

“Cochabamba’s Water Rebellion – and Beyond”

Lewis Dollinsky, *San Francisco Chronicle*

Document Excerpt #1

Protesters celebrated in Cochabamba, Bolivia, last April after the government rescinded a contract with a private consortium to run the city's water system. Known for its artisan and farmers markets and the nearby coca fields, Cochabamba (population 500,000) is Bolivia's third-largest city. A successful insurrection there was one of last year's underreported stories: An estimated 40 percent of the population had no piped water or sewage services. The municipal water company was in disarray. It was privatized. An international consortium took over, raised prices precipitously and was thrown out by the people, who blockaded the city for days. Before the federal government gave up in April and canceled a 30-year concession, troops were sent in, bullets and tear gas were fired, and a young man was killed.

This saga has a Bay Area connection. The private water company, Aguas del Tunari, which had 20 percent Bolivian ownership, was a creation of International Waters. IW is a partnership between an Italian company, Edison SpA, and the giant Bechtel Corp. of San Francisco. If Bechtel, or its offshoot, can go to Cochabamba, then Marcela Olivera of Cochabamba can fly to San Francisco, get her first view of the ocean (“it is very large”) and tell her side of this controversy. Olivera assists her brother Oscar, a labor leader who is a spokesman for the Coordinating Committee for the Defense of Water and Life, usually referred to as La Coordinadora. This umbrella group of workers, peasants, environmentalists and human rights advocates took over the water system when the consortium was forced out.

Marcela Olivera says her brother is in danger: “The government has taken many actions against many people since April - raided houses, wiretapped phones, death threats, most recently in October. Harassment is continual.” The evidence is clear, she says, that the Bolivian investors in Aguas del Tunari have high connections in government. And are not good losers. Olivera is

concerned about what will happen, in weeks or months, after the Bolivian government settles its legal case with International Waters. She expects an attempt to take back the water. First, men with suits will come, saying: This just isn't working. Only if necessary, she says, men will come with guns.

For most in Cochabamba, this struggle is about money, not theory: When the water system was privatized, Bolivians making \$100 a month were suddenly paying \$20 of it for water. Some bills are said to have risen 200%, even 400%. Bechtel disputes such figures, saying rates typically rose 35%. That's still a lot. Bechtel acknowledges that the contract set a “goal” (not a guarantee) of a 16% return on investment for Aguas del Tunari. The company was also locked into building large projects, including a dam that even the World Bank says is ill-advised. Aguas del Tunari had inherited \$35 million in debt from the municipal utility and was expected to start paying it off.

The corporate version is that the private company started making improvements and raised prices as needed but structured increases to hit the big users. After February's protests, it rolled back prices and made refunds. Then in April, it was out. Not a happy experience. A fact sheet from International Waters insists that opposition came not primarily from ordinary people but from the affluent or those who had a vested interest in the old “informal water market.” IW is sick of people saying that it bought the water system; it signed a legitimate contract to provide a service. It just happened to be the only bidder. And yes, Bechtel and IW are in business to make money. Under terms of a bilateral agreement between Bolivia and the Netherlands, where IW is incorporated, IW is entitled to out-of-pocket expenses plus unrealized profits projected over the life of the deal.

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Negotiations between International Waters and Bolivia are amicable, according to Michael Curtin, executive consultant to IW, and "We expect to get our money." He will not say how much. Bolivia has shallow pockets. If a settlement is ever made public, the government of Hugo Banzer may have to admit that it paid a multinational corporation big money to do nothing. Curtin doubts the government will try to retake the water system from La Coordinadora. He says four Bolivian regimes have failed to resolve Cochabamba's water problem; this one may say, "It's all yours." Olivera's fears may be exaggerated.

Down in Cochabamba, Jim Shultz, a San Franciscan, has plagued Bechtel with accusations and reports in his Center for Democracy e-mails. Shultz's ally Tom Kruse says the government might leave Cochabamba water in the control of La Coordinadora if this were not part of a larger struggle. At the urging of the International Monetary Fund and the World Bank, the Bolivian national airlines, oil and gas, telephone, rail lines - all have been sold off, or are being sold off, and often to foreign investors. Olivera was shepherded around the Bay Area by Antonia Juhasz of the International Forum on Globalization. Juhasz is warning in public meetings against a possible privatization of San Francisco water and take-over by Bechtel.

These are competing international conspiracies: Globalization and anti-globalization, privatization and the resistance to it. But what about Cochabamba's water? How does it taste? Is it getting to more people? Olivera says, "The water is sweet" now that it is controlled by the people, and there are new hookups in the hills where the poorer poor live. Kruse says that service may be slightly better but that this is still a struggling enterprise. Curtin says he hears of some pipe connections in the hills but does not know about sewage service. When asked for a prognosis, Curtin mentions that a prominent economist among the group that took over the water system was educated in Moscow and taught in Havana. So he is not very good?

Curtin says: No, he's fine. He has as good a chance as anybody of solving this problem.

Dolinsky, Lewis. "Cochabamba's Water Rebellion – and Beyond." San Francisco Chronicle. 11 Feb 2001 <<http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2001/02/11/SC197565.DTL>>

The San Francisco Chronicle, Northern California's largest circulation newspaper, was founded in 1865 and acquired by Hearst Corporation in 2000. The Hearst Corporation is defined on its website as "one of the nation's largest diversified media companies. Its major interests include magazine, newspaper and business publishing, cable networks, television and radio broadcasting, internet businesses, TV production and distribution, newspaper features distribution and real estate."

“Bechtel Perspective on the Aguas del Tunari Water Concession in Cochabamba, Bolivia” Press Release

Document Excerpt #2

Numerous news accounts and commentaries have mischaracterized the water concession in Cochabamba, Bolivia, held by Aguas del Tunari, 27.5% owned by Bechtel. *

Below are some of the most commonly misrepresented and underreported aspects of the Cochabamba water concession, which was terminated in April 2000.

For a more detailed account of the Bechtel perspective, please access the Fact Sheet (PDF: 72 KB)

- The Bolivian government turned to the private sector in the late 1990s to operate the city's water and wastewater system because the local utility had rendered it a shambles. The utility's financial losses had led to mounting debts and declining service. Service was unavailable to 40% of the city's population. What water came out of the tap wasn't healthy--and typically wasn't available for much of the day.
- Most of those without connections resorted to buying unhealthful water from the operators of tanker-trucks at exorbitant rates - several times higher than what they'd pay if they could hook up to the system.
- Residents who had connections suffered an inequitable rate system. Low-volume, poorer users paid more per unit than high-volume, wealthier users. High-volume users had little incentive to conserve scarce water resources.
- Aguas del Tunari began operating the city's water and wastewater system November 1, 1999. The consortium did not buy and did not own Cochabamba's water utility or water resources.
- The government raised water rates in Cochabamba by an average of 35%, effective in January 2000. Half the rate increase was necessitated by such government requirements as paying down more than \$30 million in debt accumulated by the public utility that had previously operated the system so poorly. Rate increases were also needed to finance proper maintenance and expansion of the water system. Even these rates were comparable to those in other major Bolivian cities.
- To minimize the impact on the poor and improve efficiency, the consortium had convinced the government to adopt a rate structure that had most of the increase fell to larger, wealthier users.
- Aguas del Tunari only charged for water provided through the network it operated. It did not charge for water from private or cooperative wells. It did not lease or own the aquifer. The contract was for potable water supply and sewage within urban Cochabamba--not for agricultural areas.
- Aguas del Tunari managed to increase the availability of water by 30% in its short time managing the system. For billings in the month of January (2000), increased water usage amplified for many customers the effect of higher rates.
- The higher rates didn't last long. Responding to public criticism, the government rolled back rates in February. Customers who had paid the higher rates were refunded the difference.

- Subsequent unrest in Cochabamba was sparked by multiple causes, including unrelated national groundwater legislation that left even citizens outside the service area believing incorrectly that their water resources might be expropriated by a concessionaire. The unrest peaked in April, 2000, two months after rates had been rolled back to preconcession levels.
- In April, the Bolivian government rescinded its contract with Aguas del Tunari. For months afterward it was unwilling or unable to engage Aguas del Tunari in substantive discussions about resolving their contract dispute.
- Aguas del Tunari pursued arbitration through the International Centre for Settlement of Investment Disputes (ICSID) to seek compensation for the Bolivian government's having illegally terminated its contract and expropriating the concession.
- In January 2006, the international shareholders of Aguas del Tunari reached a satisfactory settlement with the Bolivian government.

*Bechtel owns 50% of International Water, and International Water owns 55% of Aguas del Tunari; hence Bechtel's 27.5% interest in Aguas del Tunari.

"Bechtel Perspective on the Aguas del Tunari Water Concession in Cochabamba, Bolivia." Bechtel Corporation. 16 March 2005 <http://www.bechtel.com/2005-03-16_38.html>

From Bechtel's home page: "Bechtel is the world's No. 1 choice for engineering, construction, and project management. Our diverse portfolio encompasses energy, transportation, communications, mining, oil and gas, and government services. We currently have projects in dozens of locations worldwide, from Alaska to Australia. No matter how challenging a project or how remote its location, chances are Bechtel can handle it. That's because we bring an unmatched combination of knowledge, skill, experience, and customer commitment to every job."

We have had record revenues for the past four years and in 2006 also posted a record for the value of new work that we booked. Engineering News-Record (ENR) has named Bechtel the top U.S. construction contractor for nine straight years. While we work for governments and commercial customers, our projects have helped grow local economies and improve the quality of life for communities and people around the world. Time and again our work has demonstrated that the only limits on human achievement are those that we place on ourselves. Privately owned with headquarters in San Francisco, we have offices around the world and 42,500 employees. In 2006, we had revenues of \$20.5 billion and booked new work valued at \$24.7 billion."

“Water Is a Human Right - How Privatization Gets Water to the Poor”

Ronald Bailey, *Reason* magazine

Document Excerpt #3

Activists around the world chant the slogan that “water is a human right.” Yet more than a billion poor people in the world today lack access to safe drinking water. Twelve million of them die each year from drinking disease-contaminated water. Among things that would most benefit the world, safe, clean drinking water is clearly a high priority, as pointed out by the Copenhagen Consensus organized by skeptical environmentalist Bjorn Lomborg in 2004.

In 2003 the U.N.'s World Water Development Report estimated an annual shortfall of \$110 billion to \$180 billion in investments needed to provide access to safe water to the poor in the developing world. The U.N.'s Millennium Development Project has a target of reducing by half the proportion of people without access to safe drinking water by 2015. The economic benefits of halving the number of people without access to safe water—in terms of disease avoided, lives lengthened, and time wasted fetching it—add up to \$300 billion to \$400 billion annually. Displaying a surprising lack of imagination, the summary of the Copenhagen Consensus paper on water adopted the conventional wisdom that “water service provision has generally been seen as a government responsibility. This is largely because water is regarded as a public good and its availability as a basic human right, best administered by the public sector.” Given the fact that so many of the governments in developing countries have somehow failed to recognize their citizens' supposed right to water, perhaps there is a better way to go?

In his excellent new monograph, “Water for Sale: How Business and the Market Can Resolve the World's Water Crisis,” Swedish analyst Fredrik Segerfeldt makes the case that water privatization can go a long way toward quenching the thirst of the poor. Segerfeldt points out that public water systems in developing countries generally supply politically connected wealthy and middle class people, whereas the poor are not hooked up to municipal water mains. Segerfeldt

cites one study of 15 countries that found that in the poorest quarters of their populations, 80% of the people were not hooked up to water mains. Of course, the poor don't just die of thirst; they just pay more—generally a lot more—for their water.

“Contractors often drive tankers to poor districts, selling water by the can, in which case the very poorest of the world's inhabitants are already exposed to market forces but on very unfair terms, because water obtained like this is on average twelve times more expensive than water from regular water mains, and often still more expensive than that,” notes Segerfeldt. A survey of major cities in developing countries found that the poor in Lagos, Nigeria pay four to 10 times more for their water than people who are hooked up to water mains do; in Karachi, Pakistan they pay 28 to 83 times more; in Jakarta, Indonesia, four to 60 times; and in Lima, Peru, 17 times more. Essentially, the rich get cheap tap water while the poor pay the moral equivalent of Perrier prices.

So now some countries have turned to the private sector and multinational companies for help in providing their thirsty poor citizens with water. Privatization can mean selling entire water supply and treatment systems to private owners; long-term leases of water supply systems; or contracts to manage public water systems. In practical terms, the usual arrangement is a long-term lease. So far, only 3% of the poor in developing countries get their water from private-sector water systems. However, these initial projects have provoked an outcry by anti-privatization activists around the world against a “global water grab” by giant corporations.

Segerfeldt shows that even imperfect privatization efforts have already successfully connected millions of poor people to relatively inexpensive water where government-funded efforts have failed. For example, before privatization in 1989, only 20% of urban

dwellers the African nation of Guinea had access to safe drinking water; by 2001 70% did. The price of piped water increased from 15 cents per cubic meter to almost \$1, but as Segerfeldt correctly notes, "before privatization the majority of Guineans had no access to mains water at all. They do now. And for these people, the cost of water has fallen drastically. The moral issue, then, is whether it was worth raising the price for the minority of people already connected before privatization in order to reach the 70% connected today." In Cartagena, Colombia privatization boosted the number of people receiving piped water by 27%. Even the conflicted privatization in Buenos Aires saw the number of households connected to piped water rise by 3 million and 85% of the new customers lived in the poor suburbs of the city. Segerfeldt cites other successful privatizations in Gabon, Cambodia, Indonesia, and Morocco.

But given the often corrupt governments with which corporations must deal, it's not surprising that privatization can be done very badly. Probably the most spectacular case of privatization gone wrong occurred in Cochabamba, Bolivia. Cochabamba is to anti-privatization activists what the Alamo is to Texans. Between 1989 and 1999, the proportion of households connected to the public water system fell from 70% to 60%. Water was only sporadically available. In the wealthier neighborhoods 99% of households were receiving the subsidized water, while in some poorer suburbs less than 4% were connected.

The activist myth is that the poor rose up when the evil multinational Bechtel raised the price of water by 43% to 60%, depending on the customer's income. While it is true that the lucky few of the poorest who were connected to municipal water supplies did see big increases in their water bills, the majority of the poor who stood to be connected for the first time would have paid much less than they were already paying to water vendors. Segerfeldt calculates that piped water prices were already so low that this would mean the poorest 5% of the population would be spending 5.4% of their incomes on water. Segerfeldt reports that the opposition to privatization was actually led by middle class and industrial users who had been receiving subsidized water. Opponents also included local water vendors and small

farmers who wrongly believed that they were forbidden to access well water.

Under pressure, Bechtel pulled out and Cochabamba's water supply system is once again being run by the old public utility. Segerfeldt claims that water is now available only four hours per day and that no new households at all have been connected to the network since 2000. Meanwhile, the poor are paying 10 times more for their water than are the rich households connected to the system. This is a victory for the poor?

Privatization is not a panacea, but Segerfeldt shows that, when properly done, it can play a huge role in bringing safe clean drinking water to the hundreds of millions of people who still lack it. In the meantime, Segerfeldt wonders, "why anti-privatization activists do not expend as much energy on accusing governments of violating the rights of 1.1 billion people who do not have access to water as they do on trying to stop its commercialization?" Good question.

Ronald Bailey. "Water Is a Human Right - How privatization gets water to the poor." Reason. 17 Aug. 2005 <<http://www.reason.com/news/printer/34992.html>>

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“Bechtel Drops \$50 Million Claim to Settle Bolivian Water Dispute”

Environment News Service

Document Excerpt #4

Bechtel, a global engineering and construction company based in San Francisco, today reached agreement with the government of Bolivia, dropping a legal demand for \$50 million after a revolt over privatizing water services in the city of Cochabamba forced the company out of Bolivia in April 2000. Bechtel and its chief co-investor, Abengoa of Spain, had been seeking \$25 million in damages and \$25 million in lost profits in a case filed before a World Bank trade court, the International Centre for Settlement of Investment Disputes (ICSID). Following four years of international public protest aimed at the companies, Bechtel and Abengoa agreed to abandon their case for a token payment.

“Multinational corporations want to turn everything into a market,” said Oscar Olivera, a leader in the Bolivian water revolt. “For indigenous people water is not a commodity, it is a common good. For Bolivia, this retreat by Bechtel means that the rights of the people are undeniable.” Bechtel said today in a statement that the corporations were held blameless in the dispute. “The government of Bolivia and the international shareholders of Aguas del Tunari declare that the concession was terminated only because of the civil unrest and the state of emergency in Cochabamba and not because of any act done or not done by the international shareholders of Aguas del Tunari, which include the Bechtel, Befesa, Abengoa of Spain, and Edison corporations,” the company said. The concession agreement dates from September 3, 1999, when the government of Bolivia approved Aguas del Tunari as the concessionaire to provide water services to the city of Cochabamba.

On April 10, 2000, the concession was terminated because of the civil unrest, giving rise to a dispute between Bolivia and Aguas del Tunari. In 1997, the World Bank made privatization of the public water system of Bolivia’s third largest city, Cochabamba, a condition of the country receiving further aid for water development.

That led, in September 1999, to a 40-year concession granted to a company led by Bechtel in a process with just one bidder. Within weeks of taking over the city’s water, Bechtel’s Bolivian company, Aguas del Tunari, raised rates by more than 50% and in some cases even higher.

The water price hikes were met with angry public protest. Cochabamba, a city of about 500,000 people, was shut down by general strikes three times. In an effort to protect the Bechtel contract, the Bolivian government declared a state of martial law and began arresting protest leaders at their homes in the middle of the night. An unarmed 17-year-old boy was shot and killed by Bolivian Army personnel. At least 175 others were injured. In April 2000, Bechtel was forced to leave the country and the water company was returned to public ownership.

In November 2001, Bechtel and its associates filed their case with ICSID at the World Bank. The ICSID process bars the public and media from being present at its proceedings or disclosing who testifies. The company filed the case with ICSID under a bilateral investment treaty between the Netherlands and Bolivia. Although Bechtel is a U.S. corporation, its subsidiary established a presence in the Netherlands in order to make use of the treaty. The rules in the Dutch-Bolivian treaty are similar to those in the North American Free Trade Agreement and the proposed Free Trade Area of the Americas.

For four years, citizen groups waged a global campaign to pressure Bechtel to drop the case. Protesters closed down Bechtel’s San Francisco’s headquarters twice. Company officials were bombarded by critical e-mails. Citizen groups from 43 nations endorsed a legal petition to the World Bank demanding that the case be opened to public participation. “This settlement demonstrates the power of public participation,” said attorney Martin Wagner of Earthjustice, a

nonprofit, public interest law firm based in Washington, DC. Wagner drafted the 2002 legal petition on behalf of Bolivian civil society leaders demanding public participation in the Bechtel case. "Unfortunately, hundreds of foreign investor challenges against developing countries remain pending and more will be filed as the United States and others continue to force governments to give foreign corporations special privileges," Wagner said. "We must continue to tear down the walls of secrecy and exclusivity in international commercial arbitrations like this one."

"This is the first time that a major corporation like Bechtel has had to back down from a major trade case as the result of global citizen pressure," said Jim Shultz, executive director of The Democracy Center in Cochabamba, and a leader of the global effort. "It should signal to corporations contemplating similar legal actions that they should be prepared to defend those actions in the court of global public opinion," Shultz said, "not just behind closed doors at the World Bank."

Sarah Anderson, of the Washington, DC Institute for Policy Studies, who helped coordinate U.S. civil society pressure on Bechtel to settle the lawsuit, has her eye on preventing similar confrontations in the future. "The challenge now," she said today, "is to build on this momentum to press for new trade and investment rules that promote democracy and sustainable development rather than the narrow interests of large corporations."

"Bechtel Drops \$50 Million Claim to Settle Bolivian Water Dispute." Environment News Service. 19 Jan. 2006 <<http://www.ens-newswire.com/ens/jan2006/2006-01-19-04.asp>>

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