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POWER & SOCIETY

DEBATE PAPERS
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Lights Off!

Debunking the Myths of Power Liberalisation

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The Energy Project
Proyecto de la Energía

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EDITORIAL

Liberalisation of the power sector is on the increase on a global scale. Corporate–driven reforms are portrayed by international financial institutions and multilateral development banks as means of improving efficiency and attracting foreign investment for national economic growth. Most countries across the world are taking steps towards liberalisation, often to meet the conditions imposed by international donors or comply with regional or global trade agreements. This first issue of P*ower & Society* attempts to look beyond the promised benefits of this trend and debunk some myths about privatisation and deregulation of the electricity sector.

If the aim of liberalisation of the electricity market is really to improve the living conditions of ordinary people by lowering the cost and increasing the quality of a critical commodity, it has evidently failed. During the past five years, from New Zealand to California and from India to Brazil, the world has witnessed a series of disastrous blackouts, skyrocketing tariffs, growing corruption and the collapse of Enron Corporation, a veritable icon of power liberalisation worldwide.

The World Bank (WB), the International Monetary Fund (IMF), and the regional banks (ADB, AfDB, IADB, EBRD) have long been actively engaged in privatisation and deregulation schemes as influential advisors to national governments, as project developers and as providers of development loans. Too often, loan conditionality includes a one–size–fits–all model of power reforms applicable everywhere. In the countries of the South, these schemes are presented as policies aimed at reducing poverty. In the countries of the North, liberalisation has responded to conditions established by regional agreements such as the North American Free Trade Agreements (NAFTA) and the European Union (EU). The liberalisation of energy services is also a major ingredient of the threatening GATS agreement extension, which is currently being negotiated within the framework of the World Trade Organisation (WTO). Everywhere, the positive social impacts of privatisation and deregulation are far from obvious.

This liberalisation process is fuelled by ideological convictions and powerful private interests, rather than based on a serious and objective appraisal of all the available alternatives. In terms of performance, there is no scientific evidence proving that the private sector is a more competent and reliable producer and manager than the state. Indeed, empirical studies show no significant difference in efficiency between publicly and privately owned electricity utilities.

Power liberalisation generally means the loss of public authority and sovereignty over a strategic economic sector. Public assets fall to the hands of a few unaccountable and increasingly powerful multinational corporations. Despite the frequent claim about the negative impacts of public monopolies, these are often recreated by private foreign companies that manage to assume control over the whole chain of production, transmission and distribution of electricity, undermining government efforts to introduce competition and keep some authority over prices, supply and environmental standards.

Even while recognising that liberalisation may result in certain economic and social improvements in particular national contexts, the alleged overall and long–term benefits of privatisation and deregulation are not convincing. Possibly inefficient state–owned utilities may be replaced by unaccountable multinational corporations, beyond democratic control and potentially disruptive to a socially and economically crucial sector. Rather than blindly taking the prescription of liberalisation, policy makers should explore other alternatives for power reforms.

Affordable power, produced in the most environmentally and socially sustainable manner possible, is a basic right. When

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treated as a tradable commodity, the cost and supply of electricity becomes uncertain, as proven by multiple failed reforms summarised in this briefing paper. From an independent and progressive perspective it is necessary to critically analyse the myths promoted by the advocates of neoliberal power reforms. It is time to hold free–marketeers accountable for artificially–produced power crises and the social, economic and environmental mess they are making worldwide.

THE IDEOLOGY OF POWER LIBERALISATION

Throughout the past century, electricity was produced by vertically integrated utilities, which owned and operated facilities covering the three stages of power production: generation, transmission, and distribution. Most of these utilities were state–owned monopolies. Such a framework fostered the development of large–scale and centralised technological networks based on the logic of economies of scale (Byrne and Mun, 2001). Nearing the new century, this scenario underwent radical changes with the rise of the neoliberal paradigm.

Since the mid–1990s, more than 30 national, state or provincial governments worldwide have pushed electricity reforms (Besant–Jones and Tenenbaum, 2001). Some industrialised countries liberalised their power markets and rules long before similar reforms were implemented in the South. The United States deregulated the electricity sector with the passage of the Public Utilities Regulatory Policies Act of 1978, soon followed by similar measures in Chile (1982), New Zealand (1987), Norway (1991) and Argentina (1992). The global push for deregulation only came after the United Kingdom embarked on a radical process of privatisation and deregulation from 1989 (Thomas, 2001).

Latin America and Asia stand out as the two major targets of multinational corporations. During the 1990s, private foreign investment in the Latin American power sector totalled US$78b (EIA, 2002). The governments of the region have been the world's pioneers of privatisation in a much broader sense, including radical market–led reforms in pension systems, telecommunications, water and other basic services. The Chilean dictatorship (1973–1990) was the regional frontrunner, being the first to privatise and unbundle electricity generation, transmission and distribution, as well as the trailblazer in the opening–up to foreign capital. After the recent decade of rampant liberalisation, public–owned utilities (including municipal, state and national enterprises) across Latin America have been wholly privatised.

In Asia, governments generally have not engaged in power reforms as radical as those implemented in Latin America. They have chosen to rely more on independent power providers (IPPs) that outsource to the public grids. During the 1990s, the privatisation of the Asian electricity sector attracted US$ 93b in private investment (EIA, 2002). The participation of multinational corporations in the power sector has been limited mostly to generation, with transmission and distribution responsibilities still kept in the hands of governments.

In the 'developed' world, according to a report published in 2001 by the International Energy Agency, virtually all the industrialised countries of the Organisation for Economic Co–operation and Development (OECD) are already deeply engaged in power reforms. By the year 2006, more than 500 million people (and all large industrial users) in the OECD area will be covered by liberalised markets (IEA, 2001).

The changes in the institutional framework of the power sector are justified with many arguments. In the context of globalisation, it has been argued, the benefits of state–owned monopolies in the generation of electricity have disappeared and therefore such monopolistic frameworks would only hinder the introduction of new technologies and policy innovations. It has been also argued that governments in most countries no longer afford the necessary investments for expanding and improving power infrastructure. Where public ownership is not the only option, state interventions in tariff–setting and long–term planning have been blamed for 'distorting' the development of electricity markets (World Bank, 1999).

The International Energy Agency (IEA) contends that electricity reforms focused on free market competition offer significant potential benefits through improved economic performance, lower prices, and a broader array of choices to consumers (IEA, 1999a and 1999b). Sharing this view, the multilateral institutions conforming the Washington Consensus call for power sector reforms as a basic condition for financial assistance and development aid (Tellam, 2000).

In brief, a combination of powerful private interests and ideological assumptions lie behind the worldwide drive for power reform. The advocates of privatisation and deregulation argue that: 1) the private sector is more efficient than the public sector in matters involving resource allocation and overall development of the power sector; 2) greater competition and less state intervention will increase economic efficiency, consequently lowering electricity prices for consumers; 3) market–friendly policies will enable the electricity system to be subject to democratic control through consumer choice; and 4) liberalisation of the energy sector will enhance environmental quality by driving out old and dirty technologies. As the next section will attempt to demonstrate, these are elements of neoliberal mythology beginning to be debunked.

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DEBUNKING THE MYTHS OF POWER LIBERALISATION

Myth 1

After liberalisation the efficiency of the power sector will be improved

From the perspective of free–marketeers, efficiency could be conflated with profitability. In the context of a liberalised power market, profits are easily increased by simply raising the price of electricity. Higher efficiency, however, is not guaranteed by private ownership and management. An international empirical study on the performance of electrical utilities, which compared production costs of energy companies from 14 countries, reasoned that there is no significant difference in efficiency between the state and the private sector. Regarding generation, the study found strong empirical support for the view that, given the technology employed, privately–owned and publicly–owned plants were being operated equally efficiently. Regarding transmission and distribution, the results showed that there was no real difference in technical efficiency between the two types of ownership. The report concluded that *"in the electricity supply industry as a whole, it is likely that the biggest gains are from restructuring and better government management of state–owned electricity assets"* (Pollitt, 1995).

In terms of the quality of the service provided by energy companies, the alleged improvements to be achieved after deregulation and privatisation have been brought into doubt by a worldwide series of blackouts and power shortages in cities,

states and countries that went ahead with liberalisation, including the paradigmatic examples of Auckland, California and Brazil (see boxes 1, 2 and 3).

In the search for profits, consumer rights' become a secondary concern. In February 1999, seven year after privatisation began in Argentina, the Buenos Aires power distributor Edesur (a consortium formed by Energy Corp. from USA, Endesa from Spain, Enersis and Chilectra from Chile, and the local Perez Companc group) experienced a ten–day power cut that left 500.000 people in the dark and without air–conditioning and water at the height of the summer. In the 1.000 pages of the privatisation contract only two referred to consumers. The blackout was triggered by a fire at a sub–station, but the company lacked the technical capacity and managerial skills to restore power in time, due to drastic cuts in labour and maintenance costs implemented after privatisation (Cifarelli, 2000).

Despite their market–oriented discourse, private corporations do not hesitate to

Box 1

New Zealand: The dark side of privatisation

One of the world's most radical experiments in market–led power reforms failed to deliver a proper service to the residents of New Zealand's main city. From February to May 1998, the entire central business district of Auckland – the country's main business centre – was completely blacked out by the failure of the main power feeds. Businesses had to use portable power generators or relocate and thousands of workers were forced to stay home. Mercury, the privatised local power company, had to spend NZ$128m in compensation to angry customers and repair. In July 1998, Mercury announced that it could not afford to pay a dividend, having gone from a profit of NZ$82.1m in 1997 to a loss of NZ$25.3m in the year to March 1998. An official inquiry showed that its executives and engineers had known about the vulnerability of the power feeds for several years, but the company had been too preoccupied with its take–over mania to make plans for an alternative feed (Rosenberg and Kelsey, 1999).

The blackout was just one of the multiple impacts caused by New Zealand's textbook process of structural adjustment, which had began in 1984 and covered every potentially commercial public service. What has distinguished this process from similar programmes imposed on Southern countries is that it was carried out not as a condition of the World Bank, the IMF or regional development banks. It was, more exactly, the result of a dramatic ideological mutation within the ruling Labour party, which in the 1980s traded its traditional social democratic ideas for Thatcherite liberalism. After 1990, the process was continued by a purportedly free–enterprise, but traditionally interventionist, conservative national government.

The privatisation of electricity started in 1986, when the then Electricity Department was converted into Electricorp, a state–owned enterprise divided into three separate operational units covering electricity generation, transmission and consumer retail. Competitive markets were intended to operate at all levels. In 1993, the government set up a host of regionally–based power companies, with shares being offered to electricity consumers. From there, it was only a short step to the full takeover of electricity supply by a handful of foreign corporations.

The strongest resistance to the privatisation of energy has come from local communities. Citizens' organisations have pressured their local legislators to retain ownership of public assets and municipal councils have been embroiled in heated debates. Specific market–friendly features of New Zealand law have made it difficult for communities to achieve their goals, but the most successful have been those who have secured local government ownership of their electricity infrastructure.

Box 2

Brazil: Easier to blame Saint Peter than energy corporations

The hydroelectric potential of Brazil has been compared to Saudi Arabia's oil wealth. The country's mighty rivers generate the cheapest energy in the world: the average cost from recently built hydroelectric plants is in the range of US$16 per megawatt/hour, and for those with construction costs already paid off only half that. Since the 1950s, Brazil's governments have invested heavily in hydroelectric plants, which by the mid–1990s produced 91 percent of national power consumption. Unsurprisingly, Brazil became a global leader in the hydroelectric industry, ranging from the planning and building of dams to managerial services for energy projects around the world[1] Nevertheless, between May and August of 2001 the country suffered its worst ever energy crisis, with heavy economic losses and a three–month period of constant blackouts and mandatory power rationing measures (Costa, 2001).

During the previous four years Brazil had experienced the lowest rainfall since the 1970s, and therefore President F.H. Cardoso was somehow justified in blaming the energy crisis of 2001 on "*Saint Peter's moods*." However, the roots of the crisis can be traced back to the so–called 'controlled disintegration' of the Brazilian energy system of the early 1990s. The process began in 1993 with the privatisation of the distribution companies. The rush was evident in the creation of the National Electricity Agency (ANEEL), the regulatory body and centerpiece of the new model, during the privatisation process. The result was the dismemberment, British–style, of the formerly integrated system, including the gradual deregulation of generation and transmission.

A crucial ingredient of the reform was the modification of the Brazilian energy structure in order to make it virtually captive to imported natural gas. Under the new liberalized scheme, natural gas would provide 25 percent of the generating capacity, but this share would be sufficient to control the whole system, as was demonstrated during the recent energy crisis.

The power crisis highlighted the strong influence of the natural gas cartel of Enron and other American and European multinationals over the federal government. The gas cartel is a major player in the expansion of the energy chapter of the Free Trade Area of the Americas (FTAA) agreement, pushed by the US government and corporate lobbies. The provision of natural gas to Brazil is highly dependant on gas exploration in Bolivia, which is controlled by Shell, Enron, British Gas, and other energy corporations. These same companies are also likely to control reserves recently discovered in Peru, whose future production could be connected to the Brazilian system as the first segment of a huge hemispheric network.

Before the outbreak of the crisis there were various warnings in written reports issued by specialists, documenting the impending collapse of accumulated supply in the reservoirs. The government decided to bet on a deluge that never came, while the process of massive installation of privately–controlled natural gas plants was developed. The crisis could have been much greater if Brazil had not had a fairly efficient power saving programme, which resulted in savings of more than 5.000 gigawatt/hour since its creation in 1985 (Honty, 2002).

Prior to the crisis, the government was not allowed to invest in new plants and transmission lines, despite funds being readily available. Under an agreement signed in 1999 with the International Monetary Fund, the state–owned electrical companies, which controlled the generation and transmission, were prohibited from making new investments. Such figures would be counted as part of the 'public deficit', thus endangering the government's ability to meet the public budgetary surplus prescribed by the IMF.

In brief, the evolution of the power crisis in Brazil showed that the liberalisation of the energy sector was technically and financially unjustified. It was based on pure ideology and in concordance with concrete business interests of foreign corporations. Brazil was pressured to give up its enormous comparative advantage in the sector, moving from hydroelectricity – cheap and based on internal sources – to thermoelectricity – expensive and dependent on external sources. Moreover, strategic planning for the development of the energy sector, which had been a state responsibility since 1950s, was transferred to foreign corporations. In order to accomplish this operation, a power shortage was not only tolerable, but desirable. Only the expectation of an artificially produced crisis could justify such irrationality (Benjamin, 2001).

Box 3

United States: Learning from the failed deregulation in California

The claim that electricity deregulation will improve people's lives by increasing the provision and lowering the cost of power has collapsed even in the country that leads the global process of economic liberalisation. There is plenty of empirical evidence from across the United States: whereas consumers have been subjected to higher prices and lower quality, energy corporations in deregulated markets have made record profits. In California, unscheduled cuts at power plants have increased 461 percent since deregulation, including a series of catastrophic rolling blackouts in 2000 and 2001 (Slocum, 2001).

The Californian crisis showed how a cartel of energy companies was allowed to steal billions of dollars from consumers, businesses and taxpayers, ranking as one of the greatest public policy disasters of modern American history. The elimination of state controls over electricity rates after 1996 enabled energy corporations to manipulate supplies, manufacture artificial shortages, inflate their stocks and thus reap windfall profits. In exchange, the deregulation of electricity enacted in 1996 will cost Californians approximately US$71b, or US$2.100 for every man, woman and child in the state, considering the money spent in bailouts for utility companies, long–term power contracts, and related expenses (FTCR, 2002).

In California, electricity plant owners intentionally engineered shutdowns in order to squeeze the supply and drive up wholesale prices. In addition, the California Independent System Operator, a state–chartered entity that acts as a traffic cop for the flow of electricity, found that power producers deliberately overcharged the state's utilities by US$247m in December 2000 and US$315m in January 2001 (Slocum, 2001)

Regulation of utilities had been in place in the United States since the early 20th century to protect consumers from the capital–intensive monopolies that owned power plants and transmission lines. Under the old system, still in effect in most American states, regulation meant guaranteed profits for utilities but also stable prices for consumers and a reliable supply of electricity. This scheme started to change in the early 1990s, when large industrial users of electricity began clamouring for deregulation so they could shop for cheaper prices outside their own utility's coverage area.

With deregulation, the law of supply and demand was enforced and consumers became vulnerable to wild price swings and supply shortages. Utilities were forced to sell their power plants to third parties, mutating into retailers who purchased electricity on the wholesale market and sold it to their customers. Lawmakers assumed that new electricity retailers would spring up to compete with the established utilities, and that this competition in the open market would keep prices down. The new owners of the power plants were left unregulated, however, so California lost control over both the wholesale prices new charged by the power marketers and the amount of electricity produced. Given that, only a few corporations were purchasing plants in newly deregulated markets, those corporations could control supply and charge artificially high prices.

The new electricity market brought windfall profits to power plant owners and traders. Only the Federal Energy Regulatory Commission had the power to regulate California's wholesale prices, but opted for a hands–off approach to the growing crisis. Energy giant Enron, an active player on the Californian market, was one of President Bush's major financial backers.

Alarmed by the chaos in California, many American states scheduled to deregulate have slammed on brakes. Arkansas has delayed implementation for another year. Nevada has halted it indefinitely. Montana will likely significantly alter its deregulation law after experiencing skyrocketing prices. New Mexico will delay it for another five years, and Oklahoma lawmakers are considering delaying implementation for an additional two years. Still, other states believe that quickly building new power plants will shield their state from a California–like crisis. Across the country, policymakers are being pressured towards stronger regulation power, conservation measures, and renewable energy sources.

While the crisis unfolded, Los Angeles and the other 30 Californian cities with municipally owned power remained the only unaffected. The Californian crisis has been a boom for municipalisation of power across the country, including a series of ballot initiatives on local public control of generation and distribution of power in San Francisco, New Orleans, Portland and other major cities. In California itself, a broad coalition of concerned individuals, environmentalists, consumer groups, unions, community groups, and small businesses is engaged in the *Power to the People* campaign for clean, affordable, and public power.

turn to the public sector to cover back up costs wherever and whenever possible. In November 1999, after a cyclone ravaged the coast of the Indian state of Orissa, the American firm AES demanded either US$60m in compensation from the government or be allowed to triple power tariffs, claiming that the storm had hit its uninsured facilities (Ghosh, 1999).

Myth 2

After liberalisation electricity will be cheaper

Liberalisation tends to be sold to the public as a way to lower prices for consumers. International evidence indicates however that the inverse could be true. After all, deregulation and privatisation producers and distributors often have no restrictions on the prices they can charge for electricity, and regulators are not always able to set minimum energy reserve requirements to prevent power shortages. Power marketers argue that prices and reserves would be set at optimum levels by the market itself, but in the search for higher profits private generators can restrict supplies by reducing the amount of electricity produced, creating shortages and price hikes.

In California, when deregulation was implemented in 1996, the liberalisers claimed that prices would fall at least 20 percent, but after the crisis of 2000, when wholesale prices skyrocketed, the same advocates argued that consumer rates should increase even more to encourage further competition. Meanwhile, an opposite example was set by publicly owned electric power companies. While private corporations argued for higher prices, California's 30 communities with municipally owned and controlled power were able to offer the same electricity at lower prices (Hauter and Slocum, 2001).

Enron and other power traders drove up prices during the California power crisis through questionable techniques that company lawyers said *"may have contributed"* to severe power shortages, according to company documents released on May 2002 by US federal regulators. *"These documents prove that these companies can manipulate the market,"* said the president of the California Public Utilities Commission. In one strategy described in the memos, Enron would buy power from a state–run exchange for US$250 a megawatt–hour – the maximum under the price caps – and resell it outside the state for almost five times as much (Oppel and Gerth, 2002) .

In Europe, the liberalisation of the energy market has certainly led to price reductions, but mainly for the business sector. It has been argued that *"the effect of liberalisation has not been an overall lowering of the price of electricity, but simply a 'zero–sum' game in which domestic consumers have experienced a relative increase in prices which has enabled business consumers to enjoy reduced prices"* (Hall, 2001:8). In March 2002, at the Barcelona summit, European leaders agreed to change existing EU legislation in order to liberalise around 60 percent of the gas and power markets by 2004, without any consultation with citizens in member countries.

Myth 3:

Power liberalisation is good for the environment

In the long run, liberalisation creates economic incentives for power suppliers to sell more electricity. The main concern of private corporations is always to maximise profit, without much thought given to environmental or social impacts. Privatisation and deregulation provide incentives to keep cheaper albeit polluting fossil fuel power plants running longer. Under the framework of free market rules, the new owners will be disinclined to shut down old plants and replace them with cleaner ones. Instead, the old facilities will keep

running. New plants will be built too, because liberalisation will encourage a higher demand – especially from bulky industrial consumers. The likely long–term effects of liberalisation will be increasing emissions and falling air pollution standards. Moreover, since a deregulated electricity market is inherently volatile and uneven, with some power suppliers holding a larger capacity to control the market, a larger reserve margin of power is necessary. Producers will then push for relaxing environmental regulations and authorisation to build more power plants and transmission lines.

Extensive international evidence has shown that, without proper governmental intervention, the liberalisation of the energy sector results in the degradation of ecologically sensitive areas, falling health standards (see box 7), and the global climate being further threatened by more greenhouse gas emissions.

Myth 4:

Governments can choose: nobody imposes privatisation and deregulation

Privatisation and deregulation are imposed on governments on the basis of ideology and donor pressure, rather than on a careful analysis of local situations and likely benefits. The liberalisation of the power sector is too often a condition set out in the standard 'letters of intent' governments are obliged to write to the WB, the IMF and regional development banks.

The 'Washington Consensus' has endorsed the politics of liberalisation in a rather simplistic manner. The 1997 World Development Report, *The State in a Changing World*, seemed to mark an abandonment of the WB's support for privatisation in favour of a strong and vigorous state. A closer analysis of this and other official documents suggests however that little has really changed. In the above–mentioned report the Bank argued that privatisation and deregulation should not be debated, and that people should be 'persuaded' of reforms' benefits through 'consensus–building'. In September 1999 the IMF and the WB introduced the so–called Poverty Reduction and Growth Facility (PRGF), which replaced the widely criticised Enhanced Structural Adjustment Facility (ESAF) as the 'new' framework for loan concession. The die–hard ideological bias against the public sector was confirmed by the events leading up to the 2001 power crisis in Brazil (see box 2), when both the IMF and the WB imposed severe limitations on public investments that could have prevented the crisis.

The major new agent of global liberalisation is the WTO. When energy is no longer a *"service supplied in the exercise of governmental authority"* the sector becomes subject to certain WTO rules that allow foreign corporations to operate without concern for national regulations (Vander Stichele, 2002). A series of leaked confidential documents drafted by the European Commission for the ongoing negotiations on the liberalisation of trade in services (GATS 2000) unveiled the EU demands presented to WTO member states – USA, Japan, Canada, Mexico, Brazil, Colombia, Uruguay, South Korea and India, among others. The leaked documents show mounting pressure to open up the energy sector to international competition, including the complete deregulation of generation, transmission and distribution of power (http://www.gatswatch.org).

Privatisation is also a condition imposed on the poorest countries of the South for inclusion in the Heavily Indebted Poor Countries (HIPC) Initiative. In order to qualify for debt relief, recipient countries have to demonstrate their acceptance of structural reforms drafted by the WB and the IMF and be able to write a so–called 'Poverty Reduction Strategy Paper', generally littered with commitments to privatise (Bayliss, 2002).

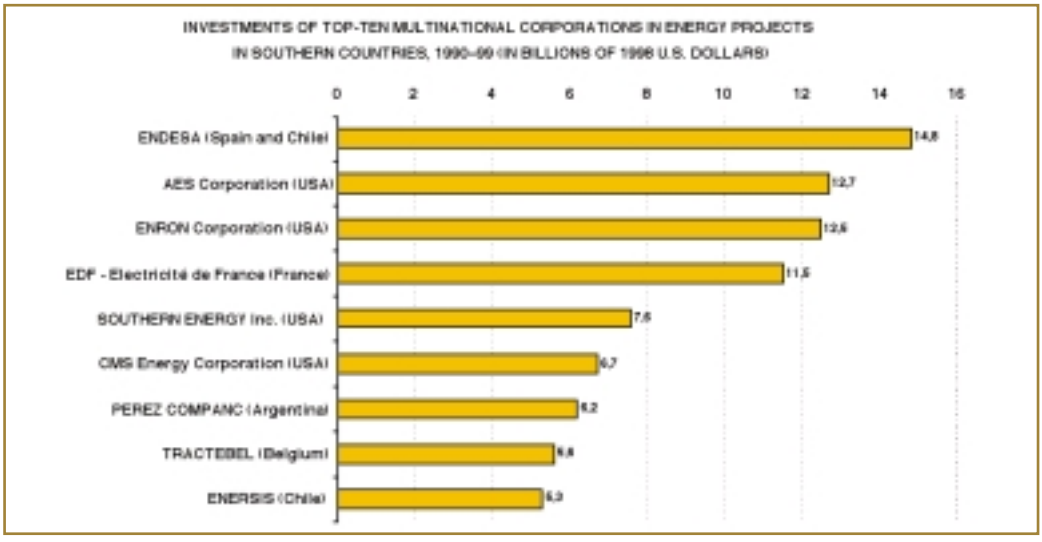
Myth 5:

Power liberalisation is good for democracy

Liberalisation facilitates greater corporate control of national economies and politics. Private corporations are able to recreate previously public monopolies. In the long term, multinational corporations become increasingly powerful and energy supply becomes vulnerable to the shifting interests of global corporations. As chart 1 shows, the international electricity market is controlled by a small group of American and European multinationals. The first two on the list have engaged in a sort of division of the world, with Endesa being the main investor in Latin America (see box 4) and AES taking over much of the liberalised markets of Eastern Europe, Africa and Asia.

This is not a process limited to the poor countries of the South. In Europe, the ongoing concentration of corporate power means that the EU will be dominated by six or seven electricity companies by 2005. These corporations are already exceptionally well placed to operate jointly or to form a cartel to pressure governments, control prices and limit competition. In Belgium, for instance, the private monopoly Electrabel has agreed with its German competitor RWE to share, on a 50–50 basis, the operations of the German–owned BASF (Hall, 1999 and 2001). In their drive for profit, corporations exclude no means to avoid competition. One basic strategy has been to buy up possible competitors, despite governments' attempts to unbundle the electricity sector as a way to avoid monopolistic control of the market. Companies have shown their capacity to overcome regulations through a broad range of acquisitions, mergers, speculative trading and other more dubious market strategies. Not surprisingly, the Enron debacle exposed the strong association between privatisation and deregulation, on one hand, and corruption and cronyism on the other (see box 5).

In 2000, what was supposed to be a milestone in the history of privatisation in the Philippines became a massive scandal. Two left parliamentarians revealed that



Note: The chart only includes projects in which the sponsor has at least a 15 percent stake. Figures for project investments refer to total investment, not private investment alone.

Source: Own elaboration, based on data published by Izaguirre (2000)

Box 4

Colombia: The second Spanish conquest *

Privatisation in Colombia has been littered by serious claims of corruption and unjustifiable benefits for multinational corporations. A great share of public assets is being transferred into the hands of Spanish companies, which already control much of the privatised financial and electricity sectors. The reach of such advances can be defined as 'the second Spanish colonisation'.

During the crisis of the 1970s and 1980s, Colombia, a country with large oil reserves, had to import oil at a cost of US$35 per barrel. This factor coincided with the policy of multilateral development banks to provide easy loans for hydroelectric megaprojects in the region, favoured in this case by the country's immense hydro resources. Colombia increased its foreign debt, therefore, to build huge dams and reservoirs in the Andean region. In the mid–1980s – when Colombia had become an oil exporting country – the international price of oil fell and the servicing of the debt continued.

After the passing of the new political constitution in 1991, the process of privatisation of energy assets began. Legal restructuring was required to prepare the ground for market competition, supposedly aimed at greater efficiency. In practice, it meant the massive handover of an extremely strategic sector. The so–called Electric Act (*Ley Eléctrica*) of 1994 facilitated the process with new arguments for privatisation, such as an allegedly clientelistic and corrupt bureaucracy that, besides contributing to the inefficiency and fragility of the national energy infrastructure, increased operating costs to above 300 percent en certain cases. This was true, but only for a limited number of the publicly–owned power companies.

The privatisation process created some national scandals, such as the El Guavio hydroelectrical affair, which is known in Colombia as 'the commercial debacle of the century'. The construction of El Guavio began in the 1980s with a US$359m loan from the World Bank. After ten years, and many stories of corruption, overcharging and bad administration, the first stage of the project was completed in 1993, at a cost of US$2.400m, plus the US$140m required for the second stage.

Three months later, the state–owned company Interconexión Electrica S.A. (ISA) was forced to sell 40 percent of its shares in El Guavio to the government of the Capital District (Bogota), receiving only US$240m provided with an IADB loan. In other words, after an accumulated investment of over US$2400m, ISA was left with only 30 percent of its original investment. In three months the company was forced to give away US$720m, without obtaining any benefit in return.

During the inauguration of the first stage of El Guavio, President César Gaviria had decreed that, in order to avoid further mismanagement, the energy sector should be transferred to the private sector. That is how, in 1997, the Spanish Endesa and the Chilean Enersis (itself associated with Endesa) bought a package that included the hydroelectrical plants El Guavio (1.150 MW), Guaca (311 MW), Colegio (300 MW), Paraiso (270 MW), Laguneta (72MW), Salto II (70 MW) and Canoas (45 MW), plus the thermoelectrical plants Zipa II (38 MW) and Zipa III, IV and V (66 MW each). In brief, Endesa and Enersis paid only U$S951m for an installed power capacity equivalent to 2.454 MW (more than 60 percent of the total national capacity), equivalent to less than half the costs of El Guavio alone. This rampant privatisation meant giving away expensive facilities paid for by all Colombians to a foreign business group, without any gain in terms of expansion of the power infrastructure, improvements in quality of life or better energy provision. On the contrary, blackouts have become a daily story and tariffs have gone up.

The story does not end here. The government is now preparing the privatisation of 14 regional utilities along with the national transmission and distribution grid, currently managed by ISA, which is by all accounts one of Colombia's most profitable companies.

** Prepared by TNI Energy Project partner CENSAT–Agua Viva*

after the passing of the Bill to privatise the National Power Corporation, their offices received an unsolicited contribution of US$12.500 each. They had voted against privatisation, leading to speculation that those who had voted for it received much more. The payoff scandal was not simply another case of corrupt politics in the South. It exemplifies the tremendous pressure from external donors to privatise state–owned enterprises. Allegations of the Asian Development Bank's direct complicity in the bribery scandal is by no means preposterous, since the ADB itself had admitted to investigating 55 cases of corruption involving its staff and executing agencies in the Asia–Pacific region (Bello, 2000).

In terms of democratic decision–making, governments do not always have the proper information to assess the possible impacts of liberalisation. A recent study on the advances of Endesa in The Netherlands has found that the Eindhoven City Council had just one week to decide whether to contract with Endesa, while they had hardly any information about the company and the privatisation process. There was no company profile available and the local legislators responsible for the deal had simply assumed that prices would go down and no jobs would be cut. Endesa, however, clearly had a strategy to cut the total number of its employees by 13,6 percent between 2001 and 2003 and had already diminished employment in its operations in Latin America by 6.8 percent between September 2000 and September 2001 (Vander Stichele, 2002).

Governments are often driven to offering increased concessions to attract investors or meet the requirements of donors. Such

Box 5

Enron's Pawns: How Public Money Financed Privatisation Worldwide

According to a recent report published by the Sustainable Energy and Economy Network (SEEN),[2] the now–fallen giant "*marched into risky projects abroad backed by the deep pockets of government financing and with the firm and at times forceful assistance of U.S. officials and their counterparts in international organizations*" (Vallette and Wysham, 2002: 3). Enron Corporation was able to become a global giant only because government agencies, both American and foreign, gave it more than US$7b in public financing over the past decade.

The U.S. government and international agencies like the World Bank forced Southern countries to engage in privatisation and deregulation processes aimed at benefiting Enron bids. They even conditioned future development aid on cooperation with the American company. At home, crooked political relationships enabled Enron to tighten its grip at forcing through deregulated energy policies. Overseas, Enron acquired pipelines, transmission lines and power plants. The strategy was simple: "*the World Bank would issue loans for privatization of the energy or the power sector in a developing country or this as a condition of further loans, and Enron would be among the first, and often the most successful, bidders to enter the country's newly privatized or deregulated energy markets*" (:12).

American official agencies such as the Overseas Private Investment Corp. and the Export–Import Bank backed 25 Enron power projects with US$3.7 billion in loans and guarantees. The World Bank provided additional US$760m, the Inter–American Development Bank US$751m, and the Asian Development Bank US$26m. Other international development banks and governments granted $1.9b to Enron's global expansion. In total, Enron received $7.2b in public money for 38 projects in 29 countries. The corporation had no problem using public money, despite being a leading advocate of privatisation and deregulation at home and abroad.

concessions include granting 'special' tax benefits, such as the demand presented by AES to the government of Honduras to be granted full free trade zone exemptions for the construction of a power plant. Another example is AES's request to the Ugandan authorities for the prompt reimbursement of value added tax paid during the construction of an additional power plant (Bayliss, 2002).

Despite their efforts, foreign corporations do not always succeed in their attempts to pressure Southern governments. In April 2002, Ecuador announced the cancellation of the sale of seven electricity distribution companies, following the withdrawal of the corporations qualified to bid – Union Fenosa of Spain, US–based AES, and Pecom of Argentina – after strong resistance from local municipalities and a negative ruling by the Constitutional Tribunal (Hedgecoe, 2002). Likewise, the Mexican Supreme Court ruled in March 2002 against further deregulation of the national electricity market, stopping the expansion plans of Electricité de France and the Spanish firms Iberdrola and Union Fenosa (Aznarez, 2002).

Myth 6:

Privatisation and deregulation are good for the poor

During the third preparatory meeting for the coming World Summit on Sustainable Development (WSSD), a panel of international specialists reported that two billion people in the world lack access to modern energy services, particularly in rural areas.

Box 6

Canada: A steep price for squandering hydro wealth in Ontario

According to a recent study by the Canadian Centre for Policy Alternatives, the privatisation of Ontario's power sector has already meant giving away billions of Canadian dollars in public assets. There is every likelihood that this will be followed by enormous increases in the price of electricity and a decrease in the budget available for social services.

Ontario's electric power system, Hydro One, generated a practically risk–free cash flow of C$950m in 2000 and 2001, and the profits for 2002 are expected to be substantially larger. Hydro One is worth at least C$10b under existing rates, and more as its profit margin grows. A conservative figure for the power potential of Niagara Falls and the other hydro assets of the province (at current market prices) is C$16.7b. Hydro One, yet, is to be privatised this year for only C$5.5b.

The sale at a massive loss will not be the only damage. The massive giveaway of the provincial utility will boost the cost of electricity in Ontario up to levels that prevail in the United States. The North American Free Trade Agreement (NAFTA) now permits American corporations south of the border to compete for Canadian power – and the only limit on that competition will be the capacity of the transmission lines to move electricity south. Following a market–driven strategy, Hydro One will increase that capacity substantially, and the price Ontarians pay for their electricity will rise correspondingly.

The profits that such hydro wealth could have earned without any rise in electricity rates will be lost. They could have been used to support health care, education and other vital services – as is being done with the profits of public power utilities in the Canadian provinces of Quebec, Manitoba and British Columbia. But instead profits generated by electricity sales will flow out to foreign investors. The privatisation of a profitable public utility "*shows ideological blindness, incompetence or a complete disregard for the interests of the people*" (Gordon, 2002:1).

Box 7

India: The Controversy over Enron Dabhol Power Project *

The controversy over Enron's Dabhol power project in the Indian state of Maharashtra is now in its tenth year. It has gone through a series of phases demonstrating almost every conceivable twist. Apart from Enron, two other American multinationals, Bechtel and General Electric, have also been involved in the project.

Dabhol was India's first private and foreign energy project, and the largest power project to be run on liquefied natural gas. The state government and the public utility entered into a power purchase agreement (PPA) and other agreements with Enron that were kept secret for a long time. When local organisations came to know about the high cost of electricity and the government started to forcibly acquire lands for the project, people started organising and protesting at the site of the project and elsewhere in the state. A wide cross–section of stake–holders have been involved in diverse activities to oppose the project.

In response, Enron effectively took over the state's machinery to crush all the protests. Openly using Enron's resources (including the company's helicopter), the police applied brute force against the demonstrators. As a report by Amnesty International described, the police stormed houses of local fishermen and even beat up children, old people and pregnant women.

When Phase I of the project started producing electricity, the façade of the lies began to crack. In October 2000, the government had to acknowledge that Dabhol was a white elephant. It was clear that the total payments to Enron would go up to about US$1.3b per year, whereas the total yearly revenue of the utility was just 2.4b Rupees. It also became clear that there was no demand for Enron's power. The state government had given a guarantee of payments to Enron, but it was impossible for the government to pay as its own fiscal situation was precarious. In short, it became apparent to everybody that a single project had pushed the utility and the state to the verge of bankruptcy. When the government tried to negotiate with Enron the corporation initiated legal action. Finally, under internal pressure from left parties and public protest, the state had to take measures against the project and cancel the PPA. Enron left no stone unturned to pressurise Maharashtra into submission. It took legal action in Bombay, Delhi, and London, and ran massive advertising campaigns. It brought in pressure through two US presidents and the British prime minister.

The high–level Committee appointed by the state government produced a report scathingly critical of Enron and the manner in which the project was sanctioned. The Committee characterised the process as a "*broad and consistent governance failure*." It further added that such a governance failure at all levels, in political and administrative spheres, and in the regimes of different parties, cannot be explained as a coincidence and suggested that concerted efforts must have been made to exercise "*undue influence*". Even Enron has admitted to this change inadvertently, when its global vice–president told the US congressional committee that Enron spent US$60m to "*educate*" Indian officials.

With the fall of Enron Inc. in America, operations in India became more nefarious. Though it was announced that Enron would bring foreign capital, the company had in fact borrowed mainly from publicly–owned financial institutions in India. Enron started double crossing with these lenders. It took away the microprocessors operating the plant without informing the lenders. It also came to light that the naphtha storage tanks built by Bechtel were leaking. After numerous local complaints, Enron had to appoint its own consultants to investigate. The pollutants had leaked into nearby wells, and the consultants reported that 80 percent of the population that consumed this water might fall prey to cancer in the next decade. Enron's management suppressed the report and kept on lying to the courts, government, and local communities.

The Enron saga is yet not over. The officially appointed Enquiry Commission is still to start proceedings. Many skeletons lurk the cupboard. Maharashtra has learned a grand lesson about what privatization really means. It is now clear that privatisation would not fulfil the promised manna of efficiency and public benefits. Rather, the big corporations would enter into an unholy alliance with corrupt politicians and officials and resort to all manner of inhuman and predatory means to maximise their profits.

** Prepared by TNI Energy Project partner Prayas*

The meeting concluded that this is *"one of the most pressing developmental issues facing the world today"*, and called for a *"confluence of policies at the local and national level"* (Gayatriiyer, 2002). Unfortunately, from the perspective of the mainstream development agencies represented in this process, such confluence relies heavily on the failed policies of liberalisation.

Maintaining and extending the supply of power to unprofitable social groups is not the mission of for–profit private compa-

Box 8

South Africa: Power to the powerful – but the people also have power *

"*It's a criminal gang,*" announced Jeff Radebe, the African National Congress (ANC) Minister of Public Enterprises, at a December press conference. He was blasting activists of the Soweto Electricity Crisis Committee (SECC) for their '*Operation Khanyisa!*' – *reconnect the power*! campaign. Over six months, more than 3,000 families had their electricity supplies illegally switched back on, after being left in darkness when they could not afford to pay their enormous monthly bills. SECC volunteers risk electrification to do the work, and charge their neighbours nothing for the service.

The most important South African parastatal, and the fourth largest non–petroleum power company in the world, is the Electricity Supply Commission (Eskom). In the process of privatisation, it proudly claims to be one of New South Africa's success stories, having provided electricity to more than 300,000 households each year. Yet, many tens of thousands cannot afford the full–cost–recovery policy adopted in 1998. The neoliberal policy of cutting those who cannot afford their bills was especially unfortunate, because virtually all black South Africans were denied Eskom's services until the early 1980s due to apartheid. Even US$100m worth of World Bank loans to South Africa for expanding Eskom's grid between 1951 and 1966 explicitly left out all black neighbourhoods, and is one reason that local activists demand reparations from the Bank. The townships were, as a result, perpetually filthy because of coal and wood soot.

Eskom has become a major target of dissent. Having fired more than 40.000 of its 85.000 workers during the early 1990s, the utility tried to outsource and corporatise several key operations in recent years, drawing the ire of workers. Moreover, Eskom gets sustained heat from environmentalists who complain that its massive coal–burning plants still do not have enough sulphur–scrubbing equipment. Alternative renewable energy investments, especially given the country's abundant solar and wind power, have been negligible, compared to the tens of millions of dollars Eskom is spending on developing a prototype pebble–bed nuclear reactor, alongside a British partner which is teetering on the edge of bankruptcy.

It is the residual aura of apartheid–era power, however, that so many South African consumers object to. The most prominent critic is Trevor Ngwane, who was formerly an ANC councilor for Soweto, until the ruling party expelled him in 1999 for opposing Johannesburg's privatisation strategy. Says Ngwane, "*We believe that the drive to privatise — by milking more from the poor — seemed to instil in Eskom the most anti–social, anti–environmental strategies. We also believe that the tide has turned internationally against privatisation. 'Renationalisation' is now a popular sentiment.*"

Ngwane says that *Operation Khanyisa* has worked. In October 2001 Eskom was sufficiently intimidated to announce it would no longer disconnect those who could not pay: "*People's Power was responsible for Eskom's u–turn. We mobilised tens of thousands of Sowetans in active protests over the past year. We established professional and intellectual credibility for our critique of Eskom, even collaborating on a major Wits University study.*"

** Adapted from Bond (2002).*

nies looking for a secure and as large as possible commercial return. Commercial companies are unwilling to invest in rural areas, and if tariffs are too low to make a profit they will try to increase them, even if that clashes with the social or economic aims of governments. Even after privatisation and deregulation, therefore, governments are responsible for the provision of affordable electricity to every social sector. The options available are limited: governments can subsidise private electricity companies or – less likely – they can impose limits on what these companies can charge. Price levels are, after all, essentially a political issue. There is no 'market price' when the post–liberalisation scenario usually implies operating without competition (Bayliss, 2001).

The liberalisation of the power sector has had particular effects in the so–called 'transitional' societies of Central and Eastern Europe. On the one hand, the abrupt removal of subsidies promoted the development of energy–efficient technologies, enabling some positive environmental impacts. On the other hand, the elimination of subsidies caused serious social repercussions. Higher electricity tariffs in a context of growing poverty and falling public revenues have hindered access to the grid for large segments of society. The ruthless commercial practices of the new electricity providers have even been praised by the World Bank. In a document appraising AES operations in Georgia, WB officials wrote that *"the imaginative method used by this company to collect arrears from defaulting consumers is worthy of note."* While it was not possible to disconnect individual apartments for payment default, AES devised methods to disconnect supply to entire apartment blocks, and according to the WB *"by a strict adherence to such a routine, the company was able to discourage defaults and improve collection performance."* In the freezing Georgian winter that means forcing the poor to allocate up to 40 percent of their monthly family income to pay their electricity bills (Kochladze, 2001).

Similarly unorthodox and ruthless methods have been applied in Moldova. Union Fenosa, the Spanish company that bought 60% of the country's electricity network, in 2000 runs a compulsory inventory of electrical appliances in people's flats. The more appliances owned, the higher the bill is likely to be. From the labour movement's perspective, this is a violation of human rights, but according to a Union Fenosa spokesperson, *"people have to realise we are a commercial company, not philanthropists."* As in Georgia, since the collapse of the Soviet Union, prices have soared beyond the means of broad segments of the population. Some cut back, using electricity sparingly. Many others are forced to trick the metre reader and establish informal connections to the power grid (Rainsford, 2001).

Rising and volatile prices pose a particular burden for low–income consumers even in the richer Northern countries. In the United States, the average low–income consumer devotes 19 percent of household income to energy. For the poorest of those families, most of whom are elderly or single–parent families, the burden is a quarter of their income or more. An increase in electricity bills *"is simply not manageable without cutting back on food expenditures, falling into arrears on rent, or going without needed medicines"* (Oppenheim, 2001:13).

The privatisation of profitable utilities usually leads to a loss of public revenues that could have been used to subsidise social programmes run by the state. A 1998 WB study on privatisation in Africa, which reported nearly 2.700 transactions in sub–Saharan Africa by the end of 1996, found that many of the companies that had been privatised had not been a financial drain on government resources (Campbell–White and Bhatia, 1998). The loss of important sources of state revenues occurred in Canada and Colombia, as well (see boxes 4 and 6). It has also been a major reason behind the long and largely successful struggle of the

Uruguayan trade unions in support of the commercially viable publicly–owned power company, which has included a series of plebiscites and referendums against privatisation and deregulation (AUTE, 2001).

Regarding employment, the international labour confederations ICEM (chemical, mining and energy) and PSI (public services) have presented extensive evidence of the negative impacts on jobs of liberalisation in the power sector. These claims are supported by a worldwide study published by the International Labour Office (ILO), which concluded that *"employment losses almost always accompany adjustments in the public utilities, both under privatization and under restructuring schemes"* (de Luca, 1998:xii). The same report argued that job cuts may occur before privatisation – as governments try to render public utilities more attractive to potential buyers – and highlighted the fact that *"it is not unusual to see the workforce slashed by 30 to 50 percent"* (:xii).

[1] Like in most countries of the Global South, the hydroelectricity alternative has had significant social and environmental impacts across Brazil. The construction of dams has caused the displacement of around one million people, without any kind of economic compensation. The artificial reservoirs have worsened health conditions and have altered the ecological balance of surrounding regions (Honty, 2002).

[2] SEEN is a joint project of the Institute for Policy Studies (IPS, Washington) and the Transnational Institute (TNI, Amsterdam).

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RELEVANT WEBSITES

GATSwatch.org - Critical Info on GATS:
http://www.gatswatch.org/

ICEM - International Federation of Chemical, Energy, Mine and General Workers' Unions:
http://www.icem.org/

Power to the People:
http://www.powertothepeople.org/

PSI - Public ServicesInternational:
http://www.world-psi.org/

PSIRU - Public Services International Research Unit: http://www.psiru.org

Public Citizen's Critical Mass Energy and Environment Program: http://www.citizen.org/cmep/

SEEN - Sustainable Energy and Economy Network:
http://www.seen.org

The Energy Project: ww.tni.org/energy (including links to partners in Cameroon, Colombia, India, Indonesia, Uruguay and Eastern Europe).

Liberalisation of the electricity sector is on the increase on a global scale. Corporate–driven reforms are portrayed by international financial institutions and multilateral development banks as means of improving efficiency and attracting foreign investment for national economic growth. Most countries across the world are taking steps towards privatisation and deregulation of the electricity sector, often to meet the conditions imposed by international donors or comply with regional or global trade agreements.

If the aim is really to improve the living conditions of ordinary people by lowering the cost and increasing the quality of power provision, privatisation and deregulation have evidently failed. During the past five years, from New Zealand to California and from India to Brazil, the world has witnessed a series of catastrophic blackouts, skyrocketing tariffs, growing corruption, environmental disasters and the collapse of Enron Corporation, a veritable icon of liberalisation.

This first issue of Power & Society attempts to look beyond the promised benefits of liberalisation and debunk some myths about power deregulation and privatisation worldwide.

The Transnational Institute (TNI) was founded in 1974 as a worldwide fellowship of committed scholar-activists. In the spirit of public scholarship, and aligned to no political party, TNI seeks to create and promote international co-operation in analysing and finding possible solutions to such global problems as militarism and conflict, poverty and marginalisation, social injustice and environmental degradation.

The Energy Project is a global association of progressive NGOs and civic coalitions from Latin America, Africa, Asia and Central and Eastern Europe. TNI assumed the co-ordination of the project in 1999, and ever since the network has focused on research and advocacy activities on areas such as the privatization and deregulation of energy; the role of multilateral development banks, states and large multinational corporations in power sector restructuring worldwide; and the political and social implications of global negotiations on energy and climate change.