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Public Services International Research Unit (PSIRU)

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Trade Unions and Reform of Public Utilities: International Perspective.

1. Reform of Public Utilities: Major Global Trends

Privatisation has been promoted throughout the world for the last 20 years. The advantages are supposed to be increased efficiency, lower prices, greater investment, and greater dynamism than public ownership. It has been seen as a central policy element in transforming former communist states into market economies. It has been promoted wordwide by international institutions including the IMF, the World Bank and the OECD, and by multinational companies. The EU is in principle neutral on privatisation, but in practice encourages PPPs.

Privatisation has been made especially attractive because of economic policies aimed at reducing the borrowing of governments at national and municipal level. This pressure has been increased by the EU's rules on economic convergence, which limit government borrowing to 3% of GDP, and by the IMF conditions in many countries, requiring reductions in government borrowing and spending. Privatisation or PPPs can transfer borrowing to the private sector, and so they are used as 'painless' ways of reducing borrowing to meet policy targets.

Liberalisation has also been promoted, for similar reasons: the opening of markets is expected to create competition, which in turn is expected to lead to improved efficiency and lower prices. The central policy of the EU is the 'internal market', under which member states have to open their markets to companies from any EU country. In the 1990s this was extended into the utilities – including electricity and gas (but not water) - so it is compulsory for all EU countries to liberalise

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Public Services International Research Unit (PSIRU) is part of the **Business School** at the **University of Greenwich** (www.gre.ac.uk). PSIRU's research is centred on the maintenance of an extensive database on the economic, political, social and technical experience with privatisation and restructuring of public services worldwide, on the multinational companies involved, and on the impact of the policies of international financial institutions and the European Union, especially in water, energy and healthcare. This core database is financed by **Public Services International** (www.world-psi.org), the worldwide confederation of public service trade unions. PSIRU is the coordinator of the **Watertime** project (www.watertime.org), funded by the **European Commission** research directorate under FP5: Energy, Environment and Sustainable Development, Contract No: EVK4-2002-0095.

these services and end monopolies. Liberalisation has also been promoted wordwide by international institutions and multinational companies, especially through the WTO, where the liberalisation of services has included discussion of utilities and other public services.

These policies have been widely applied not only to production industries, but also to public services, especially the utility services - such as electricity, gas, water, and telecoms - which involve large assets and enjoy large incomes from charging consumers for essential services. However, actual experience in these utility sectors has often failed to deliver the expected improvements in prices and investment, companies have experienced greater risks and lower profitability than expected, and there has been widespread public and political resistance to privatisation of these sectors, worldwide. As a result, there has been an increasing re-appraisal of privatisation and liberalisation policies in these sectors, especially over the last 5 years.

Liberalisation of electricity and gas markets is required by EU directives. Countries therefore have no choice but to separate their generation, transmission and distribution functions, and open their markets to competition. The directive does not require privatisation, but most EU countries have in fact privatised their electricity companies: but a number of public sector companies remain, including some which, like the French company EDF and the Swedish company Vattenfall, have expanded beyond their home country. In the USA, a number of states cancelled their plans to introduce full liberalisation following the experience with cartels forcing up prices in California in 2000. Although the great majority of companies are private, some remain in the public sector, which claims to be more efficient: in California, the city of Los Angeles is run by an integrated public sector utility, and as a result was unaffected by the price rises of 2000.

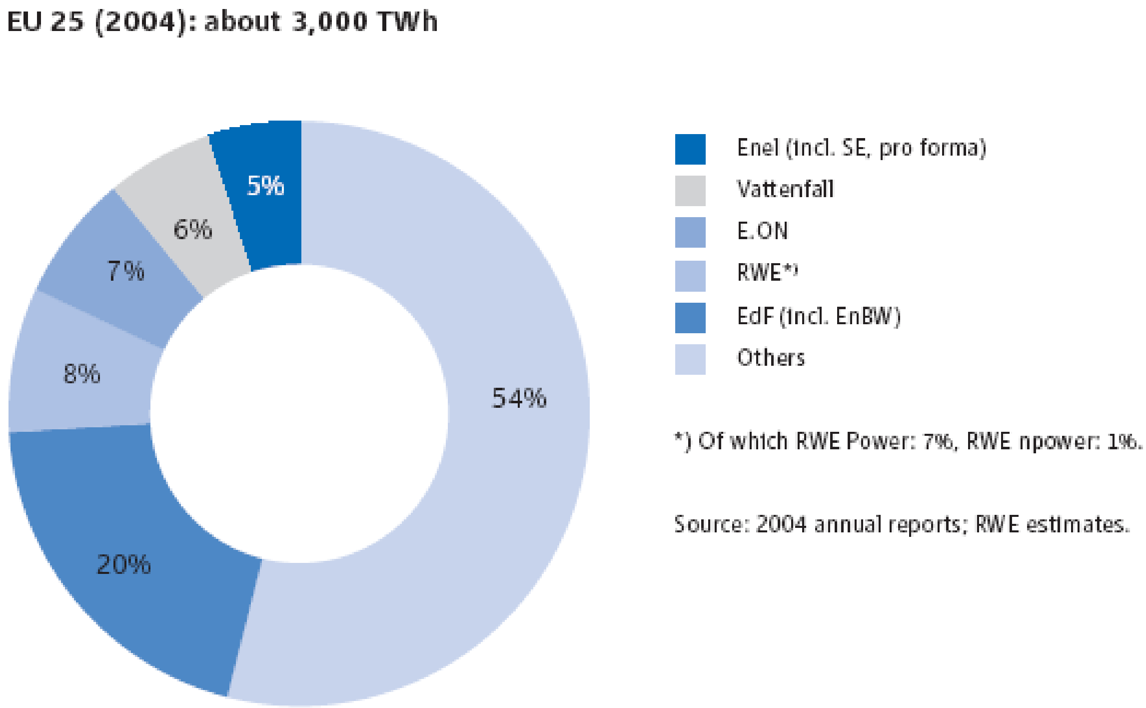
In water, the EU has not passed a liberalisation directive, and is not likely to do so. Although the EC is actively promoting PPPs in water, the extent of privatisation has been limited, and is unlikely to grow in the near future: in over two-thirds of the EU water is supplied by municipalities, and one country, the Netherlands, has even passed a law to make water privatisation illegal. In the USA, attempts by the water multinationals to take over water business from municipalities have largely failed, and so the great majority of water in the USA - about 85% - is still run by municipal companies.

In both sectors, multinational companies have been rapidly withdrawing from international exposure, because of the failure to make adequate profits, the public and political hostility to privatisation, and other risks like currency devaluations.

The largest water multinationals, the French groups Suez and Veolia, have been withdrawing from activities in developing countries for the last 3 years. The next largest international operators have all been sold, or are in the process of being sold, by parent companies: the German group RWE is selling Thames Water, the French construction company Bouygues sold most of the international operations of SAUR, and the USA company Bechtel and the Italian company Montedison sold their holdings in International Water.

In the last 5 years a large number of electricity companies have retreated from international activities. Nearly all the USA companies have withdrawn from Europe, as well as from developing countries, and EU-based multinationals have withdrawn from nearly all parts of the world except Europe itself. The European companies are becoming concentrated into a continental oligopoly: nearly half the electricity in the EU is generated by companies belonging to just 5 groups – EdF, RWE, E.on, Enel, and Vattenfall – which continue to buy up smaller companies and increase their domination. E.on buying the largest Spanish company, Endesa, and Suez planning to merge with gas de France. [1]

Chart A. Oligopoly in electricity: 5 companies = 46% of EU



The global institutions have been forced to review their advocacy of privatisation. Since 2003, the World Bank has acknowledged that privatisation has failed to deliver investment in water and electricity infrastructure. It has produced a number of policy papers analysing this failure, and re-appraising its policies, and acknowledging the importance of the public sector and public finance in these sectors. A recent paper by a senior World Bank economist states: "the main responsibility for financing many of the investment needs will fall onto the taxpayers rather than the residential users, at least in capital intensive transport and water and sanitation…" [2] The IMF has also reviewed its policies, and has revised its own guidelines in order to allow for greater public sector investment in infrastructure. The IMF has also warned of the dangers of supporting PPPs with government guarantees that could result in major future liabilities.[3] In the WTO, the EU has abandoned its attempts to include water in the GATS negotiations, although it is still promoting energy liberalisation through this route. [4]

2. Public Participation in the Reform

In general, there has been little public participation in the policy decisions to extend water and electricity privatisation and liberalisation. Because of the central directives, there has been no real scope for national or local political debate on the merits of liberalisation. This does not mean that there is general acceptance of the policies: EC surveys of consumers show: "*The ambivalence of expectations regarding services being opened up to competition in respect of most of these services*". [5] , and even in the UK a majority of people want the water sector to be renationalised.[6] In a number of countries and cities where referenda have been held on privatisation in electricity, water, rail or health services, the result has invariably been strongly against privatisation. [7]

Privatisation creates a further problem for public accountability because the companies insist on commercial confidentiality: for example, the contracts for the privatisation of water and sewerage in Budapest are kept secret, even from council officials, and Budapest City Council debates related issues only in closed sessions.[8]

There is a growing demand for more transparency and participation in the governance of public services and the policy decisions concerning them. The USA is the leading example of a country where the public have the right to see most documents of any utility company, and the regulatory process there involves the public participation of active groups.[9] Many other countries have improved the public right to information, including the UK.

In the water sector, new EU legislation provides rights to participation in decisions on environmental management of water resources, but not on the water supply service itself. The EC itself, however, encouraged Slovakia to open the water industry to much greater public scrutiny and debate, because of the amount of money the EU is providing to finance improvements in this sector. An EC-funded research project, Watertime, provides materials to assist municipalities and others in making participatory decisions. [10]

Elsewhere, in countries such as India and Brazil, there are new methods of participatory budgeting being introduced in public services, including water. A number of European municipalities are considering developing similar systems. [11]

3. The Impact of Reform on the Industry: Major Global Socio-Economic Changes

Empirical evidence suggests that liberalisation and privatisation have not tended to reduce prices, or deliver higher levels of investment, or to create greater efficiency. However, there is evidence of corruption associated with private water concessions, and of problems created by cartels and trading in electricity markets.

There is no general evidence that prices have fallen in the EC as a result of liberalisation in electricity and other sectors. Not all consumers have equal market power, so private companies prefer to obtain the business of customers who are more profitable: this is know as 'cherry-picking'. In the UK, in the telecoms sector, businesses and large users benefited most from price reductions in following privatisation and liberalisation[12]; for electricity, the poorest consumers are charged at least 10% more, through prepayment meters, than the richest consumers [13], and between 1999 and 2002 the price paid by large consumers for their electricity fell by 22 per cent, while the amount paid by small consumers rose by 5 per cent. [14]

Electricity cartels have manipulated markets to push up prices, most notoriously in California in 2000. In the EC there is also suspicion that cartels operate: Dutch studies found that there has been a consolidation of large power producers with a strong incentive for manipulating market prices in wholesale power markets. [15] The growth in electricity trading was a factor in the major blackouts in the northeast USA and Italy in 2003.

In water, private operation is in general associated with higher prices: in France, towns serviced by private companies have water prices 10-15% higher than those served by municipalities. In developing countries, privatisation of water and energy has failed to deliver the investment expected. [16] A range of empirical evidence now shows that there is no systematic significant difference between public and private operators in terms of efficiency or other performance measures. [17]

There is recurrent evidence of corruption in the water sector, with criminal convictions of managers of subsidiaries of both the major international groups in France, Italy and the USA, and experience of cartelised corruption in a number of European countries.[18]

4. The Impact of Reform on workers and Trade Unions

In most sectors, there have been sharp falls in employment after liberalisation/privatisation. A study for the EC concluded that " *"the introduction of consumer choice of suppliers was associated on average with a reduction in employment levels of about 12%"* [19].

The fragmentation of employment amongst a number of private employers also has a significant effect on security of employment, pay and conditions: new recruits are offered worse conditions, creating a '2-tier' workforce. Outsourcing is common, which often removes workers from protection of collective agreements, and makes union organisation more difficult, leading to short-term contracts and reductions in pay, conditions and training. [20] The actual impact of the processes depends on the industrial relations system of each country. Where there is strong statutory protection or binding sectoral agreements (as for example in Denmark) then outsourcing will not have such a dramatic effect. Where that protection is weak, or deliberately weakened – as in the UK – then the possibility of reducing labour costs by reducing pay and conditions becomes more feasible.

5. Response of Trade Unions

Trade unions have responded to these developments in two ways. Firstly, they have opposed the policies of privatization and liberalization, and tried to promote alternative policies based on public ownership and operation of utilities. Secondly, where privatisation and liberalisation have actually been introduced, they have tried to negotiate protection for the jobs, pay and working conditions of their members, and for the rights of the trade unions themselves.

5.1. Campaigns

Campaigns against privatisation and liberalisation of utility services have happened in countries all over the world. In these campaigns trade unions usually work with other social organisations, including consumer associations, women's organisations, and environmental groups.

There is a long-running strong campaign against water privatisation in the USA, for example, which has led to many cities rejecting or reversing privatisation, for example, Atlanta terminated a private water concession run by Suez and remunicipalised the service. Similar campaigns in a number of European cities have successfully resisted proposals to privatise water. Numerous other campaigns around the world have halted or reversed water privatisation plans, for example in Argentina, Brazil, Bolivia, Paraguay, Thailand, India, Philippines, South Africa, Tanzania. In Uruguay, a coalition between unions, social organisations and a political party succeeded in passing a constitutional amendment making water privatisation illegal.[21]

Similar campaigns against the privatisation of electricity have been run in a number of countries. In Canada, the Canadian Union of Public Employees succeeded in preventing the privatisation of a major electricity company in Ontario.[22] In South Korea, the unions demanded that the government, management and unions conduct an international study of experiences with privatisation, as a result of which the government agreed to suspend the privatisation programme. In Indonesia, the campaign brought a case to the constitutional court, which ruled that the privatisation plans in electricity were illegal.

Campaigns use a wide range of tactics, including:

- legal action

- political action (lobbying, political parties)
- mass action, including demonstrations, rallies
- referenda
- alternative proposals, including studies with international dimension
- strike and other industrial action
- European and international cooperation with EPSU, PSI. [23]

Campaigns typically approach politicians of all parties, as in the successful campaigns in the 1990s against water privatisation in Lodz (Poland) and Debrecen (Hungary).[24] An election is a good opportunity to campaign for a change of policy: for example, in Italy the new government elected in Italy in 2006 is considering legislating to make water privatisation illegal. Unions and other campaigners may support a specific party in election campaigns where the party is opposed to privatisation or the union supports that party for general policy reasons: this has happened in a number of South American countries such as Brazil, Uruguay, and Bolivia.

The results of referenda indicate the level of public support for these campaigns:

- In Hungary in December 2004 65% of voters rejected privatisation of hospitals[25]
- In Germany, in 2004, a campaign for a referendum to oppose water privatisation proposals in Hamburg amassed so many signatures so quickly that the city council abandoned the proposals without risking a referendum;
- In Slovenia January 2003 in two referendum ballots the Slovenians voted decisively against the privatisation of the state railways and the telecommunications industry.[26]
- In Netherlands, in May 2002 Amsterdam voted against the privatisation of the city transport company GVB[27]
- In Germany, in May 2001 a proposal to privatise Düsseldorf's energy utility (stadtwerke) was rejected by 90% of voters [28]
- In Latvia in 2000 the government reversed its policy on privatising the electricity company Latvenergo because of the strength of public opposition and the probability that it would lose a referendum on the subject.[29]

In some countries unions have used consultative machinery to develop alternatives. In Sweden, the municipal services union Kommunal has pioneered a system which involves municipal workers in planning their own jobs to improve quality and reduce costs [30]. In New York State, in the USA, a number of cities developed formal labour-management committees to manage change, leading to greatly improved management-union relations and employee morale.[31] In South Africa, the municipal workers union SAMWU submitted detailed proposals and arguments to a national conference on local government, including recommendations on the structure of local government, transparency, and taxation and finance. [32]

At European level, the EPSU has published its own critiques of EC policy on the impact of liberalisation, on PPPs, the relationship between public services and the 'internal market' of the EU, and the EU neighbourhood policy, which seeks to extend these policies into neighbouring countries, including Russia. The ETUC and the EPSU have also organised a number of demonstrations to defend public services in the EU, or to challenge the political lobbying of multinational companies.[33] EPSU works with many other social organisations to prevent water liberalisation, criticises electricity and gas liberalisation and is active in the European Social Forum. It has set up a campaign on Public services in Europe promoting legislation that would make liberalisation of public services more difficult.

Globally, PSI is a prominent critic of privatisation and liberalisation policies at meetings organised by the World Bank and other development banks, the UN, and at major sector conferences, such as the World Water Forums which are organised every 3 years. PSI is a member of the UN secretarygeneral's advisory board on water, where it vigorously promotes the idea of public-public partnerships. PSI uses research and publicity to support its affiliated trade unions campaigning for alternatives to privatisation. [34] Expert evidence from PSIRU researchers was used by campaigners in Indonesia in a court case which resulted in a decision that electricity privatisation plans were unconstitutional.

Successful trade union campaigns in public services are based on active membership and broad workers involvement. The union is often part of a broader coalition of organisations (environmental, housing tenants, retired workers, anti-poverty campaigners and sometimes even municipalities…). Its message connects with the general public and is not focused solely on keeping jobs. In addition, campaigns often attract new members and can reinforce the democratic nature of trade unions.

5.2. Protecting workers jobs and conditions

Where privatisation takes place, unions have used both legal protection and negotiated agreements to protect the interests of workers.

Within the EU, the Transfer of Undertakings Directive requires that when there is a change of ownership (or transfer), all workers must be transferred to the new owner/employer, with their exisitng employment contracts, including their pay and conditions and the collective agreements under which they are determined. [35] This has been relied on by unions throughout Europe to protect members subject to privatisations. The Thatcher government in the UK attempted to ignore this law when implementing its programme of privatisation of council services through contracting-out, but legal action by trade unions forced the UK government into paying millions of pounds in compensation to workers whose jobs, pay and conditions had been illegally cut. The directive does not prevent the new employer trying to reduce jobs or change conditions after the transfer, but it provides important initial protection.

The directive applies to EU member states and countries about to join the union, but countries covered by the EU Neighbourhood Policy – which includes Russia as well as Belarus, Ukraine, and Moldova – are expected to adopt similar standards. No formal agreement has yet been reach4ed with Russia, but agreements with other countries in the EU neighbourhood state that the countries are expected to:

> "*Strengthen dialogue and co-operation on social matters. Ensure a closer approximation of the country to EU standards and practices in the area of employment and social policy* – Engage in a dialogue on employment and social policy with a view to develop an analysis and assessment of the situation and to identify key challenges and policy responses (social and civil dialogue, health and safety at work, gender equality, labour law, employment policy, social protection and inclusion) gradually moving towards EU standards in this field.". [36]

EU legislation also gives unions and workers rights to consultation over any major restructuring or decision which affects employees. [37] European Union labour legislation also ensures minimum standards apply in all European Union countries, for example on working time and health and safety. Countries can improve over these standards and so can employers and trade unions through collective agreements.There is also EU legislation requiring multinational companies operating in 2 or more countries in the EU to set up a European Works Council with employee representatives. [38] EPSU assists trade unions in establishing EWCs and ensuring workers from all European countries are part of it, or at the very least connected with it.

In Denmark, the trade unions negotiated a central agreement covering all municipalities, which states that all privatisations and PPPs must be the subject of discussion and participation by unions and workers in each municipality. This framework gives staff an opportunity to propose alternative solutions, as well as the pay and conditions of any privatisation or PPP that is introduced. For example, this enabled the workers in Copenhagen to reach an agreement that workers retain unchanged wages and conditions of employment during the whole contract period (a significant improvement on the EU Transfer of Undertakings directive, which only protects workers at the time of transfer – see above).

In 1995 the Hungarian unions negotiated a national agreement with the government covering electricity privatisation. The agreement provided that employment levels in the privatised companies would be protected, and the collective agreement on pay and conditions for the electricity sector would have to be observed by the new private owners. Both of these points were written into the contract documents covering the privatisation, and so became binding on the companies. The agreement also stated that the government would use 5% of the money received as a result of the privatisation to create a fund for retraining and redeployment of any displaced workers.[39] The trade union achieved this success through active campaigning including pressure from PSI, EPSU and affiliated trade unions. It has since ensured that foreign companies have remained part of the national collective agreements through innovative tactics again including pressure from PSI, EPSU and affiliated unions in the country in which the companies have their Head Office.

The Bulgarian electricity union gained greater influence over conditions through consultations with a development bank. A new private power station project in Bulgaria was financed by the European bank for Reconstruction and Development (EBRD), and the bank investigated the private companies bidding for this project. As part of that investigation, it asked the union if it was satisfied with the transfer arrangements and terms and conditions offered by the company, in order to ensure that there was no risk of an industrial dispute. In effect, the bank made it a condition of its loan that the company should reach an agreement with the union.

In the UK, where many municipalities contracted out services in the 1990s, the unions first protected the transferred workers through using the EU law on Transfer of Undertakings, but private companies were then recruiting new workers on much worse pay and conditions, leading to the creation of a ‘two-tier’ workforce. The unions then negotiated a national binding code of practice, which stated that when a service was privatised, the new contractors are obliged to consult with unions over any the terms and conditions for any new recruits, and that these terms and conditions must be “no less favourable” than those of the municipal workers. This code applies indefinitely, even after a contract has been re-tendered for a second and third time. [40]

The city of Berlin privatised its water service in 1999 by creating a PPP between the city and two private companies. The trade unions achieved an agreement that the workers in the service would retain their status as municipal workers, covered by the agreements for municipal services, that the level of employment in the water service would be protected for a period of 15 years, and that the union would be represented on the board of the new company.[41]

In most cases these agreements were reached following campaigns and action by the union to try and halt or reverse the privatisation. Such campaigns, even when unsuccessful, clearly improve the unions ability to negotiate better protection for workers following privatisation.

6. Conclusions and Recommendations

6.1. Challenging the rationale for privatisation and PPPs

The case for privatisation of municipal and utility services in Russia is weak. Russian municipalities are now able to raise finance for investment through bonds, the general government sector in Russia has relatively low borrowing and a substantial fund that could be used for public works, so it is feasible to use public finance for investment – which is invariably cheaper. There is also strong empirical evidence that privatisation, liberalisation and PPPs do not deliver the expected improvements in efficiency, investment, or lower prices. The policy of privatisation could be challenged through an effective public campaign.

The union should identify possible partners - such as consumer organisations, environmental groups, women's organisations - for a campaign on the issue of privatisation of public services in general, and water or energy services in particular, to strengthen the impact of their position.

The union should consider various ways available for challenging the policies both at national and at local level. This should include the possibility of taking advantage of the recent government initiative encouraging dialogue with unions on national policies; the potential for bringing legal cases under different laws; the role of strikes and other industrial action; and ways in which the union can obtain media coverage for their position.

The union should identify opportunities in political processes at both national and local level for advancing a challenge to the policies: for example, elections.

If the union considers a campaign it should identify sources of expert advice and research , and explore what European or international angles can be integrated. The municipality, government or company often uses outside experts and consultants to convince the public of the benefits of a decision, the union should argue for independent analysis funded also by the government or municipality.

6.2. Protecting workers and union rights

Various institutions may be relevant in establishing the employment conditions of workers subject to privatization. These include national government bodies concerned with privatisation, local government, employment rights and relations with the EU; municipalities; prospective private owners or contractors; development banks and commercial banks financing privatisations through loans.

The union should carry out a clear audit of its consultation and negotiating rights on this issue under Russina laws and practices, and consider the possible relevance of EU rights and practices.

Agreements should be sought that protect workers' employment status, union bargaining rights, the application of sector agreements on pay and conditions, the level of employment following privatisation, the pay and conditions of new employees following privatisation, and the retraining of workers. Where possible, these agreements should be written into licenses or contracts given to companies.

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