

On Thin Ice

WTO: G8's last chance to prove it is serious about ending world poverty

Summary

10th of December is **White Band Day 3**, an international day of action on trade justice, timed for the eve of the meeting of the World Trade Organisation. This report illustrates how debt, trade and aid are linked and shows how, unless this meeting sees substantial progress in delivering trade justice, the gains made in 2005 on debt and aid may come to nothing.

The progress made on debt and aid so far has been minor: campaigners have been waiting to see whether the pledges made by the G8 leaders in Gleneagles would be followed by more substantial commitments, or whether they were merely cosmetic. The Hong Kong WTO conference is a chance for the G8 leaders to show that they are serious about ending world poverty. The world will be watching. As they fly to Hong Kong, the G8 leaders are on **thin ice**.

2005: first steps or false start?

Trade rules are rigged against the world's poor. Although trade has the potential to lift millions out of poverty, the global economic system as it stands systematically transfers wealth from the poor to the rich. It is estimated that world trade rules rob poor countries of \$2.3 billion a day: this is fourteen times what they receive in aid.

This unjust situation has not come about by accident. Aid, loans and debt relief have all been used as levers to shape the economies of poor countries in the interests of the richest. The international financial institutions - the World Bank and International Monetary Fund - have made aid and debt relief conditional on the pursuit of indiscriminate and ill-thought-out liberalisation policies by the world's poorest countries, locking them into the global system of unjust trade. It is well known that "Structural Adjustment Policies" imposed by the Bank and Fund led, in the 1980s and 1990s, to Africa becoming poorer while the rest of the world grew more affluent. It is less well known that essentially the same policies are still pursued today.

MAKEPOVERTYHISTORY is based on two crucial ideas:

- ❑ that the problems of debt, trade injustice and poor quality aid are linked. If any one of these three is left untouched it can undermine progress in the other areas.
- ❑ that fundamental, structural change is needed in each of these areas if we are to succeed in tackling the outrage of world poverty.

This short report illustrates how debt, trade and aid are linked, and just how desperately the world needs this fundamental change. As we near the WTO meeting, campaigners will be looking to see whether this substantial progress emerges. Were the pledges made at the G8 summit in Gleneagles the start of real change, or just cosmetic fixes designed to pacify campaigners? The next ten days will hold the answer. The G8 leaders know that the world is watching them: they ought to realise that they are on **thin ice**.

MAKEPOVERTYHISTORY

Linking debt, trade and aid: water privatisation

In July 2005 nearly a quarter of a million protesters in Edinburgh, and millions more around the world, called on the G8 to deliver trade justice, more and better aid and an end to debt. Despite the pledges made by the world leaders, however, the policies of G8 countries are continuing to fail the world's poor in each of these areas. The clearest example of this is in the way that **water privatisation** is being pushed on developing countries around the world.

Water and sanitation supplies in developing countries are desperately in need of a large injection of capital: economists at the World Bank and the G8 believe that the best way to do this is to privatise water industries and allow the private sector to bring in the needed investment.

However, it is extremely doubtful that the private sector can provide the solution to this serious problem. The private sector doesn't bring money, it follows money, so incentives for the private sector to invest will be low. Moreover, water is a natural monopoly, and without competition to drive extra efficiency the private sector has little hope of matching the public sector. The public sector has access to cheaper finance and, due to democratic accountability, will be more likely to prioritise service to the poor over shareholder profit.

The G8 support for water privatisation leads to benefits for multinational companies based in the already developed world. The most frequent lead companies taking over privatised water systems in West Africa, for example, are Vivendi, Saur (France), Bi-water (UK), Aguas de Portugal and Northumbrian Water (UK). (Source: Michael Goldman, *Imperial Nature*, Yale University Press 2005, p.225.)

In the vast majority of cases, water privatisation fails to bring benefits to the poor. From Ghana to Guyana, Manila to Madhya Pradesh, water privatisation means:

- Profits siphoned off to shareholders thousands of miles away, rather than reinvested in the system.
- Profit-led price hikes that don't pay for new connections although they have forced many people to choose between clean drinking water and essentials like food, shelter and education.
- Private companies being bailed out with public money - increasing the debt burden on poor countries, or diverting vital aid.

Despite this, the G8 leaders continue to use debt and aid to push, promote and support policies which result in water privatisation.

DEBT Privatisation pushed as condition on debt relief

In order to receive debt relief, countries have to agree a Poverty Reduction Strategy with the International Monetary Fund. This is a national plan aimed at restructuring the economy, ostensibly to ensure that the poor benefit from debt relief money. In practice, these strategies are used to create a business environment favourable to private sector delivery of social services and central to this is privatisation of state industries. Out of 50 current Poverty Reduction Strategy Papers housed at the International Monetary Fund (IMF), a recent World Development Movement study found that 90 per cent contain privatisation measures, including water privatisation.

MAKE POVERTY HISTORY

At Gleneagles the G8 announced debt cancellation worth \$17 billion (equivalent to \$40 billion over the next forty years), which could reduce the debts of some of the world's poorest countries by up to half. This debt cancellation is only available to those countries that have drawn up a Poverty Reduction Strategy and so agreed a privatisation programme. In effect, then, the G8 debt deal will be a powerful incentive for countries to pursue privatisation processes, including privatising their water industries, to the benefit of multinational companies.

AID UK aid money funds pro-privatisation campaigns

British aid money is being used to push water privatisation on poor countries - making it less likely that clean water will ever get to the poorest people. And while poor people lose out, a group of big UK companies profits from this aid.

The UK is putting millions of pounds of aid money into:

- Consultancies
Expensive advice on water restructuring with a massive bias towards privatisation as the only solution.
- Public relations offensives
Strategies, including pop songs and videos, designed to convince objecting communities that privatisation of water is in their best interests.
- Direct funding for privatisation
By subsidising private water suppliers and the privatisation process.
- Contentious projects designed by the World Bank and IMF
By funding projects that are initiated as a result of World Bank or IMF loans.

TRADE WTO failure could undermine 2005 progress

The 2005 WTO ministerial meeting is aimed at opening up developing countries' markets and privatising their services, including water. WTO talks in Hong Kong will see an increase in targets for General Agreement on Trade and Services (GATS) requests.

GATS was originally agreed at the WTO in 1994 with the ongoing aim of removing any restrictions and government regulations on service delivery that are considered to be "barriers to trade". This removal of regulations threatens the ability of governments in many poor countries to subsidise water supplies in poor, rural areas by using profits generated from these services in densely populated urban areas. Instead, GATS further opens international trade in services which is already worth a staggering £1.5 million a minute - markedly putting profit before people.

2005 has seen the European Union become more aggressive in the GATS talks. Since June, the European Commission has been pushing benchmarks for the GATS talks. Rather than allow poor countries to decide whether to offer to open up certain services, these benchmarks set minimum standards for the quantity and quality of offers that would completely undermine the assertion that a country has the 'flexibility' to choose the level of GATS commitments that is most appropriate to its national circumstances. In effect, developing countries would have no access to EU markets unless they opened up their own industries, including water in many cases, to international competition.

MAKE POVERTY HISTORY

Authors:
Jubilee Scotland
41 George IV Bridge
Edinburgh
EH1 1EL
0131 225 4321
mail@jubileescotland.org.uk
www.jubileescotland.org.uk

WDM Scotland
7a Haddington Place
Edinburgh
EH7 4AE
0131 557 0444
kirstie@wdmscotland.org.uk
www.wdmscotland.org.uk

Conclusion

Water privatisation has met with massive opposition from communities all over the global South. On White Band Day, these communities will be joined by campaigners from Scotland and the developed world to put a spotlight on trade injustice. **MAKEPOVERTYHISTORY** endorses the Johannesburg Declaration on Trade, issued by the Global Call to Action Against Poverty.

We want trade rules and policies that ensure the right of developing countries to pursue their own development agendas, putting their people's interests first. We call on the WTO, international financial institutions and national governments to:

- ❑ Enact measures to protect public services from enforced liberalisation and privatisation, secure the right to food and affordable access to essential drugs, and strengthen corporate accountability.
- ❑ Increase accountability and transparency of governments and international organisations to their grassroots constituencies in the formulation of international trade rules and national trade policies, while ensuring consistency of trade policies with respect for workers' rights, and human rights more broadly
- ❑ Immediately end dumping and rich country subsidies that keep people in poverty.

MAKEPOVERTYHISTORY