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Summertime Service Cuts Spur Talk Of "Renationalizing" Chile’s For-Profit Water Companies

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Millions of Santiago residents were left high and quite literally dry in recent weeks by a series of water-service cuts that some Chilean citizens groups and politicians are calling a wake-up call on the perils of privatization.

The first disruption hit the Chilean capital Jan. 21-22 after flooding from a heavy rainstorm flushed copious amounts of sediment into the Río Maipo, Santiago’s principal source of drinking water. The event forced Aguas Andinas, the city’s primary water-utility company, to temporarily shut three of its treatment plants and thus cut the water supply to an estimated 2 million residents. Complicating matters was the timing of the problem—at the height of the southern summer. Between December and March, daytime temperatures in Santiago regularly top 30˚C (86˚F).

Questions surfaced quickly about the water company’s handling of the situation. Aguas Andinas, a highly profitable subsidiary of Spain-based conglomerate Grupo Agbar, defended its action by blaming the situation on "force majeure."

"No [treatment] plant in the world can function with levels of turbidity like we had yesterday in the Maipo," Christian Esquivel, the company’s communications chief, told reporters. "This was neither a service issue nor an operations issues."

Esquivel’s explanation did little to cool tempers among Santiago residents, business owners (some of whom were forced to shut their shops and offices for the day), and government officials, who said that Aguas Andinas—even if it had no choice but to cut the water supply—should at least have done a better job of warning people.

"We’re indignant," said Juan Antonio Peribonio, Greater Santiago’s government-appointed intendente (mayor). "It’s common knowledge that the company ought to provide complete and useful information that allows all users to understand what’s going on. That didn’t happen. The information they sent wasn’t accurate. We learned about the situation in a press release. That’s not how these things are supposed to work."

Aguas Andinas may eventually have been forgiven for its transgressions had it not been for a string of subsequent shutdowns, including an even larger service cut the weekend of Feb. 8-10 that affected an estimated 4 million Santiagüinos, roughly one-quarter of Chile’s entire population. The company again blamed the problem on flooding in the nearby Cajón del Maipo, a mountain canyon through which the glacier-fed Río Maipo flows.

"Indignant" after the first major disruption, residents and government officials were outright livid after the second. Within just a few days, the administration of President Sebastián Piñera announced the launch of a class-action suit against Aguas Andinas. The Servicio Nacional de Consumidores (SERNAC), a government agency, said the company’s failure to properly warn people before the Jan. 21-22 water cuts was a violation of Chilean consumer-protection laws.
"We can't betray the trust that consumers have put in SERNAC," Economy Minister Pablo Longueira explained during a Feb. 14 press conference. "One of the key aspects of this administration has been defending those who feel that their rights have been violated, and, as the country has seen, no company is exempt from responding."

"What a business!"

Aguas Andinas is an easy and natural target for Santiago residents, who have seen their water bills rise more than 150% in the past decade. The company's annual profits, meanwhile, have soared: from roughly US$95 million in 2001 to US$2.2 billion in 2011, an increase of 137%, according to the government’s Superintendencia de Servicios Sanitarios (SISS). During that same period, Chile’s minimum monthly salary rose by just 25%, from roughly US$300 to US$375.

What makes the steadily rising consumer costs all the more galling for Santiagüinos is the impression, particularly in light of this summer's periodic supply cuts, that Aguas Andinas has done little to improve the quality of its services. The last major system shutdown occurred in the winter of 2008, when heavy rains forced Aguas Andinas to temporarily suspend service to some 340,000 residents. Afterward, the company promised to invest in backup infrastructure. Only now, five years later, has Aguas Andinas finally broken ground on the new system. Had it addressed the Río Maipo’s "turbidity" problem with more urgency, some of the company's critics argue, this summer’s disruptions could have been avoided.

"When I took charge of the Ministerio [de Obras Públicas] in 2008, a letter was sent to Aguas Andinas demonstrating the need for them to expand their facilities around the Maipo," then public works minister Sergio Bitar said in a recent interview with the daily La Tercera. "Five years have gone by and the work’s not been done."

The SISS is now intervening, demanding that Aguas Andinas come forward with a clear investment plan to avoid future wide-scale service cuts. But the government agency has little real power to hold the company accountable for whatever promises it makes. "Many companies prefer to pay [state levied] fines rather than make the investments," said Bitar.

That, say many observers, is the real problem. Aguas Andinas and the other, mostly foreign-owned, companies that together control 95% of Chile’s water utilities are more or less free to operate as they choose, especially since they enjoy virtual monopoly power in their respective regions. They therefore have little incentive to prioritize the concerns and interests of their customers, who, is the case of water, is everyone.

"They have a captive market with guaranteed earnings: what a business! That's why [Aguas Andinas] hasn't made the necessary investments," Ricardo Hormazábal, a former senator for the centrist Partido Demócrata Cristiano (DC), told the online publication El Mostrador. "The flooding wouldn't have affected us if they’d invested in [water] reserves for two or three days."

Calls for renationalization

Hormazábal was one of only a handful of elected officials who, back in 1998, refused to support an initiative by then President Eduardo Frei (1994-2000) to allow increased privatization of the country’s mostly state-run water companies. At the time, the vast majority of Chileans already had access to safe drinking water. The country had little, however, in the way of wastewater-treatment plants. The Frei plan, which eventually passed with support from both the right and left, saw privatization
as a way to bring in the outside investment needed to build those plants. In that respect the strategy worked. Chile now treats some 94% of its wastewater, up from 18% at the time the law was passed. But privatization also gave foreign conglomerates like Agbar control of the country’s drinking water, which had never actually been a problem area.

Hormazábal, a former DC party president, insists the move was a mistake, particularly now that the Piñera administration has taken the privatization process even further by selling off the state’s remaining minority shares in the water-utility companies. Unlike in the late 1990s, Hormazábal is no longer a lone voice of dissent. Senate president Camilo Escalona of the center-left Partido Socialista (PS) made his frustrations known last month by saying certain "essential services ought to be directed by the state." The issue has been taken up as well by citizens groups and several Greater Santiago mayors, who—in the wake of this summer’s water cuts—say it is time to consider "renationalizing" the vital resource.

"Short-term, profit-driven thinking shouldn’t be above the common good," said Daniel Jadue, the recently elected Partido Comunista de Chile (PCCh) mayor of Recoleta. "The situation we’re in these days is that we’re no longer responsible [for water services]. But at the same time there’s very little we can do [when those services fail]."

Jadue is aware, nevertheless, that there are huge political obstacles to re-exerting any type of state control over the private utilities. Past efforts in that direction—including an initiative presented by Piñera’s popular predecessor, President Michelle Bachelet (2006-2010)—failed because of opposition from Chile’s conservative Alianza, a political partnership representing the center-right Renovación Nacional (RN) and the hard-right Unión Demócrata Independiente (UDI). Bachelet’s proposal called for a constitutional amendment recognizing water as "a matter of national security." The measure was intended to give the state legal leverage should it need, at some point, to restrict private rights over water resources.

Mayor Jadue and others on the left believe the UDI and RN are overrepresented in government thanks to Chile’s peculiar binomial majoritarian voting rules, which favor balance by making it extremely difficult for a single political grouping to control both seats in a given congressional district (NotiSur, Feb. 10, 2012). The system, designed during the dictatorship of Gen. Augusto Pinochet (1973-1990), has historically favored the right. Not surprisingly, the Alianza has blocked efforts to modify the rules.

"As long as we have the binomial system, which the UDI so staunchly defends, it will remain very difficult to move forward with laws that would allow renationalizing our national resources," said Jadue.

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