companies", it is emphasised. This project covers only the supplying of equipment, services and consulting and is to be realised in cooperation with larger domestic firms. Similar contracts had previously been concluded in Hyderabad, Chennai and Mumbai. The business strategy appears to be adapting to the regional requirements: instead of risky and unpopular large projects and total privatisations, smaller contracts in plant construction, plant management and consulting, in cooperation with the state and domestic industry, flanked by a popular aid project for the most important of India's holy rivers.

Indonesia

Indonesia, the country with by far the largest population in south-east Asia, with its seven cities with over a million inhabitants, has serious problems with the supplies of drinking water for the population. The most difficult supply situation is in the agglomeration of Jakarta with

over eight million inhabitants – due to the much too rapid growth in past decades and the for today's purposes much too thin distribution network. In the cities many citizens help themselves with private wells and filter plants for the production of water, which takes place at the cost of groundwater. But industrial requirements are also a problem, particularly because of the environmental problems they cause. Wastewater is produced in Indonesia primarily by mining and by the cellulose industry. These problems, combined with the fact that in the country's metropolises there are also wealthy potential customers, have led Indonesia to appear since the 1980s to be a very promising future market for the water concerns.

In the Indonesian capital Jakarta the British concern Thames Water in 1997 took on the supplying of the population in the eastern part of the city (about 2.7 million people) for 25 years. This contract has, however, brought criticism for Thames Water in Indonesia and internationally. Before the granting of the concession, namely, a joint enterprise with the oldest son of the then president Suharto was formed, and the political situation at that time was such, that such a connection virtually guaranteed the granting of the contract for 25 years. The fact that the Jakarta's water supply was privatised at all was primarily due to pressure from the World Bank, which since the beginning of the 1990s wanted the Indonesian government to arrange for the supply to be left to private enterprise. Loans to the public utility PAM Java were only given with the objective of making it fit for privatisation. President Suharto gave in to this pressure and on 12 June 1995 ordered

the privatisation of the water supply of the capital city Jakarta, in which one supplier each for the eastern and the western part of the city were to be chosen. The fact that it then still took two years and uncountable sittings to achieve actual privatisation was probably due above all to the resistance within the state apparatus to this measure. Indonesia's laws did not allow the participation of foreign companies in the water supply, but on the order of the Minister of the Interior this regulation was annulled in July 1996.

That Thames Water in alliance with the president's son would receive the contract was, as already mentioned, clear from the beginning. The second contract went to the French Suez concern, which also had influential local partners. The previous public utility PAM Java gave up about 80 per cent of its employees in Jakarta to the new company and was made the supervisory authority for the private water suppliers. The World Bank was convinced that this privatisation would be a success and reflected in a working paper how the remaining 300 water utilities of the country could be privatised. After the privatisation in Jakarta had taken place, the World Bank granted loans to support the project.

Shortly after the conclusion of the contract the Asia crisis broke out, which made all the forecasts regarding turnover and profits null and void. More bad news came for Thames Water and Suez in 1998 with the overthrow of President Suharto. The close business connections to his son now became a burden for Thames Water, as did the circumstances of the conclusion of the contract. The days following the change of power were dramatic. The Euro-

pean managers of the Thames Water subsidiary had fled to Singapore as a result of the violent conflicts in Jakarta, as had most of the foreign Suez managers. Jakarta's new governor, a general, ordered the authorities if necessary to bring the operation of the water supply back under their control. The executive managers of the two water utilities and of PAM Java who were present in Jakarta (and who with one exception were Indonesian) were ordered to a meeting on 23rd May 1998 and exhorted to sign a document returning the operation of the water supply to PAM Java. When the managers replied that they were not authorised to do so there was a loud argument which ended with the firms' representatives being forced to sign the document.

The two international water concerns put up resistance to this forced renunciation and were successful. The new Indonesian government under President Habibie feared that it would frighten off foreign investors if it insisted on the expulsion of Thames Water and Suez and agreed to the continuation of the private operation of Jakarta's water supply, although the companies had to make some concessions. Thames Water was forced to change the structure of the firm and to end the participation of the son of the former president. Instead, PAM Java was to participate in the newly formed joint venture with five per cent, the consequence of which was, however, that the institution which had been appointed by the government as the supervisory institution was at the same time a shareholder in one of the firms it was supposed to supervise.

The consequences of the Asia crisis also had economic effects on Thames Water's subsidiary, and in addition the new government is very reticent with regard to the approval of increases in the price of water, because this is – just like the price of petrol – a politically very sensitive price. In the long term, however, Thames Water can only expect profits if the price of water increases dramatically. Higher water prices are also a condition from an economic point of view for the rapid expansion of the distribution network, although the supplying of water to the poor in the slums is not economic for a private company anyway. A further problem remains, namely that many employees who were taken over from PAM Java consider the privatisation of the water supply to be wrong and are angry when they discover how high the salaries of the foreign managers are compared to the salaries of the Indonesian employees. In the past there have been repeated protests by the trade unions against the privatisation of the water supply in the capital.

The World Bank meanwhile admits that the privatisation of Jakarta's water supplies suffers from several "hereditary defects" such as the lack of transparency in the granting of the concession, the renunciation of price increases before privatisation and the lack of an effective independent regulating authority in the first phase. In view of the experiences in Jakarta environmental movements in Indonesia are putting up resistance to a law that is intended to enable the privatisation of the water supplies in other parts of the country. Ismid Hadad from the environmental foundation Kehati explains: "We oppose the bill because it would bring serious consequenc-

es, both for the environment and the poor people." (Quoted according to the Jakarta Post, 21.1.2003) For example, in March 2003 there was a student demonstration in Jakarta against the government's privatisation policy, in which the privatisation of the water supplies played an important role. Current information on this conflict can be found in the "Jakarta Post" (www.thejakartapost.com).

A positive example of the expansion of the water supply by Thames Water is the construction of a distribution network in Marunda, a poor quarter on the northern outskirts of Jakarta. Until the end of the 1990s the people there were dependent on expensive water from tankers. By mid-2001 approx. 1,600 households had been connected to the water supply network, a success for Thames Water and an improvement in the quality of life for the families affected, although it must be taken into account that Jakarta has about 9 million inhabitants. In an analysis of the project by the worldwide network "Building Partnerships for Development in Water and Sanitation" it is ascertained that the participation of civil society was lacking in the project. Nevertheless the project was nominated for the "Shell Award for Sustainable Development".

Thames Water, by its own account, has invested US \$50 million in the expansion of Jakarta's infrastructure since 1998. If this sum is compared to the billions which would have to be invested to solve the global water problems then it becomes understandable why Thames Water wishes to dampen exaggerated expectations that the private water concerns could be able to raise a large part of these investment

sums. In fact the project in Jakarta is among the relatively few cases in poor countries where Thames Water has signed a contract for the operation of a water distribution network and invested its own capital. At the beginning of November 2003 it became public that Thames Water had lost almost one million pounds per month in the last three years in Jakarta and was now vehemently demanding the agreement of the authorities to a substantial increase in water prices. There was even talk of a possible withdrawal from the contract. According to a report in an Indonesian newspaper the British ambassador in Jakarta intervened with the government in favour of Thames Water and for an increase in water prices. At the beginning of 2004 the water prices were raised by 30 per cent.

The "Royal Institute of Technology" in Stockholm (www.kth.se/eng) published an exhaustive study of the private involvement in the water supply in Jakarta Nur Endah Shofiani in 2003, which on the basis of systematic interviews comes to the conclusion: "The consumers are very much concerned for having a better water service. Most of them argued that there is no improvement of water service during the last five years even when the water tariff has been increased several times. Their major concerns on the service are the incorrect meter reading, poor quality of water, low water pressure, delay in receiving the water bill, slow response on consumers' complaint and lack of information on interruption in the water flow. Therefore, it is important to include stakeholders' participation in the management of water institutions, which will allow a fair and equitable water allocation."

Thames Water has renounced further take-overs of complete utilities in Indonesia. Instead it is active here primarily as a plant constructor and supplier, it supplies drinking water systems and maintains a number of projects for industry. In Paiton on Java Thames built a sea water desalination plant for a power station. In Jakarta, too, further smaller drinking water plants were built. Indonesia remains an important market. Public financial aid for investments is easy to obtain: the Asian Development Bank has until now placed almost a quarter of all its water-related loans into the country.

Japan

Japan has a sort of bridgehead function for the multinational utility concerns. Japanese companies are active on the market for water technology and are in evidence in various privately organised projects. Furthermore, Japan grants above average amounts of development aid to water projects. The Japanese International Cooperation Agency, for example, conducted a study to prepare the privatisation of the Pathum Thani Waterworks in Thailand, which were then taken over by Thames Water. In the case of Jakarta, too, a loan which was granted in 1991 by the Japanese Overseas Economic Cooperation Fund together with the World Bank played a role in the decision to privatise the municipal waterworks.

In Japan itself Thames Water has until now had neither partnerships nor large public contracts, but is only involved in several smaller projects for industry. "Thames Water Japan", ac-

ording to the company's own account, is a purely financial business, and possibly it serves the purpose of establishing cooperation with Japanese companies, banks and state lenders.

Malaysia

Water consumption in Malaysia has grown considerably due to economic growth and population growth. At the same time problems arise due to the age of the distribution networks. The losses due to leakage are particularly high (40-50%), and a complete redevelopment on a large scale is therefore necessary. In addition, the mineral oil industry and the palm oil industry cause particular supply and disposal problems. They cause considerable environmental problems and at the same time play an important role as customers.

Thames Water had already been active in the former British colony of Malaysia since 1970. Thames Water Projects Malaysia oversees, according to its own account, roughly 400 projects. These also include partially or completely privatised regional and local distribution networks. This usually takes the form of technical cooperation agreements and consulting agreements with a share in the company. It began in 1993 with a contract with Timatch in the province of Sabah. Further contracts followed.

The most extensive assignment is probably that in the state of Johor. The British company plays a leading role in the reorganisation of the water business in the booming province on the Malakka Strait. Thames is reorganising the technical infrastructure and building several waterworks for the privatised regional supplier which is being supported by money from the Asian Development

Bank. Over two billion dollars are to be invested. Concerning research, a "Memorandum of Understanding" was already concluded in May 2000 with Universiti Industri Selangor. In Malaysia, however, one privatisation project has already failed: the joint venture with the state of Kelantan on the privatisation of its water supply was cancelled after five years in 2000 as unsatisfactory.

Singapore

This highly developed city state has a large requirement for drinking water and for high quality water for industrial use. The high living standard of the population and the government's wish to establish the country as an international commerce and service metropolis demand a high standard of water supplies. This is difficult in a country which has hardly any freshwater resources of its own and is forced to obtain its water from the neighbouring Malaysian Johor. For several decades relationships with this neighbour have been laden with conflict. The dependence on Malaysian water supplies is a security problem for the city state and spurs it on to invest in its own waterworks, water treatment and desalination plants. It is therefore a very interesting client for Thames Water.

At the same time Singapore has a key position in the economy of south-east Asia. It has top technology, highly educated workers and capital. That makes the country interesting as a business location. From a Thames Water office in Singapore the varied activities in the region are coordinated. The firm Thames Water Projects in South-East Asia was founded in 1989 and was one of the first initiatives of the private London water supplier towards expansion on

the international market. At present in Singapore itself there are several pilot projects on the abstraction of drinking water, e.g. the Bedok Waterworks and die Chestnut Avenue Waterworks, in which Thames Water participates as a supplier and plant constructor. New processes such as osmosis exchange and UV sterilisation are applied there which enable the reprocessing of wastewater and are supported by RWE Thames Water. Thames has received several orders in the industrial sector, too, in recent years.

Thailand

In Thailand the water consumption of the population has greatly increased together with economic development and the rising standard of living. Symbolic for this is the large consumption of the many new golf courses. The concentrated requirements in the over-dimensional mega-metropolis Bangkok, one of the largest cities in the world, are particularly difficult to meet. The government began with privatisation experiments following the periods of water shortages in the early 1990s. With the eighth "National Economic and Social Development Plan" the growing participation of the private sector in public services was prescribed, partly due to corresponding regulations by the International Monetary Fund for Thailand following the financial crisis in 1997. RWE Thames Water also profited from this.

Among the larger Thames Water projects in Asia is a water treatment plant for industrial and residential areas in the north of Thailand's capital city Bangkok in line with the BOOT concept (Build, Own, Operate & Transfer). In 1995 Thames Water, in alliance with Thai and Japanese

partners, received the order for the construction of the plant, and to operate it for at least 25 years, whereby a maximum of two extensions of ten years each is possible. In October 1998 the plant was completed and the supplying of 800,000 people in the area of Bangkok's international airport was begun. The Pathumthani Water Co. supplies 200 million litres of drinking water daily. The investment costs will be covered by the water prices over the period of the contract. Subsequently the plant will be transferred into state ownership. In 2001 Thames Water received the follow-up contract to build and operate a water treatment plant in the west of Bangkok, a project to the tune of US \$240 million. In addition, Thames Water is active in smaller projects for local water authorities, among other things for the reduction of leakages. Altogether, according to its own account, RWE Thames Water supplies approx. 1.5 million people in Thailand with drinking water. A large sewage plant for industrial waste at Rayong should also be mentioned.

The "Foundation for Ecological Recovery" in Bangkok (www.terraper.org) has critically examined the role of the Pathumthani Water Co. as part of a study of water privatisation in Thailand. It is pointed out that the privatisation project was proposed by a study by a Japanese development aid organisation and that it coincided with the efforts of the World Bank to enforce the privatisation of water supplies in Thailand. There were more opportunities for this after the Thai government was dependent on new international loans as a result of the Asia crisis of 1997 and at the same time was searching for ways to reduce state expenditure. The new private mo-

nopoly enterprise, however, was at first unable to sell the expected volume of drinking water, primarily because industrial plants continued to use water from their own wells. In response to this the government dramatically increased the price of self-obtained groundwater and exercised pressure on industry to obtain its water from the private supplier. The objective, which actually makes sense, of limiting the cheap or free water abstraction by industry because this involves the danger that it will be squandered, therefore becomes suspect because it appears to be a measure to support a private monopoly. A further problem came to the fore, namely that the expansion of the network was much more expensive than expected. In 2002 there was a new, surprising development: the private consortium, which up to that point had had a BOOT contract, as mentioned above, received the concession to operate the region's water supply system. In the study the withdrawal of the state from its responsibility for the supply of drinking water is criticised. It is also problematical that the state guarantees the sale of a certain volume of water. If less is sold, which has already been the case, the state must pay (1999: US \$2.63 million). The price increases have been moderate so far, but government officials have already declared that perceptible increases must be reckoned with in future. Pathum Thani Water has the authority to do this. Finally, it is criticised that the subsidiary of Thames Water buys its raw water from the River Chao Praya at a very favourable price from the state but does not make any contribution to the expensive water construction and water resources measures which secure the supply of raw water.

By means of popular campaigns such as “wise up to water” and “save water, preserve the environment with Thames Water” RWE Thames Water is making a contribution to counter the drinking water problem in Greater Bangkok – of course also with the objective of countering the criticism of Thames Water’s long-term concessions in the country.

Involvement in other regions of the world

Thames Water is active in further individual international water projects, e.g. in Izmit/Turkey. There the concern has built a water treatment plant and a dam and since 1995 has supplied 1.2 million people and the industrial plants of the region with water. According to Thames Water this is the largest privately financed water project in the world, with an investment volume of US \$900 million. Thames Water is responsible for the operation and maintenance of the supply system for 15 years. In Turkey this project was the subject of debate. The country’s audit office came to the conclusion that the costs were higher than necessary and were double what had been planned. The audit office said that the price increases were too high, and that the water was difficult to sell to the hoped-for industrial clients. Local authorities were also reticent about buying the expensive water. The effects of the fact that the Turkish government had signed contractual guarantees for the covering of risks, which could now cost sums of millions, were therefore all

the more serious. Thames Water repudiated the accusations. The cost comparison was “superficial”, it claimed, because in Turkey no comparable project according to the BOT concept (build-operate-transfer) had previously been realised.

Involvement in the Arabian area includes the operation of a large sewage treatment plant in Gabal el Asfar for a region with six million inhabitants near Cairo and the construction and operation of a sewage collection system and a sewage treatment plant in the United Arab Republics within the framework of a public private partnership project.

It is conspicuous that Thames Water, in contrast to its French competitors, is not involved in the private water business in Africa south of the Sahara. The background reason for this could be that in Africa there are relatively few lucrative offers for the privatisation of the water supply. The low income of most of the customers prevents such opportunities. Where there is no adequate purchasing power, the privatisation of the water supply has its limits. These are added to by the unstable political situation in a whole number of African countries and by the broad rejection by large sections of the population of the privatisation of public plants which has been prescribed by the World Bank and the International Monetary Fund. The massive protests against the privatisation policy in countries such as South Africa and Ghana mean that conflicts following the granting of concessions are to be expected, which Thames Water

apparently does not want to face. In a country such as Ghana Thames Water has only been active in the sense that one employee travelled through the country in order to give advice to WaterAid projects.

In South Africa Thames Water is planning close cooperation with local authorities to advise them on the improvement of their drinking water supplies. Here, Thames Water works together with the British aid organisation WaterAid. Thames Water has an office in South Africa. Whether the setting up of the office means that an expansion of its activities in Africa will take place in future must remain unanswered.

American Water

In January 2003 RWE was able to announce the complete acquisition of the American Water Works Company with its seat in New Jersey (www.amwater.com). Following Thames Water, that was the second most important take-over of a large foreign water company. American Water Works is the largest private water company in the USA with 6,500 employees and supplies approx. 15 million people in 27 US states and 4 Canadian provinces with water.

Within the space of only three years American Water Works had bought up 55 competitors in North America, and now the concern was taken over itself by a foreign competitor. RWE offered the shareholders a 36.5 per cent higher purchasing price per share than the quotation at the announcement of the take-over bid in September 2002. The purchase was financed by loans.

There was considerable resistance among the American public to the take-over and the integration into RWE's water business under the responsibility of Thames Water. It played a role in this that many people did not wish to leave vital water supplies in the hands of a foreign concern. The question of RWE's large debts also caused concern (the background to this was the collapse of the Enron concern in the USA following the acquisition of a large number of firms). As we have already mentioned, the negative perception of Thames Water activities also had considerable weight. The resistance was organised primarily by the organisation "Public Citizen", which was founded by the prominent consumer protector Ralph Nader. In Kentucky a citizens' action committee was set up to enforce a water supply in the hands of the local authority. On 2 December 2002 the "Lexington Herald" in an article on the protest against the RWE take-

over in Kentucky drew attention to the fact that the privatisation of the water supply in Bolivia led to an uprising and in South Africa had fostered the outbreak of cholera. Now there were also protests in Lexington against the take-over of the supply by a foreign company. The resistance failed in the case of American Water Works however, because the shareholders were pleased to accept RWE's lucrative offer and because state authorities were also prepared to cooperate. Thames Water's chairman of the board Bill Alexander saw in the take-over an ideal platform for the further development of the water business in the USA and South America. The company is now managed under the name of American Water and is part of the global water involvement of RWE Thames Water.

Lesotho – a dam project in the headlines

In Lesotho, a small country in southern Africa, the largest infrastructure project in Africa has been under construction for years, and it will not be completed until 2020. The reason for this project, which will cost at least eight billion euro, is the water requirements of the city of Johannesburg with its one million inhabitants and the surrounding industrial region. In order to meet these requirements the water from the mountain rivers in Lesotho is collected in vast artificial lakes and pumped to South Africa. At the same time electricity is produced for Lesotho and this poor country is to receive about 25 million per annum for the next 50 years for supplying water to its neighbour. First, the 186 metre high Katse Dam was built, the highest dam in Africa. It was followed by the Muela Dam. The Mohale Dam is under construction. 260 kilometre-long tunnels connect the artificial lakes with the region of Johannesburg.

HOCHTIEF (www.hochtief.de), at that time still part of the RWE concern, at first received the contract, within the framework of a consortium, for the construction of a 32 kilometre-long tunnel connecting two artificial lakes, and then in 1997 a further contract for the construction of a weir and a connecting tunnel. HOCHTIEF regards the Lesotho Highlands Water Project as an example

for the solution of municipal problems and proclaimed it accordingly on the occasion of the World Conference URBAN 21.

The “International Rivers Network” (IRN, www.irn.org), an international human rights organisation which concerns itself among other things with the social and ecological consequences of dams, has quite a different opinion regarding the gigantic dam project. In 2001 IRN published a study by Ryan Hoover on the consequences of the dam project in Lesotho under the title “Pipe Dreams”. IRN has examined the situation of the almost 20,000 people who have lost their homes through the first two dams (there will be a further 7,000 from the flooding of the third lake). Although higher compensation is foreseen than in similar dam projects in other countries of the South, there have apparently been delays in the paying of the compensation, and the infrastructure was also only improved in small steps. This has led to great embitterment among the displaced people. The study came to the conclusion that the dam projects had increased the poverty of the local population and that in addition they fostered the dangerous tendency to rely completely on compensation payments and money from elsewhere.

One effect of the blasting, tunnel and road-building projects in the region was that a number of springs have dried up and the people now have to fetch water from greater distances. For the people below the Katse dam the water supply situation has worsened dramatically because the water now contains so many pollutants that it is no longer drinkable. The inhabitants of several of the neighbouring villages complain that they have still not been connected up to a water supply. Promises of a rapid connection to a drinking water supply have not been kept and at the time of the study the realisation of these plans was already five years behind the originally promised schedule. Of all projects, the largest project for the improvement of the water supply in southern Africa has thus led to a worsening of the supply situation of people in the immediate neighbourhood of the project.

The “World Commission on Dams” (www.dams.org) proposed strict regulations several years ago which should have to be adhered to in the construction of dams. The study comes to the conclusion that according to these criteria the dams in Lesotho would probably never have been built. For one thing, they are not needed at the present or in the near future. The requirements in the region around Johan-

nesburg were assessed too highly. In addition, it would have been possible to reduce consumption dramatically by the thorough elimination of leakages in the distribution network and by measures to save water. Also, the “stakeholders”, i.e. those directly affected, should have been very much more involved in the planning and the decision-making and it should have been ensured that they received an appropriate share of the revenue. The ecological consequences it will have when one day 40 per cent of the water in the Senqunyane catchment basin in Lesotho is really diverted to South Africa cannot be foreseen.

HOCHTIEF and its subsidiary Concor have a major share in the project and therefore are partially responsible for the consequences. The responsibility of RWE is not ended with the sale of HOCHTIEF as the Essen concern holds 24.9 per cent of the shares in the engineering and consulting firm Lahmeyer International (www.lahmeyer.de). Lahmeyer International is by its own account active in more than 140 countries and has offices and agencies in 40 countries.

A corruption scandal makes the headlines

In recent years Lahmeyer International has found its way into the international press not because of its technical and economic planning and consulting, but because of its involvement in a corruption scandal in Lesotho. The fact is undisputed is that the previous director of the Lesotho Highland Water Project, Masupha Sole, accepted bribes to the tune of about two million dollars. He was condemned to a long jail sentence for this by a court in Lesotho. The South African economic newspaper “Business Day” published a list of the companies who had paid the bribes on 29th July 1999. It reads like a “Who’s Who” of the international dam construction branch, including Lahmeyer International. The companies deny the accusations in unison. So far, two companies have been convicted by courts, the Canadian building company Acres International and Lahmeyer International. Acres International was sentenced to a fine of US \$2.25 million in October 2002 because the court considered the accusation of corruption proved.

Lahmeyer International was convicted in June 2003 because the company was believed to have secured its share of the planning and construction contracts by the payment

of about US \$ 150,000 in bribes. The managing director, Rainer Bothe, explained to the “Süddeutsche Zeitung” of 29th June 2003 that there had apparently been payments of bribes by a “freelance worker” of the company, but that this had not been done on the order of Lahmeyer International. The court regarded the use of a middleman simply as an attempt to disguise the bribery. The court in Lesotho sentenced Lahmeyer International to a fine of 1.3 million. In April 2004 the decision was confirmed in an appeal hearing and the fine was even increased to approx. € 180,000.

For the companies convicted there is much at stake, for there is a risk that they will be excluded from future projects which are partly financed by the World Bank. This is certainly provided for in a World Bank codex. If it were applied to all the concerns which are supposed to have been involved in the corruption scandal in Lesotho, the World Bank would probably have to withdraw from the supporting of dam projects altogether because numerous large companies from the branch are concerned. In reality, sanctions against all of the concerns involved are hardly to be expected, but perhaps against those companies convicted in the courts of the last instance such as Lahmeyer.

Imagine – the responsibility of a global player

Within only a few years RWE has become one of the large international water concerns. In Essen and in RWE's subsidiary Thames Water in London efforts are being made not to become the focus of criticism by those who above all in the southern hemisphere are struggling against the attempts to privatise water supplies. RWE has a lengthy tradition of cooperation with local authorities. The concern therefore has the possibility to demonstrate internationally that there are alternatives to a "public private partnership" as propagated by the World Bank, but also by German development policy. "Partnership" in these PPP-projects consists, as we have already mentioned, in an internationally active company engaging in business in a country of the South and being supported for this with public funds, in the hope that the activity of the company will have positive consequences for the local population. The private concern calls the shots, and can keep the profits for itself.

The responsibility of the German local authorities

In the case of RWE the local authorities in Germany have been actively involved in the concern so far, with shares and with representation in the decision-making bodies. RWE is now at a fork in the road. Among the private shareholders and apparently also in parts of the man-

agement there is a leaning towards pushing back the influence of the local authorities, especially their influence on the company's policies. RWE should become more profitable for private investors and the local authorities, which are also concerned about the effects of company decisions on their individual locality, seem to be in the way of that. The trade unions are also a nuisance, as they want to have an influence within the framework of co-management on the question of how many jobs are to be "dismantled" and under what conditions. Those shareholders who value a company all the higher when it announces dismissals and thus reduces costs regard the influence of local authorities and trade unions on RWE only as a hindrance on the path to the highest possible profits. It must be asked, however, whether such shareholders and financial institutions are the best partners for RWE. Experience shows that they rapidly leave a company "in the lurch" if profits fall or if business is better elsewhere. In contrast, the local authorities have been reliable in their support of RWE, and the employees and their trade unions have made the advancement of RWE possible in the first place.

The local authorities on their part, however, must take their involvement in RWE much more seriously. If mayors or city directors limit their

participation in RWE bodies to defending the interests of their own location and to hoping for a high profit then they are not doing justice to their responsibility. This is all the more true since RWE has become a global player in the water and energy businesses. Members of the board of trustees must now also show interest in how the English RWE subsidiary Thames Water is acting in Indonesia or what role the concern is playing in the supply of drinking water in Chile. At the same time they have the opportunity to bring their experiences with the supply of drinking water and sewerage at the local level into the company's policies and into its concrete decisions.

The international involvement of RWE Thames Water affects workers in many countries of the world, although there has until now been no common representation vis-à-vis the management. From 10 to 13 July 2003 a first meeting of trade union representatives from the United Kingdom, Spain, the USA, Chile, Thailand, Indonesia and Germany took place in Mülheim an der Ruhr. At this meeting it became clear just how far removed RWE Thames Water still is from the standards of co-management which are usual in Germany. For example, workers in the subsidiary in Thailand were put under strong pressure not to travel to the meeting. The trade unionists

from the USA reported how Thames Water's subsidiary there had participated in the usual attempts to keep the trade unions out of the plants. The representatives from Chile explained that following the privatisation half of the jobs were lost or were now being offered to the workers at much worse conditions following outsourcing. In Mülheim it was agreed to set up a worldwide "Betriebsrat" (workers' co-management committee) for RWE Thames Water.

In a globalised world debates and decisions in the water business here are closely tied to those in far-distant parts of the Earth. In view of the role of German and French water concerns in the global market it is of great importance how the structures of the water supply develop in Germany and its neighbours. There are considerable ambitions in Germany towards the privatisation of supplies, in which not only the private water companies but also the Federal Economics Ministry plays an important role. Experiences with privatisation in metropolises such as Berlin are anything but convincing, but the issue is also one of ideological convictions and these state that private enterprises are always more efficient than public ones. The advocates of this dogma are not impressed by negative experiences but continue imperturbably with their policy – in Germany and in other parts of the world.

The international utility concerns are certainly extremely powerful organisations, but so powerful that they can simply dictate their local investment conditions in any given locality they are certainly not. Of course they attempt to exert an influence on national water strategies and legal regulations via diverse channels such as the Inter-

national Monetary Fund, the World Trade Organisation, public relations, political contacts and in certain cases even corruption.

But in the final analysis the decisions, whether and under what conditions private investment in public water supplies is to take place, are still taken by the national, regional and local administrative bodies, which also in countries of the South are, or at least claim to be, democratically legitimised. They are the ones who regulate the conditions, and the companies have to comply with them in the end.

The role of concerns such as RWE in the solving of global problems

It would be unrealistic to want to keep private companies such as RWE out of the field of drinking water supplies or sanitation. Decisive is who controls the water mains. It makes a huge difference whether a private company builds a waterworks or a purification plant, or whether it manages the entire water supply. A responsible local authority manager of a supply network will attempt to reconcile economic, ecological and social aspects so that the costs are covered and the environment is protected and nevertheless the price of water is not too high for the consumers. Many local authority water suppliers in Germany are largely successful in this and individual utilities in the southern hemisphere also succeed in doing so, for example in Porto Alegre in Brazil. Private enterprises can follow similar aims but at the end of the day they must see that they achieve a satisfactory profit. This makes water into a commodity, of which as much as possible must be sold at as high a price as possible.

From RWE Thames Water's statements on subjects relating to international water it emerges that it has been recognised that the private water companies can only make a limited contribution to the solution of the huge tasks of the coming decades. This opens up the possibility of a dialogue on the question of what the contribution of the private sector can be. In view of the gigantic investments which are necessary in order to even halve the number of people without a connection to a supply of drinking water and to sewerage by 2015, private participation can make sense – where the supply of drinking water itself remains in the hands of the local authorities.

What does this mean precisely? Thames Water, according to its own understanding, wishes to look for solutions to water problems which are adapted to the local situation. It should not always be a question of selling the most expensive and complicated technical plant. Thames Water must let itself be measured against this, and therefore faces the task of searching together with local authorities and initiatives for cheap solutions which are adapted to the local ecological, social and cultural situation.

One important field of activity for private companies is the construction of sewerage plants for rural and above all for municipal areas. RWE companies have a great deal of experience here which can be applied in many parts of the world to reduce the threat to the environment from wastewater. In those cases in which state funding of such projects is impossible, the BOT concept can be applied: "build, operate and transfer" means that private companies construct a sewage treatment plant with their own funds or with loans they

have taken out themselves, operate it for a number of years and then transfer it to the government or the local authorities. During the life of the contracts the companies receive returns for their services which are high enough not only to cover their operating costs, but also to redeem their investments and to produce a profit. In this model the citizens' water supply and sanitation remain the task of local public utilities. A well-negotiated BOT contract relieves the local authorities of investment expenditures, but the utilities themselves are kept free of private profit interests. The returns which the operators wish to achieve increase the price of water and sewerage for the consumers and it must therefore be examined beforehand whether the new prices can be paid by the poorer population. Only if this is the case are such projects socially acceptable.

RWE has concluded many BOT contracts from Germany through Eastern Europe to East Asia, and a critical dialogue with RWE on this point can concentrate on which services the company in fact provides at what conditions, for example whether internationally recognised environmental and social standards are adhered to.

RWE counts it as among its strengths that it offers a wide range of consulting and technical services to local authority water utilities. This know-how could be used much more intensively for the strengthening of local authority water utilities in the southern hemisphere. There, too, the rules for water supplies should not be changed in favour of a profit orientation by the local authority water utilities. Rather, they must operate more efficiently, reduce the

volume of water losses from leakage, expand the distribution networks and achieve a higher degree of cost coverage without shutting off the poor from the water supply.

The responsibility of development policy

For the success of such a concept two things are above all necessary: the German development aid institutions must rethink their position and concentrate more strongly again on the supporting of local authority water and sewerage utilities in the southern hemisphere instead of sticking to the illusion that it is important to establish a market with the aid of development funds where a market simply does not exist due to a lack of purchasing power. Secondly, it is necessary to improve the political, economic and institutional environment in which public water utilities operate in the southern hemisphere. That is a huge task in the face of despotic regimes, growing poverty, high indebtedness, inefficient administrations and widely spread corruption in many countries of the South. But we should not have any illusions: if these barriers to development are not eliminated then all attempts to achieve a permanent improvement in the supply of water, and beyond that the overcoming of the crisis of these societies, will fail.

If the supply of water and the disposal of wastewater realistically speaking cannot function very much more efficiently than other public and private services, there are nevertheless reasons for attempting to improve these utilities step-by-step within the boundaries of that which is possible and at the same time to make a contribution towards the positive influencing of the general

situation. In the field of water and sewerage the objectives are clear: all people must be connected to a supply and disposal network, which in many cases does not mean the construction of complicated systems. In addition, the quality of the supply and disposal must be improved, in some cases dramatically so. It must also be aimed for that everywhere pure drinking water comes out of the taps, i.e. it is neither necessary to boil the water nor to buy bottled water. Thirdly, a price system must be developed which is adapted to the local economic and social circumstances. This can mean, for example, that the poorest sector of the population receives a certain quantity of water free and that the water prices are socially graduated, i.e. the well-off pay more than the poor and that those who fill their swimming pool with tap-water pay a price which subsidises the supplies to the poor.

In all of this RWE can play a role, precisely because this concern has only a very few concessions for the operation of water utilities in the poorer countries of the South. The model of the future is an efficiently operating local authority public utility which has recourse to the services of private companies without making water into a commodity like any other and the waterworks into a "profit centre". The human right to water excludes water becoming a commodity like any other in the global "supermarket" and requires that all our energies are concentrated on securing access to drinking water for those who fail to qualify as customers due to their lack of purchasing power. Water for everyone is something different to water for all those who can pay for it.

Major Shareholdings as of 31st.Dec.2003

(source: RWE business report 2003) shareholding portion in accordance with §16 AktG in %

1. ASSOCIATED COMPANIES	%
RWE Power	
RWE Aktiengesellschaft, Essen/Germany	100
Harpen Aktiengesellschaft, Dortmund/Germany	95
Kernkraftwerke Lippe-Ems GmbH, Lingen/Germany	99
Kernkraftwerk Grundremmingen GmbH, Germany	75
Mátral Erőmű Rt. (MÁTRA), Visonta/Ungarn	51
RV Rheinbraun Handel und Dienstleistungen GMBH, Köln/Germany	100
RWE Dea AG, Hamburg/Germany	99
Turbogás-Produtora Energética, S.A., Lisboa/Portugal	75
RWE Energy	
RWE Energy AG, Dortmund/Germany	100
Budapest Elektromos Művek Rt. (ELMÜ), Hungary	55
Emscher Lippe Energie GmbH, Gelsenkirchen/Germany	79
Envia Mitteldeutsche EnergieAG, Chemnitz/Germany	64
Észak-magyarországi Áramszolgáltató Rt. (ÉMÁSZ), Miskolc/Hungary	54
EWV Energie- und Wasserversorgung GmbH, Stolberg/Germany	54
Koblenzer Elektrizitätswerk und Verkehrs-AG, Koblenz/Germany	58
Lechwerke AG, Augsburg/Germany	90
MITGAS Mitteldeutsche Gasversorgung GmbH, Halle/Germany	60
Rhenag Rheinische Energie AG, Köln/Germany	100
RWE Gas AG, Dortmund/Germany	80
RWE NUKEM GmbH, Alzenau/Germany	100
RWE Obergas N.V., Helmond/Netherlands	90
RWE Rhein-Ruhr AG, Essen/Germany	100
RWE Solutions AG, Frankfurt M./Germany	100
RWE Transportnetz Strom GmbH, Dortmund/Germany	100
RWE Westfalen-Weser-Ems AG, Dortmund/Germany	100
SAG Energieversorgungsleistungen GmbH, Frankfurt M. /Germany	100
SAG Netz- & Energietechnik GmbH, Langen/Germany	100
STOEN S.A., Warsaw/Poland	85
Süwag Energie AG, Frankfurt M./Germany	78
Transgas a.s. in 6 regions of Czech Republic	100
Thyssengas GmbH, Duisburg/Germany	100
VSE AG, Saarbrücken/Germany	69
RWE Innogy	
RWE Innogy Holdings plc, Swindon/Great Britain	100
RWE Trading	
RWE Trading GmbH, Essen/Germany	100
SSM Coal B.V., Rotterdam/Netherlands with 23 subsidiaries in Europe, Australia and USA	100
RWE Thames Water	
RWE Thames Water Plc., London/Great Britain	100
American Water Works Company, Wilmington/USA with 60 subsidiaries in the USA and Canada	100
E'town Corporation, Westfield/USA with 11 subsidiaries in the USA	100
Proyectos e Instalaciones de Desalación, Madrid/ Spain with 6 subsidiaries in Spain	75
RWW Rheinisch-Westfälische Wasserwerksgesellschaft mbH, Mülheim/Germany	80

RWE Umwelt	
RWE Umwelt AG, Viersen/Germany	100
RWE Umwelt Nord GmbH & Co. KG, Preetz/Germany	100
RWE Umwelt Ost GmbH, Halle/Germany	100
RWE Umwelt Westfalen GmbH & Co. KG, Iserlohn/Germany	100
RWE Umwelt Rhein-Ruhr GmbH, Essen/Germany	100
RWE Umwelt West GmbH, Grevenbroich/Germany	100
RWE Umwelt Rheinland GmbH, Köln/Germany	100
RWE Umwelt Südwest GmbH, Wiesbaden/Germany	100
RWE Umwelt Süd GmbH, Villingen-Schwenningen/Germany	100
Heidelberger Druckmaschinen	
Heidelberger Druckmaschinen AG, Germany	50
Heidelberger Druckmaschinen Vertrieb Deutschland GmbH, Germany	100
Heidelberg USA, Inc., Kennesaw/USA	100
Heidelberg Web Systems, Inc., Dover/USA	100
Other Subsidiaries	
RWE Finance B.V., Zwolle/Netherlands	100
RWE Systems AG, Dortmund/Germany	100
2. ASSOCIATED COMPANIES	%
balanced with Equity Methods	
RWE Power	
TCP Petcoke Corporation, Dover/USA	50
Großkraftwerk Mannheim AG, Mannheim/Germany	40
RWE Energy	
Energieversorgung Oberhausen AG, Germany	50
Fővárosi Gázművek Rt. Budapest/Hungary	33
GEW RheinEnergie Köln/Germany	20
Kärtner Energieholding GmbH, Klagenfurt/Austria	49
Kommunale Energie- und Wasserversorgung Neunkirchen AG, Neunkirchen/Germany	29
Motor-Columbus AG, Baden/Switzerland	20
Nafta a.s., Trnava/Slovakia	40
Niederrheinische Versorgung und Verkehr AG, Mönchengladbach/Germany	50
Stadtwerke Duisburg AG, Duisburg/Germany	20
Stadtwerke Düsseldorf AG, Düsseldorf/Germany	20
Stadtwerke Essen AG, Essen/Germany	29
TIGÁZ Rt., Hajdúszoboszló/Hungary	44
RWE Thames Water	
RWE/VIVENDI Berlinwasser Beteiligungs AG Berlin/ Germany	50
Others	
HOCHTIEF AG, Essen/Germany	40
3. OTHER SHARES	%
RWE Power	
CONSOL Energy Inc., Wilmington/USA	18
RWE Energy	
Stadtwerke Chemnitz AG, Chemnitz/Germany	19
Others	
RAG AG	30