

SECTORAL ACTIVITIES PROGRAMME

Working Paper

**Decentralization and privatization
of municipal services:
The perspective of consumers and their organizations**

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Working papers are preliminary documents circulated
to stimulate discussion and obtain comments

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Foreword

In the context of public service reforms, decentralization is regarded as an important means to achieve improved efficiency and quality of services. One of the challenges in this context is the financing of such services, since tax and fee systems are often not changed simultaneously or sufficiently. Consequently, municipalities and local government institutions opt for a variety of approaches to privatizing services provided in the public interest. Decentralization affects the terms of employment and working conditions of municipal workers, as well as labour-management relations, in a number of ways. Moreover, public employees from government agencies at district, regional and national levels are often transferred to local authorities. Such developments are common to different services that are provided in the public interest, such as education and health services as well as utilities and transport. Despite the differences between these sectors, there is a case for discussing jointly the implications of decentralization on the municipal services. Responses to the challenges arising from decentralization might be found jointly or through alliances between some of the sectors.

The ILO report on “Human resource development in the public service in the context of structural adjustment and transition” of 1998 and the subsequent Joint Meeting have already set out some direction in relation to the public service in general. A further report of the ILO will study the developments more specifically in view of the municipal services and provide the background for the discussions at a Joint Meeting in 2001 on the “Impact of decentralization and privatization on municipal services”. In preparing this report the ILO Sectoral Activities Department is undertaking a wide range of research in various municipal sectors, which include health services, education, transport and utilities.

The present working paper by Robin Simpson is one of several studies which will be taken into consideration for the report of the ILO. It endeavours to give insight into the perspective of consumers and their organizations vis-à-vis decentralization and privatization of municipal services. In processes of improving the quality and efficiency of the delivery of public services, the view of the public is taken increasingly into consideration. As the conclusions of the Joint Meeting on the Impact of Structural Adjustment in the Public Services (Efficiency, Quality Improvement, and Working Conditions) in 1995 put it: “Public sector reforms are most likely to achieve their objectives of delivering high-quality services when planned and implemented with full participation of public sector workers and their unions and consumers of public services at all stages of the decision-making process.” Therefore, it is of relevance to examine the relationship of consumers and their organizations to the social partners and whether these relationships produce synergies. Since this area is relatively new to the ILO, the working paper first elaborates on the origins of consumer movements and their current approaches and relations to social partners. The second part of the paper illustrates mainly through cases from a variety of countries and sectors how consumers responded to decentralization and privatization of municipal services in partnership with social partners or on their own.

As a Sectoral Working Paper, the study is meant as a preliminary document and circulated to stimulate discussion and to obtain comments. Earlier drafts of the paper were intensively discussed at the ILO, the opinions expressed are nevertheless those of the author and not necessarily those of the ILO.

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Glossary of abbreviations

Note: those spelt out in the same paragraph are not included here. These are the ones used repeatedly:

AEC	Association of European Consumers
BEUC	Bureau Européen des Unions de Consommateurs
CCC	Consumers Consultative Committee (later replaced by Consumers Committee).
CFDT	Confédération Démocratique du Travail
CI	Consumers International
CISL	Confederazione Italiana del Sindacati dei Laboratori
DG SANCO	Directorate General for Health & Consumer Protection of the European Commission
EdF	Electricité de France
ETUC	European Trade Union Confederation
IDEC	Instituto Brasileiro de Defesa do Consumidor
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
KONFOP	Inter-Republican Consumers Federation
NCC	National Consumer Council
NGOs	Non-governmental organizations
OECD	Organisation for Economic Co-operation and Development
OFE	National Association for Consumer Protection (Hungary)
UGT	União Geral de Trabalhadores
UNICE	Union of Industrial and Employer Confederations of Europe
USAID	United States Agency for International Development

1. Introduction

“If we simply followed the wishes of consumers, we would still be sending small children up chimneys.”

This remark to a delegation from the National Consumer Council of the United Kingdom by an official of the Trade Union Congress during the 1980s sums up the tension that has often existed between trade unions and consumer organizations. This tension is explicable up to a point because there are different interests in play; certainly consumers and producers look at the same services from different points of view. However, there are also common interests that need to be explored. It is probably fair to say that they have been insufficiently explored and that potential for cooperation has been neglected. This paper attempts to explain the historical reasons for the lack of cooperation and to draw upon examples of where there is scope for cooperation in the context of decentralization and privatization of local services.

Contacts with employers have been rather more frequent than with the unions, but not concerning their role as employers as such, but rather as producers of goods and services, most frequently the former. In public services, this relationship has been complicated by the fact that the service providers have frequently been (and often still are) central and local government.

2. History of the consumer movement

The trade union and consumer movements of modern industrial society have some common origins. Like the modern labour movement, the organized consumer movement has followed on from industrialization with its associated specialization separating producers from consumers. In the early years in Britain, after the failure of the Owenite producer cooperatives, the movement took the form of consumer cooperatives such as the Rochdale pioneers in North West England in the mid-nineteenth century. The cooperative shops using consumer power to order quality goods from the retail level up the production chain, rapidly spread to become part of the fabric of working class life. In continental Europe, a more varied picture developed. Some cooperatives developed as a consumer response to industrialization as in Britain. Other cooperatives were agricultural producer led developments helping peasant farmers to share production facilities and to develop investment banks owned by their members. In the United States in the early twentieth century, yet another model developed, that of consumer and farmer cooperatives for the development of public utilities such as water and electricity.

The modern consumer movement based on technical assessment of consumer products and dissemination of published reports comparing the different products on the market, developed first in the United States in the 1930s. Consumers Union remains to this day the world's largest consumer organization. Its reports are read by over 4 million subscribers. This model of independent and detailed technical assessment of consumer products independently published is a highly successful North American export to the rest of the world. Consumers Association of the United Kingdom with initial financial assistance from their American colleagues grew up during the 1950s to develop a mass membership based on its product testing and its magazine *Which*, reaching 1 million members at its peak, at that point, the second largest consumer body in the world and the largest in Europe. A distinctive feature is that the subscribers to the magazine are automatically members of the association. The highest level of market penetration is reached in Belgium and the Netherlands which have the highest percentages of families taking product testing magazines.

The United States, United Kingdom and Belgium saw these consumer bodies develop on a self funding basis, although “startup” capital was often necessary from external sources. In due course, their operations were financed by subscriptions to their publications, which were effectively commercial operations. In the Netherlands, Germany, France and Denmark a more mixed economy developed with consumer bodies being built up with the support of public money, and in France with the active participation of the trade unions a feature also of the modern Italian movement. At times there was confusion and even bitterness especially in France where two comparative testing publications competed for the market, one a private institution, the other a public body, leading to duplication and the claim of unfair competition.

The model of product testing magazines has spread rapidly in recent years to Southern and Eastern Europe with external investment from the Belgian consumer magazine *Test Achats* and more recently still to Latin America, Asia and Africa. Some spectacular growth in circulation of such magazines has been achieved in countries as diverse as Brazil and Russia. A natural result of these publications was the development of an interest in consumer policy, sometimes as an adjunct to the product reports in the magazines. In due course some consumer bodies developed research and campaigning departments, sometimes helped by government at national level and, in Europe, by the European Commission.

As trade and commerce have become more international, federations of consumer bodies have developed at international level. The world body, with United Nations consultative status, is Consumers International (CI). Founded in 1960, CI's head office is in London but has most of its staff in the regional offices, that for Latin America and the Caribbean in Santiago de Chile, for Asia in Kuala Lumpur and for Africa in Harare. The regional office for the Developed and Transitional Economies (effectively the OECD countries, Eastern and Central Europe and ex-USSR) is in the headquarters building in London. In all, CI has more than 260 member organizations in 120 countries. (The author's own organization, the National Consumer Council is a member of Consumers International and also of the Bureau Européen des Unions de Consommateurs (BEUC).

BEUC is based in Brussels, and acts as interlocutor with the European Commission (EU). Founded in the early 1970s, it has members in all the EU Member States and some of the accession countries too plus Iceland and Norway, about 30 Members in all.

CI and BEUC have, logically, both been highly active on those issues not amenable to treatment at national level, such as Trade and Agriculture, international product standards, and now increasingly, public utilities where international patterns of ownership make it logical for consumers to organize internationally. Consumers International is just starting to work on the General Agreement on Trade in Services, an issue of significance for municipal services.

3. Present-day dilemmas

3.1. The limits of product evaluation

The model developed in the United States and Europe has been most successful in terms of product evaluation. For a vital prerequisite for a market economy is informed consumers. The development of publications about complex products has armed consumers with information to guide their choices. Product magazines list the performances of the products in comparative tests and publish value for money assessments which are a very powerful aide for consumers in the market place, and such assessments are feared by manufacturers. There is no doubt that magazines based on

comparative testing have met a need and acted as an incentive for producers to maintain standards. Standards of durability have risen and we are now seeing more attention being paid to issues such as environmental sustainability. To what extent is this success capable of application to public services?

Despite its undoubted long term successes, there are limitations to the model described above. Firstly, in the early years of the development of such magazines they tended to concentrate on goods rather than services, and complex products such as domestic appliances and electronic leisure products rather than basic products such as simple foodstuffs and water. They tended to ignore public services such as health and education where there are clearly consumer issues to be addressed. Progress is being made in this respect but still, analyses tend to be of those services which are bought (energy, telecoms) rather than provided through taxation, such as education. Secondly, dealing with products as they are released on to the market, comparative testing magazines do not lend themselves to analysis of market structures, only to their tangible results, that is, the products.

Lastly, operating on a commercial basis the publications tended naturally to reflect the spending patterns of their members, who seek advice for their purchases. Although attempts have been made to try to serve lower income consumers, all of the above patterns tended to exclude the poor, and to downplay those services provided on a monopoly basis. After all, if there is no choice, why seek advice? For these reasons then there has been a tendency for the consumer movement to concentrate on privately provided goods rather than publicly provided services. This has resulted in consumer organizations having great difficulty addressing the needs of the poor while still serving their generally more affluent members.

The author's own organization, the National Consumer Council (NCC), was set up precisely to counter these imbalances and with a particular mission to address the needs of the disadvantaged and to assist in the development of advice services. Being predominantly publicly funded it does not have the commercial constraints of other consumer organizations. And so we have at times focused on public services such as health, social services, and, in the past, housing and social security. Such evaluations have been carried out through surveys of consumers to gauge their opinion of the state of public services. These surveys which we called Consumer Concerns were repeated periodically, and indicated trends through time in consumer satisfaction, almost invariably showing a higher level of satisfaction than one might imagine from the level of criticism in the press.

The development of consumer interest in public services will always be difficult for member-based consumer organizations without the kind of public subsidy which the National Consumer Council received in the United Kingdom. For successes accrue to the whole body of consumers, but all of the costs are concentrated on the individual members. So, for those individual members, the financial benefits will be less than the costs, providing little economic incentive for associations to develop new members unless they have a particular commercial product to sell such as a testing magazine. The one area where this could be less true is at local level, especially when basic network service development is concerned, in other words an immediate and tangible benefit to everyone in a given geographical area. This is of particular relevance of course to developing countries and may require other media such as local radio, to be exploited or even developed.

The explanation of the weaknesses of the consumer movement in public services then, is to be found in their structure and funding.

3.2. The limits of philosophy

There is however a further explanation which moves into the realms of philosophy and eventually of policy. Consumer organizations are generally enjoined by their constitutions to operate exclusively on behalf of consumers. Frequently a distinction is made between the interests of consumers and that of producers which includes of course, workers, managers and shareholders. For example, National Consumer Council's Articles of Association specifically preclude its being involved in employment matters:

The objects of the company shall not extend to the regulation of relations between workers and employers or organizations of workers and organizations of employers.

This limitation was inserted at the time of the establishment of the Council by the 1974 Labour government, at the specific insistence of the government's Department of Employment, who did not want to have to deal with a further agency in what was already a very fraught relationship with the unions. So, NCC was specifically barred from getting involved in labour questions, regardless of however much they might have been of interest to particular individuals. Conversation with Jim Murray, Director of the Bureau Européen des Unions des Consommateurs confirms that similar constraints, in various forms, operate throughout the European consumer movement.

This has undoubtedly led to tensions with the trade union movement, and has also been reinforced by a theoretical argument which goes something like the following (not a real quote but a summary of many):

Consumers and producers are opposite sides of the bargaining table. The workers organizations are a part of the producer spectrum of interests. Consumers and workers each have their legitimate objectives and should treat each other with respect. But they are logically separate and attempts by either to incorporate the other should be resisted as that will lead to intellectual confusion. Consumer organizations have to be single minded in the pursuit of their mission.

This can sound very purist and legalistic. But in fairness, consumer organizations do need to be clear about their mission for they occupy a unique position. For all citizens are consumers and the job of consumer organizations is to represent them in that capacity, as opposed to other roles: worker, child, member of national minority, environmentalist, whatever other cause may be identified. These causes tend to be much better defined than the consumer one, and their "flags" may seem to be far easier to "rally behind". So consumer organizations may at times be rather fierce in defining their identity and this may have discouraged potential alliances.

4. Links of consumer organizations with social partners

4.1. Relations with employers

There has been rather less "philosophical" difficulty in terms of relations with employers, although, as stated earlier, the consumer organization interface with employers has tended to be with them in their capacity as *producers*. That is not to say that there have not been conflicts – when producers have not liked product test results, published in consumer magazines for example, there have been loud protests and even threats of legal action. But the basis of the relationship has been clear in general.

Indeed it has matured in the sense that at national and international level, there are now consultations between consumer organizations and producer bodies about, for example, draft Codes of Practice (most recently on e-commerce, between BEUC and the relevant service providers). BEUC frequently meets with UNICE (the Union of Industrial and Employers Confederations of Europe) and its members, although usually on practical matters related to particular sectors, rather than at a general level.

The Association of European Consumers has effectively, no bilateral communication with employers, although paradoxically, being linked to the trade unions many of its members do have bilateral relations in negotiating terms of employment.

Public services is the sector in which consumer organizations' relations with employers are most complex. The consumer movement has to tread a careful path because of the public ownership of many public services. The complications are intensified by the fact that consumer organizations can receive government funding without jeopardizing their status as members of Consumers International. This means that they may be receiving funds from the funders or even owners of the public services whom they may wish to criticise. It is not unknown for public service providers to complain to government funders of consumer organizations following some critical report by the latter. So relations with employers, in their capacity as managers in the public service area can be just as delicate as they have been with unions, indeed more so where there is the risk of a threat to funding. Under these circumstances, the job of the consumer organizations should be to focus on their central mission, namely to protect the rights of service users, irrespective of ownership. BEUC have succeeded in this respect in their discussions with the European Commission.

4.2. Relations with trade unions

The logic of separate identity (separate from producers that is), is very much associated with the Northern European model of consumer organization, both publicly and privately funded. The Latin countries have had a rather less rigorous division between the consumer and worker interest. Some French and Italian consumer organizations have explicit links with the trade unions or have unions as corporate members of their associations. The recently established Association of European Consumers (subtitle socially and environmentally aware) contains several organizations with trade union links. These include the following:

ADICONSUM Italy: a Consumer Association with over 70,000 members, constituted in 1987 at the initiative of the Italian trade union federation, Confederazione Italiana dei Sindacati dei Laboratori (CISL) although operating autonomously from the Unions. In France, the different union confederations have their links to their respective consumer associations – Association Force Ouvrière Consommateurs set up in 1974 by the Confédération Force Ouvrière, with the constituent Force Ouvrière unions as full members, Association d'Etudes et Consommation, established by the Confédération Française Démocratique du Travail, in 1982 and incorporating all CFDT (Confédération Démocratique du Travail) individual members, and the Association pour l'Information et la défense des Consommateurs Salaries, linked explicitly to the Confédération Générale du Travail. The Portuguese União Geral de Consumidores, was also established (in 1991) by the trade union section of the UGT (União Geral de Trabalhadores). The Belgian Réseau des Consommateurs Responsables, contains as members both individuals and organizations including trade unions and NGOs.

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The new association also has members in Sweden, Greece, Germany, Denmark, Finland, Croatia and Bulgaria, and is inevitably in a position of rivalry towards the Bureau Européen des Unions de Consommateurs described earlier, and it is probably true to say that there are political differences too reflecting their social base. There is a division in policy terms between economic liberalism and dirigisme, which is already emerging in matters such as the liberalization of public utilities and in international trade policy too, as the Association of European Consumers develops policy.

Unfortunately, the unions are in a "no-win" situation in the philosophy of the traditional consumer movement as summarized above. If they do not get involved in consumer issues, then they risk being perceived as being indifferent to the users of the services in which their members work. On the other hand if they do get involved, as has happened particularly in Italy and France, then they are seen as being not "real" consumer organizations. There is a danger with this logic according to which the unions can do nothing "right". It is clearly a logical impasse and has contributed to the establishment of the Association of European Consumers and thus to divisions in the consumer movement in Europe. So none of the AEC members are members of the Bureau Européen des Unions de Consommateurs, although several of them are members of Consumers International as indeed is AEC itself.

Even before the establishment of the AEC, rivalry between the unions and consumer organizations manifested itself in the form of competition for the "ear" of the Consumer Affairs Directorates of the European Commission (currently DG SANCO). The European Trade Union Congress ETUC was recognized by the Commission as being one of several organizations speaking for consumers on the Consumers Consultative Committee (CCC). This status was fiercely contested by BEUC, the result being that lack of relations between unions and consumer organizations were rendered worse by poor relations at EU level. This handicapped the functioning of the CCC until it was replaced. The EU environment then has not been propitious for union/consumer collaboration.

It is important to note however, that the Bureau Européen des Unions de Consommateurs has been quite heavily involved in the debates on liberalization of public utilities at EU level (and have generally favoured the development of liberalization with the parallel development of Universal Service Obligations to protect consumers). BEUC were active members of the working party on universal service in telecoms and were represented on the recently disbanded Energy Consultative Committee of the Commission by the author and by a BEUC staff member. However, it has been very difficult for BEUC to secure the interest of its members in this area which tends not to feature heavily in product magazines. Of the infrastructure services the one which features most heavily is telecoms, and that mainly in the area of mobile telephony, for the practical reason that it is the one in which individual consumers have to take individual decisions on which they

seek advice from the magazines. In short there is a ready market for this information, which the publications have responded to very well.

The rivalry between consumer associations and unions that is established in Western Europe is not replicated at global level in quite the same way. The attitude by CI members outside of Europe to links with the labour movement are relatively relaxed. This is particularly the case in the developing countries and, it is suggested, is potentially even more so in the context of public services. The reason for this is that in many developing countries the network of public services is still incomplete and even when complete, a wide range of people have an interest in their functioning on a continuous basis. In the mature markets of the richer countries many public services (especially infrastructure ones) tend to be taken for granted and are thus less likely to form the basis of a widespread movement. Certainly Consumers International have carried out studies on health and on public utilities in developing countries to name but two major areas of public services. The author has been involved in studies on utilities in Latin America and Central/Eastern Europe for CI in cooperation with their member organizations and their regional offices and it is hoped that a further such study may be possible in Asia. However, in this field too the extent of involvement with labour issues has been relatively slight although good contacts have been made in some cases, notably Brazil.

There, the Instituto Brasileiro de Defesa do Consumidor, IDEC, have themselves brought together providers, trade unions and regulators in a series of seminars on public networked services (energy, telecoms and water in particular) in 2000 and 2001. For a consumer body to “play host” in this way is something of an innovation, and the occasions resulted in wide press coverage. But while such contacts exist at national level, CI has few bilateral contacts with business or labour at global or regional level, although it is possible that they may develop during the course of discussion of the General Agreement on Trade in Services (GATS).

5. Financing of consumer organizations

The constitution of Consumers International clearly rules out party political affiliation and has traditionally prohibited financial connections with commercial or trading ventures (other than their own commercial activities in connection with consumer reports). Consumer organizations may not accept advertising and must not endorse companies, although they do report the performance of their products when tested. The rules on advertising are strictly monitored and one Canadian association was expelled from CI for taking advertising, and applicant associations have been denied membership for the same reason. There is consideration of allowing the development of partnerships with businesses just as is allowed with government, providing that independence and freedom of public comment is maintained. The issue remains controversial and for the moment, commercial connections are generally avoided.

While Consumers International’s rules for the definition of the “consumer brand” form a vital safeguard for the integrity of consumer organizations, there is no doubt that the limitations on sources of finance have inhibited the growth of consumer organizations (or rather in some cases, organizations calling themselves consumer organizations). It was very difficult even for the rich country associations to get established and many had to have either external assistance from other consumer organizations, or government funding. Many now get by on the basis of specific service or research contracts from international programmes such as USAID or national aid programmes (especially Germany, Netherlands and the United Kingdom in Europe) or in the case of the post-Communist countries, the large scale reconstruction programmes such as PHARE and TACIS. Contract work is of course constrained by the terms of the contracts and are in any case an insecure basis for long term funding. It is not surprising then that many of the developing country

associations suffer from chronic insecurity about resources and often have to turn to governments for help, with the inevitable questions then being asked about their independence.

It is clear that there is no easy solution to this problem, although in the area of public utilities there is an American formula which seems to work and is worth considering in the context of local public services. Many local utility consumer groups in the United States are funded by a small levy on the bill. This equips the group with funds to hire staff, handle complaints and to present cases to “rate hearings” before Public Utility Commissions. As the levy is mandatory there is no temptation for the utility company to set up a “tame” consumer group, and there is no direct link between the providers and the consumer group, and therefore little scope for undue influence. Whether the levy is placed on the company or on the consumers does not matter very much because the individual sums per customer are very small. Public services are particularly well equipped in this respect as they have a mandatory element and often a payment mechanism which allows for a regular source of funds. Certainly, the present situation is one in which it is very difficult for consumer bodies to maintain their independence and financial security.

6. Ethical trading

One area, unrelated to public services, in which labour issues are coming to the fore in the consumer movement world-wide is that of international trade and its interface with shoppers. Many consumer organizations in the EU, including several BEUC members, have developed an interest in the issue of ethical trading. This has led to the development of the process of consideration of labour conditions,. This process then results in reports in consumer magazines such as that of Verein für Konsumenten-Information the Austria consumer organization who have done recent reports in their publication Konsument on goods as varied as jogging shoes, jams and washing machines. A similar phenomenon which involves consumers on a daily basis is that of fair trade labelling, although this mainly focuses on conditions in the countries from which products are being imported. While this is not the focus of this study, it indicates that there are nevertheless areas in which consumers and trade unions can cooperate. However, this subject too can raise contentious issues and for example in the context of international trade and its regulation, consumer organizations have tended to be opposed to a “social clause” in the GATT for example, a clause which many trade unionists have supported. (In this debate, the developing country consumer organizations have tended to oppose the social clause, thus striking similar positions on labour questions to their governments).

7. Informal consumer groups

This last issue brings up one recent phenomenon, namely the development of informal or even spontaneous consumer organizations, sometimes developing in response to high profile issues like globalization of trade. One should not exaggerate the extent to which this is a new phenomenon. Particularly at local level, and particularly vis-à-vis public/municipal services, it has long existed in the form of tenants associations, local environmental or transport groups, educational pressure groups and health self-help groups. In Germany alone there are some 100,000 self help groups of one kind or another. Such informal groups will frequently develop links with local trade union members often again on an informal basis. This will doubtless continue.

8. Impact on local public services: Actual and potential scope for dialogue based on consumer rights

Even though the history of the involvement of consumer organizations in public services is patchy, there is no intrinsic conflict between the interests of consumers and those of workers. On the contrary, if one looks at the list of consumer rights as set out by Consumers International and based on the 1985 UN guidelines it is clear that there is issue after issue on which there are great commonalities of interest. The rights are as follows:

- the right to satisfaction of basic needs;
- the right to safety;
- the right to be informed;
- the right to choose;
- the right to be heard;
- the right to redress;
- the right to consumer education;
- the right to a healthy environment.

In terms of municipal services the implications of these standard rights can be extrapolated, although they will vary from system to system in the extent to which they are met by municipal and by state or even private services. This makes generalizations difficult and case studies appropriate, some of which are summarized below.

8.1. The right to satisfaction of basic needs

For the consumer movement this has usually been taken to cover such basic products as food and potable water and such basic services as sewerage, energy and in some cases, housing, although this latter issue has tended to be neglected. Some organizations (including the author's own) have also been involved in matters of minimum income guarantees to allow consumers to be able to afford access to these basic needs.

Almost all of the above are covered by municipal services in some parts of the world. The least likely to be municipalized are food and minimum incomes although they too are provided for the very poorest by some municipalities. There is consumer involvement in the French and German social insurance funds, although often through union participation rather than directly through consumer organizations. Some of the services are facing programmes of privatization (such as water/sewerage, energy); and housing is a mixed economy, moving towards greater private ownership. There is little discernible pattern of centralization or decentralization in these basic municipal services. Water and sewerage services are moving slowly away from municipal control towards integrated river basin management, which can be either centralized or decentralized depending on geography and municipal structures. Energy is becoming less municipal, but this could in fact lead to consolidation. Housing is the service in which decentralization seems most likely to take place, a trend with which some consumer bodies have been in agreement at least in management terms. Of the above basic needs, food is by far the greatest area of consumer work, followed by health. But basic infrastructure services have been worked upon and are seeing more work in the context of liberalization. This is particularly relevant in the light

of the current review of the General Agreement on Trade in Services (GATS) currently under way in the World Trade Organization.

8.2. The right to safety

Huge attention has been paid to this issue by consumer organizations in recent years, especially in the EU. And it is frequently a matter also for municipal authorities who often provide the local inspectorates, covering dangerous products both food and non-food. There is clearly scope then for collaboration which already happens widely, usually through representative structures at national level where inspectorates and consumer bodies will often have seats at the same table. There is a move towards centralization. Some services have long been centralized such as the French Direction Générale pour la Concurrence, la Consommation et la Répression des Fraudes. However, elsewhere such as the United Kingdom, centralization is developing in response to food scares. The same may be happening at EU level with the development of a European Food Agency. Care needs to be taken in this respect as so many food scares are of local origin, impossible to police from the centre. Most consumer organizations would want local surveillance, but national or international standards, and the capacity for national and international action as the food market becomes more globalized. The search for consistency in standards has been a force for centralization, but it could endanger the rigour of local inspection if it is combined with greater central control of financial resources.

One interesting case in point was the BSE (“mad cow”) case in the United Kingdom. Although new controls on meat hygiene were brought in during the late 1980s to prevent infected meat from getting into the food chain, it was feared that the poor enforcement led to a risk of continued “leakage” of the infection. That enforcement was the responsibility of the local public health agencies. Consequently in 1995 (the year before the confirmation of the link with CJD) the supervision of meat hygiene was transferred to the national Meat Hygiene Service, at that stage under the roof of the Ministry of Agriculture. (It has subsequently been transferred to the Food Standards Agency, a free standing government agency.) The report of the independent Phillips enquiry into BSE concluded that there was a marked improvement of supervision subsequent to the transfer of meat hygiene supervision from the local to the national level a clear case of centralization. This may however have been due to greater resources being made available nationally, as local municipalities have to balance their budgets to allow for a wide range of responsibilities.

Health services have seen an enormous variety of specialized consumer organizations developing, some based on particular medical conditions, starting out as support groups for sufferers or those who care for them. Others have pursued particular principles such as the campaigns for rational prescribing undertaken by Health Action International in many parts of the world. Many such bodies do not define themselves as consumer organizations and so it is very difficult to sum up the picture. Particular local situations produce particular surges of interest. There is for obvious reasons a great deal of interest in the issue of intellectual property and medicines in Africa in which consumer organizations from the United States have lent support. There is increasing interest in Central and Eastern Europe in the study of the organization of health care, following the collapse of many of the pre-existing systems.

There is a move to decentralization in health services, although there remain some very large organizations in this field. Again one should not assume that decentralization goes together with privatization. In fact, demunicipalization can mean “centralization” of publicly run services such as health or education. The United Kingdom’s National Health Service is the largest employer in Europe since the shrinkage of the Red Army! But whatever the picture, health is one of the areas in which the interest of workers and consumers is most congruent. The same is true in other areas such as safety in services

such as fuel and water. Again, this issue will come to the fore in the context of GATS in which great fears are being expressed by NGOs and unions about the risk of loss, not only of local but even national control of such services.

8.3. The right to choose

This is probably the issue on which there has been most conflict between unions and consumer organizations. For consumer choice has been most widely associated with liberalization of markets about which there has been so much fear and controversy. There have been great controversies over choice in health, education and utilities, rather less in transport, other than the fiercely debated issue of liberalization of air transport. Where liberalization of rail has happened as in the United Kingdom, it has not been successful and there is wide agreement on that between consumers and unions.

The disagreements that have arisen should not be exaggerated. In developing countries, the crucial questions have been the development of the public services rather than the matter of choice. For infrastructure services, rising charges have usually brought a debate about competition and choice, as consumers have resented paying more to a monopoly. This is an area where some consumer bodies have warned against the illusion of choice, sometimes a cover for privatization programmes, which have ended up with privatized monopolies. If there is a consensus among consumer bodies, it is that choice “where appropriate” should be provided, namely outside of the natural monopolies. Consumer organizations in rich countries have tended to steer clear of the policy issues of choice in health and education, while informing consumers of their rights to appeal against say the allocation of a school or doctor. It is the perception of “consumerism” rather than the consumer organizations themselves which has been the driver of choice in such circumstances.

8.4. The right to be heard

The history of consumer representation is very complicated. Progress in terms of recognition of the need for consumer representation is clearly there world wide but it has been haphazard and at times consumer bodies have over-reached themselves by achieving representation without sufficient expertise to be able to contribute. At global level, representation is happening in bodies such as Codex Alimentarius, the international food standards body. As we have seen already, there have been disputes over the representativeness of trade unions on behalf of consumers, especially at EU level. However, in some post war models of social partnership such as France and Germany there is a long tradition of unions representing consumers in their capacity as “social partners”. This should not be ignored.

At municipal level the issue is still more complicated. There has been a widespread assumption that municipal ownership in itself provides representation because the municipal councillors are there to represent individual consumers. This is not completely groundless wherever there is a universal franchise and after all “we are all consumers” including those same councillors. But this is a simplistic argument which ignores the fact that for long periods of their lives people have special needs, which cannot be articulated at the ballot box. The needs of schoolchildren (a particularly difficult group of consumers to represent), of patients, of passengers, will vary according to personal circumstances, and to an extent that can hardly be expressed through voting. Alternative representative structures are needed and in that process, councillors do indeed have an important role to play, not simply as a means of obtaining service for their particular constituents, but also as consumer representatives, improving the running of municipal services. However, for really detailed knowledge of the consumer view of a service there is no substitute for

asking consumers directly. This can be thought of as threatening to workers in a service as in theory existing ways of doing things can be questioned. In practice, repeatedly it has been found that dialogue does not have threatening consequences.

8.5. The right to redress

Many consumer associations around the world have tried to develop advice services to individual consumers, sometimes through legal advice clinics, sometimes through telephone advice lines. Such advice quite frequently revolves around complaints about public services. It may be paid for on an itemized basis or may be part of the service to members. This exposes the same dilemma referred to earlier. It is that consumer bodies providing services to their members on an exclusive basis will, by definition, be exclusive and therefore ignore the needs of many of the poorest consumers. On the other hand providing a large scale advice service to non members is a cross subsidy that can only be carried out to a limited degree without causing serious disruption to the organization. Many consumer bodies struggle with this problem and, being often very idealistic people, try to help non members on an altruistic basis. The Brazilian IDEC has subsidized legal advice to the general public using the revenue coming from their product testing magazine, a process which they found very difficult to maintain. Altruism is very hard to maintain on a permanent basis and so consumer organizations have used a variety of methods to fund legal actions on a more sustainable basis. The Russian consumer organization, the Inter-Republican Consumers Federation (KONFOP), applies a small charge for the service and are highly skilled in recovering costs from court cases, while the German consumer advice agencies get revenue from fines imposed on producers by the courts.

The difficulty is that by taking cases for individual non-members, the associations find their other work disrupted. But by acting for the generality of consumers on test cases, the associations find themselves moving away from advice to individual members. There is a permanent tension therefore, between being a membership body and operating in the general public interest. This is unfortunate from the point of view of policy formation, for the pattern of complaints can be a valuable indication of the state of the service in question. But, organizations that do case work become overwhelmed by the sheer pressure, their focus diluted by the width of subjects covered. Although many want to be able to synthesize the problems that people bring to them and to make proposals for reform, somehow the immediate problems of their clients always take priority. It is difficult, to develop a policy making function which will not be relegated by day to day pressures. Such problems then make it very difficult for consumer organizations to think laterally, despite the breadth of their remit.

Again, dealing with complaints could be thought to be threatening to the workforce of an organization. In practice, redress mechanisms can defuse tensions that exist between service providers and consumers. They also have the useful function of exposing faults in systems which are not attributable to individuals and as such they are welcomed by the unions. There will be some instance of abuses perpetrated by staff which do have to be subject to investigation. But in practice, while some unions may not welcome the bringing of particular cases they will find it difficult to dispute the right of consumers to bring them. However, in so many countries there is not an independent mechanism for such matters to be investigated. In this respect the development of the Ombudsman has been remarkably popular.

The original Scandinavian model of Ombudsmen has been a spectacular success around the world. Starting in Scandinavia and later in the United Kingdom as a guardian of the citizen's rights vis-à-vis public services, such as health and local government services, it has now spread to other sectors. The Scandinavian countries have Consumer Ombudsmen intervening in disputes between retailers and consumers, while in the United

Kingdom the concept has spread to the private sector on a sectoral basis. The notion of the Ombudsman has proved to be a very consumer-friendly one.

Ombudsmen are just starting to develop in public utilities and that is where the recent Latin American experience will be watched with interest. For in Peru and in Argentina (and possibly elsewhere) the office of the Defensor del Pueblo has been given the duty to consider cases relating to public utilities. The concept derives from recent Latin American history in that it grew out of a concern for the development and maintenance of human rights. It is an extremely interesting development and one from which the rest of the world may have a great deal to learn. The concept of citizens having a right to these most basic of services as part of the range of citizens rights could well be path-breaking.

8.6. The right to consumer education

This is a matter on which there is virtual unanimity world wide and equally widespread difficulty in obtaining funding to mount programmes. There is great debate as to whether it is best to promote consumer education among adults or children or whether, in the case of children, it should be a specific subject such as home economics or whether it should permeate the curriculum. In this field there is already huge contact between consumer organizations and professionals in education at municipal and other levels, and a great deal of common interest, both in terms of the outcome and in terms of the desirability of expanding the service. It is not developed here in greater detail because it is relatively uncontentious in terms of consumer/union relations.

8.7. The right to a healthy environment

Consumer organizations were relatively late into this field, but have taken it up with great enthusiasm in such contexts as “responsible” or “sustainable” consumption. So the outlook tends to be one of self-education connected with the above issue of consumer education, but also of demands for decent standards of service in such matters as sewerage.

Of course one major issue for the poorest communities in Africa and Latin America is the basic issue of extension of the networks of public service. Much important work is being done there in terms of self build projects. There are many conflicts relating to security of tenure in shanty towns and the authorities have sometimes reached an accommodation by granting security in return for only the most basic levels of provision, such as stand-pipes for water or roofs for self build schools and health centres. This raises a massive issue in terms of equity between those citizens who contribute their own labour but still have to pay the same tariffs for such services as water and sewerage. In theory there is scope for conflict between trade unions and residents as self-build could be seen as undercutting organized labour. In practice, as there is often no alternative presented but self build, then this is a natural area in which to join forces. Residents would gain from the expertise which unions could provide and unions may be able to make the case for more permanent work of a higher standard. Consumer organizations in West Africa and in Latin America have worked on this area of concern to some of the poorest. This is an area with enormous implications for municipalities, indeed it could give them a whole new *raison d'être*, especially those municipalities recently established due to population growth.

In Peru for example, during the mid-90s, the inhabitants of the *pueblos jóvenes* (shanty towns) were paying as much for deliveries of drinking water from trucks as consumers paying for water and sewerage services in Europe. This indicates that resources are made available by consumers, but in a very inefficient and expensive way. There are therefore huge potential gains to be made for workers and consumers. For the developing country consumer bodies to address these basic infrastructure issues would be a major step

forward, bringing in to the movement a large population often highly concentrated geographically.

9. General agreement on trade in services (GATS)

There is one new issue which is likely to provide an incentive to greater working together by labour consumers and indeed employers too. This is the review of the General Agreement on Trade in Services which is currently taking place. Although the GATS was signed in 1995 it is a framework agreement and unlike most other elements of the General Agreement on Tariffs and Trade, leaves to national governments the power to decide in which sectors (and indeed modes of provision within sectors) the GATS rules will apply. Furthermore, individual sectoral agreements were not made at the time of the Marrakech Treaty in 1995 and the only public service to be the subject of a major agreement since then is Telecommunications. This has been relatively uncontentious because it has been signed up mainly by the OECD countries and they were putting into effect most of the content anyway (such as autonomous regulatory structures, Universal Service, etc. embodied in EU Directives for example). Even if developing countries sign up they may find it less dramatic than the kind of privatizations that have taken place already (indeed they may find that it helps them to maintain a more rule-bound process). Some concerns are being expressed about the implications of liberalization for say, tariff policy in the future.

Nevertheless, greater fears are starting to be expressed about the implications of the GATS for other sectors such as health, transport, education and environmental services, all of which are prominent among municipal services. Consumer organizations in the Trans Atlantic Consumer Dialogue (EU/United States consumer organizations) are getting very exercised about this and it has been flagged up for some time now by such labour groups as Public Services International. All this to say that while the previous scope for consumer and labour organizations to cooperate has been limited, there is likely to be an upsurge in interest during the coming years as the GATS really takes shape.

10. Where do we go from here?

Given past history, there is a need for realism in what can and cannot be achieved from collaboration between consumer organizations and workers organizations. Employers too, wearing their “provider” hats, need to be in the discussions. The scrutiny of the basic consumer rights indicates that there is considerable scope for practical cooperation. This, in practice, is far more useful than “getting to know you” exercises which usually peter out with vague sentiments of good will on all sides. Scrutiny of the CI consumer rights indicate that there is a strong community of interest in terms of the achievement of *basic needs*, and *consumer safety*. There is a history of disagreement in terms of *choice* and also to some extent of *representation* but also examples of lower level dialogues which have helped to overcome those disagreements. *Redress* can be a sensitive issue in particular cases but the principle is not contested. *Consumer education* is marked by strong agreement and *environmental* issues pose a major opportunity for worker/ consumer cooperation.

The case studies accompanying this paper show that there is a common interest in workers and consumers collaborating on matters such as public service concessions. Model concessions need to be discussed by the employer side too. Especially clear from the case studies is that such conventions as openness to public scrutiny need to be guaranteed through the GATS process currently getting under way. The principle of transparency may

prove to be rather more important than simple ownership, although clarity of ownership is an aspect of transparency too. There is much to be done. With local and global practical collaboration it is to be hoped that it will never again be said that consumers want to send small children up chimneys.

11. Case studies

11.1. Water: Hungary

Hungary provides a case study of different models of ownership of services within the same country and in the same industry, namely water and sewerage. The three contrasting cases of Budapest, Szeged and Debrecen illustrate the need for scrutiny of the process of demunicipalization and the need for consumers to play a part. Debrecen is particularly interesting in having started to privatize and then turning back because the terms were not felt to be suitable.

Following the political changes at the end of the 1980s, Hungarian water and sewerage services were municipalized having previously been owned and run by the state. The consequence of municipalization was the fracturing of the industry as by 1995, 232 municipal companies replaced 28. The continued existence of five state run regional companies complicated matters further. The period also saw highly volatile prices as subsidies were withdrawn. The resultant higher prices combined with metering saw the reduction in water consumption from 1.6 cubic metres per day per person in 1988 to 0.65 cubic metres in 2000 as prices rose by thousands of per cent. In Debrecen for example, consumption of domestic water declined by 4-5 per cent per annum during the mid-1990s.

During this period, the notion of joint ventures or concession agreements took hold, particularly associated with economic liberalization. Three examples are given below:

11.1.1. Szeged Water Company (*Szegedi Vizmu*)

Szeged went down the partnership route in 1993 with Générale des Eaux (GE now Vivendi). The original contract and was (and remains) for a GE/municipality 49/51 per cent split in share ownership for, under Hungarian law, water companies cannot have majority foreign ownership. However, while this appeared to guarantee municipal control, the daily operation of the company Szegedi Vizmu was entrusted to a subsidiary company owned 70 per cent by GE. For this work, an annual fee was charged.

This arrangement was criticized on several grounds. The arrangement with the operations company was not open to tender. (Theoretically the initial bid by GE should have been, although that too is generally considered to have been applied in a very untransparent way). Although price increases for domestic consumers were restricted to the rate of inflation, the management fee was criticized by some as being excessive. The operating company did not operate with a Board of Directors, although there is legal dispute as to whether such a Board was strictly necessary. Furthermore, the pricing structure was criticized for allowing open-ended guarantees to the company that losses would be made good by the municipality if revenue did not cover costs.

The contract has been subject to an almost permanent process of renegotiation. The initial contract was agreed in 1993 only for it to be subjected to nearly four years of renegotiation after the change of political control from Fidesz (Liberals) to the socialists in 1994. This process took until 1998 when political control shifted back again to Fidesz.

Further renegotiations have continued until spring of 2001 when a settlement was finally agreed for a further 15 years.

Under the new arrangements, the Management Board no longer has a majority of Vivendi members. (Previously the arrangement provided for a GE/Vivendi majority on the Management Board with three members to the municipality's two, and the Supervisory Board had three municipal representatives, Vivendi one and the workforce two). From now on, the municipality will have a majority on the Board and on the Supervisory Committee, which will have the last say on tariff levels. Furthermore the cost of the revenue guarantees to the company will be triggered not by charges imposed on the customers but by reducing the amounts attributable firstly to the development work and secondly, the reconstruction work. If these programmes are totally extinguished (and they take 30 per cent of the total revenue) then indeed the municipality will have to pay the shortfall. To secure this mechanism, the water company will pay to the municipality revenue which will be spent on investment and reconstruction, and that revenue will act as a reserve for the net revenue shortfall.

This might seem to run the risk that the investment programme could be "raided" by the company if costs rise, thus compromising future generations of customers and delaying work on extending the sewerage network. In the meantime however, the company has adopted a pricing policy of inflation plus zero for prices to consumers and no compulsory redundancies of workers, a deal which the union has found more acceptable than in other locations in Hungary. The profit level is currently 2.5 per cent

Despite the concerns, the pricing policy has produced very low prices and a moderate rate of increase, only the same as inflation. The good reputation of the company in the city has been attested to by opinion surveys at local level, attested to by management and unions.

11.1.2. Debrecen water company (Debreceni Vizmu)

Having also embarked on the process of awarding a concession in 1993, Debrecen city chose not to go down this road, after having taken proposals from two major multinational companies, GE and Eurowasser (a consortium involving Lyonnaise). The initial winner of the tendering process was Eurowasser but Debreceni Vizmu's own management felt that it could match its terms, a view in which it was supported by the unions. DV argued that its revenue flow was good because of the good payment record of its customers. Again, a change in municipal control from Fidesz to the socialists had a bearing on the outcome. The new Council authorized the company to draw up an agreement with banks (Hungarian Credit Bank, EBRD) in order to develop an alternative to the concession agreement, negotiated by their predecessors.

In 1995 the Council decided to withdraw from the concession negotiations and to transform the municipal company, The new entity was an autonomous joint stock company with municipal shareholding. The result has been 150 per cent more investment than originally planned under the concession (because of a 60 per cent lower unit cost) and far lower prices than had been proposed (less than half the rate of increase). Far fewer job losses were necessary and those that happened were agreed to be applied through natural wastage, not imposed compulsorily. Price increases have been moderate, one or two per cent above the rate of inflation and the profit levels have risen to between 8 per cent and 9 per cent annually compared with the old level of three per cent at the time of the initial municipalization. Profits increased fourfold between 1997 and 1998 largely due to adjustments in sewerage charges, which usually led to a deficit in the past. This then is a successful example of municipal reorganization delivering good value to the customer and retaining the goodwill of the workforce.

11.1.3. Budapest

The case of Budapest, where water and sewerage run under separate contracts, is much more contentious than those of Szeged or Debrecen. Although there was a competitive tender for the water services contract, the partnership in the joint venture was awarded in 1997 to the company which paid the highest "entry price" into the market, and not the lowest service price for consumers. Once again the municipality had a majority of shares, this time 75 per cent, while the winning consortium of Suez-Lyonnaise/RWE, had 25 per cent. Also again there was a management contract for the operations, for which the contractor was Suez-Lyonnaise. Certain guarantees were provided for the workforce (necessary anyway under Hungarian law) and so one could say that it was the consumer dimension that was missing from the agreement which was scarcely debated in the city Council at the time, commercial confidentiality being invoked.

The consortium paid three billion HUF (Hungarian forints) higher than the next highest bid although the water tariff was three HUF per cubic metre higher. (To put these figures in perspective the whole water company was valued at about 30 billion HUF and the value of the agreement at 17 billion HUF. Water prices rose from 2 HUF per m³ to 100HUF per m³ during the course of the decade). (The currency rate at the time was about 250 Hungarian forints to the US dollar.)

During 1994-96, in anticipation of an agreement, the price of water doubled and the workforce fell by 19 per cent from which point it was agreed not to reduce it by more than a further 10 per cent by 2001. In other words, the impression is created that the enterprise was slimmed down and its prices increased in order to secure for the municipality a high sale price for the concession. But if the concession holders paid a high price they received a high fee in exchange. The fee was between 2 billion and 2.5 billion HUF per annum despite losses running at one billion HUF per annum, thus costing the city an annual total of 3.5 billion HUF around US\$15 million. It should be noted however, that Budapest water prices are the lowest of any big city in Hungary (and sewerage charges are also below average).

In 1999, the municipal representatives on the Board rejected the business plan which envisaged the continuation of such losses and fees and the management fee was negotiated down by 1.5 billion HUF, under pressure from the newly elected mayor. However, this will necessitate 600 job losses and the Works Council is very critical of the relations between the management and the workforce, in contrast to those prevailing in the sewerage side of the Budapest service.

11.1.4. Lessons learnt

From the point of view of the municipality and the workforce then the Budapest situation seems to have been the least satisfactory of the three cases studied in Hungary, although that is being renegotiated as in Szeged. The structure of the agreement reached with the foreign partners seems to have been influenced by the need for the city to acquire a good price for the business. This in due course back-fired both on consumers and workers but also on the city because of the losses it has had to guarantee. Probably, the deal may backfire on the company itself, which has incurred those losses and has had to instigate job cuts.

In contrast, what is interesting about the cases of Szeged and Debrecen is not so much their apparent differences as their similarities. In both cases there were political motives for the actions taken by the municipal councils. (This is not to denigrate politics. Water supply is a political issue and rightly so.) In Szeged, Fidesz approved a privatization policy in 1993 which the incoming socialists tried to renegotiate on coming to power in 1994. This process lasted until 1998 when Fidesz were re-elected, but nevertheless sufficiently aware

of public disquiet to continue the process of renegotiation. That process is now largely completed, but the company remains as a public/private joint venture.

In Debrecen in contrast, the negotiations were stopped by the socialists before the partnership had begun operations and the municipal company was restructured and kept in municipal ownership. It is worth noting the importance of the good customer payment record in making the agreement with the banks viable. Furthermore, in both cases the evolution of the companies has been accompanied by considerable outside assistance, in the case of Debrecen from the Swiss government and in that of Szeged by the EU.

In both cases, the public debate and exposure could well prove to have been beneficial to both the workforce and to consumers, for job losses have been restrained by agreement with the unions, price increases have been moderate (at or slightly above inflation) and the more contentious elements of the privatization plans have been either abandoned (Debrecen) or substantially modified (Szeged). In both cities, domestic water and sewerage charges are among the lowest in Hungary.

Consumer organizations played very little part in this debate although the National Association for Consumer Protection (OFE) did carry out a study of public utilities in 1996 under the EC's PHARE programme. Their recent activities have been restricted to the rights of individual consumers vis-à-vis the companies rather than the scrutiny of concession agreements. For example OFE are consulting the government about the rights of block-metered tenants who have to carry the cost of the bills of fellow tenants who have not paid their bills. This is a common problem in the Central and Eastern European countries in several sectors including central heating and OFE argue as do other consumer organizations for the development of individual liability.

If there is a message to draw from the contrasting examples it is that the greater degree of public scrutiny of the Szeged and Debrecen agreements led eventually to better outcomes than the more secretive Budapest agreement. There is a real need for consumer organizations to develop the expertise to be able to scrutinize agreements when still at the draft stage.

One related issue is the degree of international concentration of private water contracts. According to Public Services International, the two largest French companies, Vivendi and Suez-Lyonnaise account for 53 per cent of the world's private water contracts and the top three French companies exceed 60 per cent. Yet there is no global competition policy something for which Consumers International have called many times. Consumers need to be organized then at national, local and global level.

11.2. Electricity: Rio de Janeiro

A similar debate over ownership surrounds the saga of the privatization of Rio Light Company in 1996. Providing 80 per cent of the energy requirements of the city-state of Rio de Janeiro, the company was taken into public ownership and bought from its Canadian owners in 1978 for a sale value of US\$380 million, a sum far exceeded by its external debts of US\$700 million which were also paid off by the state. In 1992 the sale of Light was proposed, illegally in the view of the Trade Union, SINERGIA/Rio de Janeiro, who put forward their own proposals for a multi-stakeholder ownership involving the state government, prefectures, municipalities, workers, the general public, large consumers and private investors.

The Brazilian Government instituted a more conventional privatization in 1996 for which the controlling stakeholder group included two American companies (Houston and AES) and the management was taken on by the European state-owned company,

Electricité de France (EdF). These three partners each had 11.35 per cent of the shares exceeding the 32.5 per cent stake of the Brazilian state holding company Eletrobras. Edf supplied the management and was therefore seen very much as the senior partner. Other senior partners in the 60 per cent share sell-off were the Brazilian development bank and the giant steel company CSN.

Privatization took place in May 1996 and was followed soon after by a series of job cuts which soon reached 35 per cent within a year, and 40 per cent within two years, with most of them on the operational side (as opposed to administration and management). The effects are highly contested. Light claim that from the first half of 1996 to the first half of 1997 the frequency of “outages” was reduced by 16 per cent and their duration by 29 per cent. Yet the Union point to the almost threefold decline in frequency and duration of outages between 1978 and 1992. Light point to the improved consumer-employee ratio of 461 by end 1997 compared with 247 at the time of privatization. The union counter that the ratios were already improving and had done so from 110 in 1978 to 208 in 1992 and on to 247 by 1996.

During the course of 1996 and 1997 tariffs were increased by 8.6 per cent (November 1996), 5.6 per cent (May 1997) and four per cent in August 1997. By January 1997 complaints to PROCON, the state consumer protection agency, had increased by 170 per cent. This was accompanied by the campaign to reduce electricity theft portrayed in terms of “gatos e cachorros” (“cats and dogs” or rather in the Anglophone context “cat and mouse”). This high profile campaign was accompanied by diverting staff from operational duties to “map” the client base. Despite the wide measure of agreement that theft needed to be reduced (17 per cent of power is “lost”) and the intention to present the campaign in a light hearted manner, this campaign grated, especially when contrasted with the fact that the projected 1997 profits were about double those of 1996 (173Rs). Hence the public were already impatient before what was to come in the “Verão do Caos” the “Summer of Chaos” of 1997/98 (Southern hemisphere). Faced with the record temperatures caused by “El Niño” and the resulting demands for air conditioning, massive blackouts occurred taking in zones of the city which had previously been relatively immune such as Copacabana and Ipanema. Indeed cynics have argued that the episode only became a story because it hit areas where journalists live, the poor having always faced such cuts.

Complaints to PROCON increased by 500 per cent and the Energy regulator ANEEL (Agencia Nacional de Energia Eletrica) called public hearings at which calls were made by the Union and technical witnesses for the concession to be revoked. (One of the public hearings was halted by a power blackout!) In the event a US\$1.8 million fine was imposed on the company, which suffered needless to say considerable public embarrassment, although not serious financial consequences. The state-owned EdF in particular was criticized for not applying in Brazil, the mechanisms which it applies in France for “participação da sociedade”, accused by the unions of having submitted to a “visão capitalista”.

11.3. Lessons learnt

What conclusions are to be drawn from this story? The figures are not particularly supportive of the case for privatization in 1996. The company before privatization had lower dollar residential tariffs than under the previous Canadian private ownership, although comparisons are notoriously difficult because of currency fluctuations against the dollar. The number of employees had fallen between 1978 and 1992 by 20 per cent and the number of consumers gone up by 70 per cent. As noted above the ratio of consumers to each employee had improved, by 89 per cent and megawatts per hour per employee by 29 per cent.

Whatever the fairness of the comparisons, one can well imagine the consequences of losing such large numbers of operational staff in a system which had grown in an irregular and idiosyncratic fashion. The local knowledge required to improvise repairs was very difficult to replace once lost, this being the kind of knowledge that was passed on, on a very personal basis within the workforce. In the light of the Verão do Caos it is hard to dismiss the possibility that the motivation for the privatization was to gain capital for the government. Indeed this is confirmed by the fact that the Brazilian government felt obliged to step in, through its development bank with a tranche of US\$300 million to reach the minimum sale price of US\$2.2 billion. Even that amount is somewhat depressed for a 60 per cent stake compared with the 1992 full valuation on the Stock Exchange of US\$4.5 billion. The privatization has been described as a “distress sale” and one Brazilian government minister described it as an “embarrassment to the privatization programme”. The problem was further compounded by the absence of a proper regulatory authority ANEEL until late 1997 when the privatization had taken place in Spring 1996.

Consumer organizations played relatively little role in the privatization process. This is frustrating as Latin America’s largest consumer organization, the Instituto de Defesa do Consumidor, is to be found in Brazil. Furthermore they have now assembled considerable expertise in the area of public utilities following the project carried out by the Latin American office of Consumers International in five Latin American countries (in which the author participated). This work which is still being developed did not really arrive at the point of cooperation with the Unions until late 1997, that is after privatization but before the Verão do Caos. However, IDEC does have good relations with the unions whose previous campaigning contacts on this issue had been with Associações de Moradores (Residents Associations) whom they considered to be too readily influenced by the company. IDEC (with offices in Rio and Sao Paulo have conducted seminars during 2000 and 2001 on utilities and have built up their technical expertise and their relations not only with the unions but also with the regulatory bodies too. The trend would appear to be in the right direction but there are huge problems ahead.