

Water becomes the new oil as world runs dry

Western companies have the know-how - and the financial incentive - to supply water to poor nations. But, as Richard Wachman reports, their involvement is already provoking unrest

- [Richard Wachman](#)
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The midday sun beats down on a phalanx of riot police facing thousands of jeering demonstrators, angry at proposals to put up their water bills by more than a third. Moments later a uniformed officer astride a horse shouts an order and the police charge down the street to embark on a club-wielding melee that leaves dozens of bloodied protesters with broken limbs.

A film clip from the latest offering from Hollywood? Unfortunately not. It's a description of a real-life event in Cochabamba, Bolivia's third largest city, where a subsidiary of Bechtel, the US engineering giant, took over the municipal water utility and increased bills to a level that the poorest could not afford.

Welcome to a new world, where war and civil strife loom in the wake of chronic water shortages caused by rising population, drought (exacerbated by global warming) and increased demand from the newly affluent middle classes in the emerging economies of Asia and Latin America.

At a City briefing by an international bank last week, a senior executive said: 'Today everyone is talking about global warming, but my prediction is that in two years water will move to the top of the geopolitical agenda.'

The question for countries as far apart as China and Argentina is whether to unleash market forces by allowing access to private European and American multinationals that have the technological know-how to help bring water to the masses - but at a price that many may be unable, or unwilling, to pay.

As Cochabamba illustrates, water is an explosive issue in developing countries, where people have traditionally received supplies for free from local wells and rivers. But in the past 15 years rapid industrialisation, especially in places such as China, has led to widespread pollution and degradation of the local environment.

A report out today from accountancy giant Deloitte & Touche says humans seem to have a peculiar talent for making previously abundant resources scarce: 'this is especially the case with water,' it observes.

According to the firm's findings, more than 1 billion people will lack access to clean water by next year. Paul Lee, research director at Deloitte, and one of the authors of the report, says: 'Demand for water is expected to be driven by economic growth and population increases. India's demand for water is expected to exceed supply by 2020.'

The World Wildlife Fund has forecast that in the Himalayas, the retreat of glaciers could reduce summer water flows by up to two-thirds. In the Ganges area, this would cause a water shortage for 500 million people. Lee says: 'The lack of the most important form of liquid in the world is therefore a fundamental issue and one that the technology sector can play a major role in addressing.'

He and others, including the World Bank, believe that private industry can - sometimes - solve problems by taking water out of government hands and removing subsidies. If water becomes more expensive, so this argument goes, people are more reluctant to waste it, although Taylor agrees that government needs to make certain that the poorest sections of society are protected, and that there is 'proper [price] regulation'.

By allowing prices to rise to help meet the cost of supply, companies could upgrade infrastructure and, in many cases, build new systems from scratch.

Even in Britain it is recognized that efficiency is vital to avoid leaks. In the developing world, leakage can account for the loss of up to 50 per cent of all clean water supplies in major cities.

But protecting the poor is not always easy. Take the example of desalination. Although it offers a solution for countries where demand exceeds supply, the technological process uses a huge amount of energy, making it 'too expensive for many African and Asian countries', says Lee.

Max Lawson, senior policy adviser for Oxfam, says: 'We are sceptical that private-sector involvement is the solution for very poor countries. In fact, there is an argument that much greater public sector involvement and cash is needed to channel supplies to where they are most needed.' But Abel Mejia at the World Bank in Washington says the organization does not favor one form of investment over the other: 'We lend to private companies and governments, but we are not ideologically motivated. Solutions may need a mix of private and public money.'

The World Development Movement lobby group has in the past criticized the World Bank's enthusiasm for private firms controlling water projects; it prefers public-private partnerships, run on a not-for-profit basis.

But it is in China - the world's biggest emitter of greenhouse gas - that the water problem is most pronounced, as fears grow that the country is turning into an ecological disaster area. The head of the country's national development agency said recently that a quarter of the length of China's seven main rivers was so poisoned that the water was harmful to the skin. Moreover, water-related issues are sparking popular protests after the sanctioning of dams and irrigation projects that have displaced hundreds of thousands of people who have no recourse to compensation. Beijing has passed legislation to punish companies that pollute supplies but, in China, such laws can be difficult to enforce.

So pressing are issues surrounding water that China has invited Western companies to run systems in many towns and cities. One of the biggest is French-owned Veolia, once part of the Vivendi utilities empire. In parts of China, water provided by Veolia no longer has to be boiled, but the cost to consumers has doubled. For the middle class, the price is still relatively low - but most Chinese are not middle class. Many say up to half their income is now being swallowed by water bills. That leaves Beijing between a rock and a hard place because, like many emerging economies, it desperately needs Western know-how and technology to solve its water problems, but it is anxious to avoid the kind of civil unrest that the Bolivian government experienced in Cochabamba.

In the City of London, there is a growing realization that investing in water technology companies offers opportunities for savvy shareholders, and possibly for ethical investors. 'There is also an appetite from institutions for water-related investments - they know it's going to be big,' says Julian Sevaux, managing partner at Stanhope Capital.

Olivia Bowen, an independent financial adviser at the Gaeia Partnership, says: 'New climate change funds have recently come to market; some are well established, such as Impax's Environmental Markets Fund.'

GE and Dow Chemical are among big US companies diversifying into water services, while the UK-based Thames Water is expanding overseas.

But the crux of the problem remains: according to a report from Credit Suisse, annual world water use has risen six fold during the past century, more than double the rate of population growth. By 2025, almost two-thirds of the global population will live in countries where water will be a scarce commodity. And that could lead to conflict, as United Nations secretary-general Ban Ki-moon warned last week.

Asia looks vulnerable, with China planning to siphon off Tibet's water supply to make up for shortages in the parched north. Elsewhere, the Israel-Palestine conflict is at least partly about securing supplies from the River

Jordan; similarly, water is a major feature of the strife in Sudan that has left Darfur devastated. When it comes to this most basic of commodities, the stakes could hardly be higher.