

# Background Materials

# 13

## Between Public Well-being and Profit Interests

*Experiences of the partial privatisation of water supply in  
Berlin*

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## **Between Public Well-being and Profit Interest**

### **Experiences of the partial privatisation of water supply in Berlin**

The failed privatisation of urban water supply systems in developing countries like Manila (Philippines), Cochabamba (Bolivia) or Buenos Aires (Argentina) is often explained with the local governments' debility in negotiation, insufficient basic legal parameters and deficient regulating capacity of these nations. These problems don't occur in the developed countries – a widely held belief prevails. The experiences of a large-scale partial privatisation in the metropolis of a European core country, i.e. in Berlin, show however, that many of the problems are quite similar, like for instance the lack of transparency and the exclusion of the civil society from participating in the process of negotiation; the non-public agreements; the manipulative dealing with bills and finally the biased securing of benefits for the companies involved at the expense of the public interest.

Being the executing organisation of German development cooperation, the German *Gesellschaft für Technische Zusammenarbeit* (Company for Technical Cooperation, GTZ) supports numerous modernization and privatisation processes of basic infrastructures in the countries of the South. In the opinion of GTZ even “services traditionally categorized as public goods” like the water supply proved their “marketability” here. According to GTZ, important experiences for advisory services in the “developing countries” had been made in Germany while incorporating the “New States” of the former GDR. The following essay depicts the circumstances and alarming results surrounding this allegedly model experience – the partial privatisation of the Berlin waterworks, the biggest water company both in Germany and Europe.

„Likewise in 19<sup>th</sup> century Germany, primarily private companies created water supply and later on sewage systems”, GTZ head of department and water expert Stefan Helming explains in an article for “*Mitbestimmung*”, the magazine of the pro-union Hans Böckler Foundation, adding that Germany possesses a “first class supply” as well as an excellent drinking water quality. The water comes running “from the faucet 24 hours a day with the same unwavering pressure and in the same mint condition” he stated. Either can be confirmed without hesitation. Construction and operation of the first waterworks in German cities often originated in the initiative of private – especially English – companies, possessing both the necessary capital and experience with water supply in big English cities. Helming is right as well in his positive evaluation of the German water supply. The degree of public access to water supply and waste water disposal in Germany is remarkably high with its 98.6

per cent, and there is no need for the water quality to back away from any international comparison. Moreover, what distinguishes economics of water supply and distribution<sup>\*</sup> in the Federal Republic is its decentralized municipal company structure as well as the fact that so far only 1.6 per cent of the water companies are entirely private(ly owned).

Lacking the GTZ expert's expositions, however, is to explain why the responsibility for water supply and wastewater disposal had been withdrawn at that time from the private companies and taken over by the communities. Here lies the crux of the matter, because the municipal take-over of the water companies was after all the crucial prerequisite for the area-wide, first class water supply, as we know it to this day. Considering the partial privatisation of the water companies in 1999, a retrospective of the last 150 years of water supply in Berlin gives the impression that we turn back time, oblivious of historical experiences.

### **„Die Berliner Rinnen stinken“ (Berlin Gutters stink)**

Berlin is definitely a city abounding in water: approximately 130 rainy days a year, four rivers crossing the city and without much ado one can strike ground water. Thus till the beginning of the 19<sup>th</sup> century water supply and wastewater disposal posed no challenge worth mentioning for the people of Greater Berlin. He, who lived close to the water, drew it straight from there and elsewhere numerous fountains supplied people.

The town's industrial development was the reason for heavy afflux since 1815, already turning Berlin by 1877 into a city with millions of inhabitants. Due to the erratic population growth, disposal of wastewater became increasingly problematic, and especially in the working-class districts hygienic conditions became intolerable. Faeces were transported via buckets to the bridges crossing the rivers and emptied there into the water or landed like other waste in the up to 80 cm deep gutters, which had been constructed for drainage after heavy rainfalls. In 1928 a retrospective in celebration of the fiftieth anniversary of Berlin municipal water drainage states:

*“Bearing in mind that all the wastewater and all the rubbish from houses and yards reached the ill-paved streets, where it merged with the muck there and began to rot and smelly ferment there, one gets an idea of the kind of pestilential exhalations that bothered the city's inhabitants.”*

*Consequently “Berlin gutters stink” became a household term. The threat of high fines notwithstanding the problem of the unauthorised emptying of the faecal buckets remained uncontrollable and thus the spreading of infectious diseases. In 1831 one of the worst cholera epidemics ever broke out in Berlin, costing the life of 1,426 people, among them the philosopher Georg Wilhelm Friedrich Hegel.*

The disastrous conditions put the Berlin magistrate increasingly under pressure. Several investigations and proposals for a solution of the (waste-)water problem were being

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<sup>\*</sup> Henceforth in short: “water economics“

sampled, the magistrate, however, couldn't bring himself to a decision. In the end a decision was made by royal edict over the heads of the municipality: the Englishmen Fox and Crampton received in 1852 the assignment to supply the city of Berlin with flowing water. In a matter fifteen years the magistrate used all his conceivable means to take over the water company – and for good reason: the English company had not undertaken any obligations to make necessary investments for the infrastructure's extension, causing sewerage to remain in a completely unsatisfactory state. The municipality's increasing concern for the public well-being finally led to terminating the contract with the English company and hence to the end of the first chapter of private water economics as early as 1873 (see „*About the history of Water Supply in Berlin*“). Henceforth the water companies were expanded and technologically advanced according to the needs of the growing metropolis under municipal supervision.

## **Private Water Economics in Berlin, II**

The separation of Berlin as a result of World War II led in 1949 as well to the separation of the water economics into Eastern and Western companies. After the Berlin wall came down in 1989, the separated water companies were reunited on January 1<sup>st</sup>, 1999. Today nine state-of-the-art waterworks provide the city with drinking water, which is abstracted by means of 800 wells. Through 7,800 km of pipeline it finally arrives at the consumer. A 9,220 km long sewer network (equalling the distance from Berlin to Peking) guarantees disposal. The sewerage transports the wastewater to the 146 pumping stations spread all over the city; via those, the wastewater arrives at the six treatment works, which have taken on the treatment task of the former sewage fields. This enormous infrastructure makes Berlin Waterworks (*Berliner Wasserbetriebe*, BWB) a substantial institution for 3.7 million people. Moreover, prior to the partial privatisation the municipal water company produced million euro profits annually, which flowed as revenue into Berlin's budget. Hence the question arises, why such a company, working so good and profitable is being sold. Neither insufficient water quality nor quantity can be the reason – either is above doubt. Likewise services – delivery as well as maintenance – gave hardly any reason for complaints. Thus remains the ever-present argument of Berlin's lacking budgetary means. Though apparently reasonable at first glance, it is not the actual cause.

The crucial impulses for the sale of municipal water companies can rather be found in the urge for expansion of the big so-called multi-utility groups, who are always on the outlook for new investments possibilities, as well as in the neo-liberally fashioned ideology of the global economy. According to this, privatisation or partial privatisation has been the propagandised model since the 1980s, while the state increasingly withdraws from services of general interest. Great Britain became the European trailblazer. Under Margaret Thatcher the so far municipal water economics were packaged into regional groups and completely transferred into private hands as early as 1989. The startling survey after ten years: an average doubling of consumer prices from an annual 120 to 242 pounds within ten years, accompanied by the

simultaneous loss of 9,000 jobs. The dry year of 1995 brought about supply crises, while needed investments were not made, hence gradually causing the water quality to suffer. In contrast groups like *Severn Trent Water* achieved to double their profits from 1989 to 1999.

### **A „masterpiece of privatisation“**

At first the privatisation of municipal companies in Berlin was promoted following the model of a “slim state”, as former Christ Democratic senator of finance Elmar Pieroth had pointed out in the *Frankfurter Allgemeine Zeitung* on November 25<sup>th</sup>, 1995: “It’s a matter of policy of economic systems and a ‘slim state’.” Among the Social Democrats the line of reasoning related to the policy of economic systems was incapable of gaining majority support and as Eberhard Diepgen, then acting mayor of Berlin, put it so deftly: “With the Social Democrats one only gets hold of the privatisation by means of the belt-tightening debate.” He was to be proved right.

Head financial administrator of the Berlin Senate, Annette Fugmann-Heesing (SPD, see inset below), brought about the mood change within the SPD. Using the alleged inherent necessity for saving, the new senator of finance gained majority within in her party for the desired privatisation course in no time. Nothing escaped her grip: gas or power supply, fairs, house-building associations or hospitals – everything promising profits for the private sector of economy was sold.

“She came, saw and sold”, read the headline of the *Berliner Morgenpost* on August 16<sup>th</sup>, 1997: “Annette Fugmann-Heesing will go down in Berlin’s history as the senator of privatisation. Since the Social Democrat politician took over the department of finance in January 1996 the silverware is no longer safe. Old Social Democrat taboos and principles are blown sky-high with a slide-ruler.”

By January 1994, preparatory to the privatisation, the BWB had already been converted from an owner-operated enterprise, which doesn’t allow private financial interest, into a public-law corporation. Thereby granting the municipal enterprise the legal option for independent entrepreneurial action, thus creating the prerequisite for partial privatisation. After the Social Democrat/Christian Democrat senate had settled upon the partial privatisation, the Berlin House of Representatives finally paved the way on April 29<sup>th</sup> 1999. As the minutes of this crucial second reading states, the petition for privatisation of *Berliner Wasserbetriebe* was “accepted with great majority” against the votes of the opposition of the Socialist Party, PDS and Greens as well as some Social Democrats and Christian Democrats. While before SPD and CDU had sworn to the advantages of partial privatisation, especially representatives of PDS and Greens presented in detail possible negative effects of the partial privatisation as well as alternatives during this reading: “In relation to financial policy and policy of economic systems there also exists the alternative of licensing”, as Michaela Schreyer of the Greens explained. She ended her speech saying: ” In relation to the policy of economic systems privatisation is the wrong track as it creates a private monopole and in relation to financial policy it is the wrong track as well, which will lead to an explosion of water prices. And this

track puts thousands of jobs in Berlin in jeopardy.” Representative Schreyer was to be proved right as well as Gerlinde Schermer from the Social Democrat minority, who summed up on the topic of the predictable price increase: “It is not as much a matter of controlling the prices but rather the profits, which will be obtained here.”

Hardly any of these admonitions leaked out. Press items stating that there would be no price increases or operational notices until December 31st 2003; and furthermore the Berlin budget would be considerably relieved by the proceeds from the sale, soothed the population. Only the union for Public Services, Transport and Traffic (*Öffentliche Dienste, Transport und Verkehr, ÖTV*, now part of the unity *ver.di*) had taken to the streets in the run-up to the sale. It organized a demonstration march with more than 7,000 workers with the participation of employees of other companies threatened by privatisation. The demonstration led across Berlin to the *Deutschlandhalle*, where a general staff meeting was being held. The obvious rage of the employees was directed in particular against the SPD and its senator of finance Fugmann-Heesing, The appearance of Klaus Böger, leader of the Social Democrat parliamentary group, who only six months earlier had advocated the maintenance of the waterworks as a public-law corporation, received several minutes of boos for his policy change.

Yet against the great pro-privatisation coalition of SPD and CDU the union protest had not developed enough pressure to position alternative concepts at all. The idea that there was no alternative to the privatisations and services of general interest were a relic belonging to the past had been socially accepted, as the *Berliner Morgenpost* reported on May 21<sup>st</sup> 2002: It was about time that the Senate parted with its owned enterprises, since “one of the reasons that the *Land* kept its shares was owing to the concept of maintaining control about who supplied the population – an idea belonging to the 19<sup>th</sup> century.”

In 1999, following international investor selection proceedings by the Merrill Lynch investment bank, 49.9 percent of the company shares of *Berliner Wasserbetriebe* finally went for 1.687 billion Euro to a syndicate of the German RWE group and the French Vivendi – now Veolia – the world’s second resp. third biggest water trusts. Initially the *Allianz* insurance group was involved as well, but withdrew from the business in 2002 and sold its shares in equal parts to RWE and Vivendi. The *Berlinwasser Holding S.C.* was created, an umbrella merging the *Berliner Wasserbetriebe* as a public-law corporation with other companies – previously separated out of the BWB. Both, in the Holding as well as in the waterworks the Land Berlin maintains till today up to 50.1 per cent. Senator of Finance Fugmann-Heesing stylized this holding as a model with „federal pilot character“, whereas senator of economy Wolfgang Branoner recognized a “pole position” for using “enormous growth potentials” in the exterior. Mayor Eberhard Diepgen congratulated both senators during the very same session on this “masterpiece of privatisation.”

To this very day the majority of Berlin’s members of parliament has obviously not noticed the more detailed terms of the contract or simply chose to ignore the clearly threatening or rather already effective negative results for the Land Berlin and the consumers. Otherwise it is

unfathomable, why they have given their consent to the amendment of the partial privatisation bill in December 2003, which continues to fix the profit guarantee for the concerns.

## A disastrous balance

A series of ambitious plans under the umbrella of the newly founded *Berlinwasser* holding came along with the partial privatisation. Not only did these fail almost without exception, but cost the taxpayers of the Land Berlin a great deal on top of it.

Only five years after the partial privatisation the corporation, which as a holding initially covered four strategic business areas (works, multi-utility, international and services), only focuses on its core business, water supply and wastewater disposal in Berlin as well as all water-related services in connection to that:

- The subsidiary company **Avida** Ltd. founded in 2001, supposed to become the holding's venturing into the multi-utility business (see inset), was a "flop", so the headline of the *Berliner Morgenpost* in December 2001. Merely after a couple of weeks the company had to be liquidated owing to the lacking demand for all-round offers of electricity and phone.
- Likewise **Berlikomm** didn't get nowhere near the predicted successes. The supplementary agreements had stated: "Furthermore the investors have bound themselves to create under certain condition 700 new jobs in the *BerliKomm Telekommunikationsgesellschaft* Ltd. " According to Jochen Esser, finance political spokesman of the Greens, by 2002 the telecommunications bidder had accumulated debts of more than 100 million Euro. Very slowly the company got on its way to get out of the red. New jobs were out of question. In July 2004 the Berlinkomm was sold for almost 35 million euro to the Dutch telecommunications group Versatel. 150 of the 160 jobs are supposed to be safeguarded till 2005. In order to facilitate this sale, the associates, i.e. RWE/Veolia and the Land Berlin had to shoulder 150 million euro of the accumulated debts.
- Right from the start the recycling company **SVZ** "Schwarze Punpe" turned into the holding's biggest headache. In July 2000 the *Berlinwasser* group reported the sale of SVZ to the US group Global Energy. According to the board of directors, the proceeds were to release "considerable financial resources for strategic investments into the group's core business domains." Too bad that the US group didn't pay the negotiated price of 107 million euro. The deal went bust. All the same the proceeds from the sale entered the holding's annual report as extraordinary profit and proportionally distributed to the shareholders and likewise the SVZ credits got off the books. Hence it was obvious that the holding's balance for 2001 was going to turn out correspondingly bad – the SVZ alone showed unfavourably with 385 million euro. In order to prevent the imminent insolvency RWE/Vivendi (Veolia) and the Berlin senate came to the understanding to pump new money into the concern by standing a surety of 316 million euro. Half of it –



158 million euro – had to be raised by the senate of Berlin. A “lost subsidy” was Jochen Esser’s comment at that time. In July 2002 the SVZ was finally sold for one euro.

### **Dubious subsidies**

Consistent with the contract, one of the promises of the private investors was “*that the RWE group and VIVENDI group would transfer head offices of companies and firms as well as branches of largely well-known companies to Berlin. By transferring these offices and branches at least 330 jobs will be created till December 31, 2000; 530 jobs till December 31, 2002 and 730 jobs till December 31, 2004.*” Vivendi indeed transferred in 2001 the head office of the subsidiary company **Universal Music** from Hamburg to Berlin. 500 employees had to move to Berlin and the enterprises had done their duty for the time being. Yet the high point of the story is that *Wirtschaftsförderung Berlin GmbH* (Business Promotion Berlin Ltd.) had supported the move of the Vivendi offshoot with 17.9 million euro. That is, a high public subvention for meeting private contract liabilities with the state, which senator of finance Branoner celebrated as a great success.

The holding cuts a likewise good profit with its subsidiary company *Berlinwasser Personalservice GmbH*. Founded in May 2002 the company, which nowadays is called **Perdie.net**, accomplished the venture into the temporary employment trade. Among others, Perdie.net takes on adolescents, who previously finished their training at *Berliner Wasserbetriebe* and either borrows them out to the waterworks or to an outside firm. Thus the working power gets cheaper. In addition to that it was subsidized with 130,000 euro by the labour exchange in Berlin Mitte in 2002.

### **„R+2“ – the magic formula for guaranteed profits**

The „scoop“, however, for the privately owned groups are the guaranteed profits as agreed with the senate. With a turnover of more than a billion euro and profits of about 83 million euro in 1997 the Berlin waterworks were the gemstone among the municipal companies, with the Land Berlin making a good profit of it. In 1997 the receipts by the waterworks amounted to 168 million euro. Today the receipts from the Berlin water are no longer for the benefit of the *Berlinwasser Holding*, despite a share of 50.1 per cent. Between 2000 and 2003 RWE and *Veolia* made a profit of 287 million euro from the *Berlinwasser Holding*, while the Land was left with a balance sheet showing a loss of 10 million euro. For instance in 2002 the Land Berlin came away almost empty-handed due to the described bankruptcy of the subsidiary company *Schwarze Pumpe* (SVZ). Yet owing to the investment return guaranteed by contract, the private associates were simultaneously able to pocket 132 million euro. The magic formula for the companies’ profit for the 28 years stipulated in a contract goes  $R + 2$ , or put into wording:

**Guaranteed profits equals returns plus 2 per cent**

This passage can be found in §3 paragraph 4 of the Partial Privatisation Act (Teilprivatisierungsgesetzes, TPrG), which had been amended in December 2003 by the House of Representatives. Accordingly, the return “R” is measured by the average return of ten-year German bonds each time in reference to the last twenty years. Regarding 2004 this corresponds with six per cent. In accordance with the TPrG up to two more per cent can be added to this, equalling a sum of eight per cent. Regardless of the Berlin constitutional court declaring the two per cent surcharge as null and void, according to § 23 par. 7 of the banking syndicate agreement with the concerns the Land Berlin is obliged to offset the disadvantages caused by this decision. Besides the private investors’ return doesn’t refer to the purchase price of 1.687 billion euro but to the operational capital, which at the present time amounts to 3,3 billion euro. “Yet this is not a constant value. It grows in relation to a re-evaluation of sites and real estate”, as Gerlinde Schermer from the Social Democrat Thursday circle stated. Lawyer Groth gave the Berlin representatives an expert warning: “The treatment plant Ruhleben – now an arbitrary figure – may have a current purchase value of 100 million euro, but replacement residual costs of, let’s say, 150 million euro, because it is today far more expensive to construct something like that than 20 years ago. (...) In consequence the client, who to this point paid taxes on 100 million euro operational capital, now suddenly has to pay interests for 150 million euro. (...) To my mind, in applying the principle of the Constitutional Court verdict this flaw in the bill leads again to unconstitutionality...”

So, basically it was about two manoeuvres: for one thing, to safeguard without reinvesting the annual automatic growth of the guaranteed profits’ calculation basis; for another, to come to an understanding that explicitly bypassed the directive of the Berlin Constitutional Court. Despite all doubts and imponderability a majority in the Berlin House of Representatives passed the Partial Privatisation Act including these clauses in December 2003.

This proceeding conditions immense increases in charges. The price increase of 15 per cent effective since January 1<sup>st</sup>, 2004, which means an extra charge of approx. 100 euro annually for the individual small household, was actually supposed to amount to the double. Given, however, that this would have damaged the political image, the senate preferred to use a trick by forsaking a planned license fee of the waterworks. Subsequently the Berlin budget loses annually almost 54 million euro in revenues. Price dumping by privatisation? Quite the opposite, notwithstanding senator of finance Fugman-Heesing’s assurances in 1999: “*With this process we have created all necessary preconditions to make the enterprise by privatisation for one thing more efficient, and to achieve a long term reduction of charges.*”

Promises like this were quite the habit, among others, jobs were to be secured as well as new ones created. But likewise on the subject of the employment policy, results are negative. Had the number of employees of the *Berliner Wasserbetriebe* still amounted to 7,000 ten years ago, it only comes up to approx. 5,000 today. Former chairman of the BWBs general staff council, the late Norbert Oetl, predicted in 2002 that by the end of 2007 a staff of merely 3,500 would remain. According to Social Democrat deputy Hans-Georg Lorenz,

additional 8,000 jobs were lost at local and regional delivery companies owing to fewer expenses for the maintenance of the pipeline network

Interesting enough, since the last elections in 2002 the majority ratio in the Berlin Deputy of chambers has shifted and PDS and SPD together form today's senate, with Harald Wolf as minister of finance. Today, the former PDS opposition merely strives for sophisticated wording to legitimate constitutionally dubious contracts and a policy that continues to secure the returns of the concerns: "The mechanism of how to deal with this contract", Socialist deputy Klaus Lederer states, "is determined by factual relations of forces. These consist firstly, of the finances owned by the Land, secondly, of the legal negotiating position and thirdly, of the social vibrations prevailing in the city. So far, I am not aware of a professed political intention for a resettlement."

### **One can do better – the example Potsdam**

Unfortunately, neither the PDS nor the majority of the SPD promote the topic of resettlement actively, only the leftist minority of the Social Democrats shows a political will for resettlement. Gerlinde Schermer (leftist SPD minority) explains in an interview, why the repurchase of the waterworks would be sensible for social as well as budgetary political reasons: *"The supporters of privatisation deliberately forego a balance sheet of the national economy because it turns out negative. But likewise the management balance sheet mostly turns out bad. Merely the balance of the concerns' profits is positive. (...) The repurchase would cost about 2 billions. We easily get off cheaper with a four per cent loan than with the eight per cent the Land has to pay in returns stipulated by contracts to the concerns."*

Up to now Schermer and the Thursday Circle of the SPD are fighting quite a lone battle with their demand for repurchase in Berlin's political arena. But a visit in the nearby capital of Brandenburg proves that it does not have to remain that way: Potsdam demonstrated how easy that could work. In Potsdam, the private managers announced price increases that were even considerably higher than those in Berlin. Hence the city gave them short shrift and annulled the privatisation. After a mere two-year collaboration the cooperation with *Eurawasser*, a subsidiary company of the RWE group, was cancelled at the end of 1999. *"Eurawasser planned to increase the charges by 100 percent within 17 years – in spite of sinking water requirements,"* Karsten Zühlke from the management of the Potsdam waterworks explained this move, adding, in that case the job could be done more economically alone. The City of Potsdam explained in the annulment of the contract that private enterprises like *Eurawasser* aimed to make profits on principle, thus leading to different understandings in the estimate of charges. The amount of settlement for the concern, however, remained a secret.

## **About the history of the first private water company in Berlin (1852 – 1873)**

### **“A company of enterprising capitalists”**

Since the early 19<sup>th</sup> century plans for a municipal water supply were discussed in Berlin. Proposals, however, were either too expensive or not practicable or too small in design. It took as long as 1852 – other big European cities were already equipped with central water supply for a long time – for the English entrepreneurs/engineers Charles Fox and Russell Crampton to obtain the contract for the water supply of the city of Berlin. This had been preceded by a visit the royal fire chief Ludwig Scabell paid to the waterworks in England, initiated by the police superintendent in charge, Carl Ludwig von Hinckeldey. Due to this busy police superintendent, the foundation stone of the first Berlin water work could already be laid in 1853 at Stralauer Tor despite the doubts of the Berlin magistrate. It went officially into operation on July 1<sup>st</sup> 1856. Hinckeldey had had been supported substantially and directly by the king, who had awarded by decree the contract to Fox and Crampton.

To put the magistrate in a favourable mood, the interests of the city were to find due consideration in the set of agreements concerning “the supply of the city of Berlin with running water.” Ideas regarding the interests, however, varied drastically. In the mind of the magistrate, a participation in the management was to safeguard the municipal influence on construction and operation of water supply; moreover preferably domestic companies and local workers ought to be employed.

### **Royally guaranteed royalties**

However, the contract finally signed on December 14<sup>th</sup>, 1852 between Fox and Crampton on one side and the Royal Police Superintendent Herrn von Hinckeldey on the other, assigned no co-determination to the municipal administration. Rather a state commissioner including technical officers as well as a universal agent for the entrepreneurs was to be appointed for negotiating with the Prussian state. In addition to that the contract stipulated

a maximum net profit of 15 per cent, controlled by the water prices; the privilege of water delivery for the next 25 years as well as special protection by the Prussian government concerning all affairs of the English businessmen. In an advertising pamphlet for the “Berlin Waterworks Company” – the company name used by now – published in 1857 the scenario was summed up like that:

*“That, what greater parts of the audience to its considerable disadvantage certainly would have recognised as a real need in a matter of years only, had forcibly taken possession of the mind of a wise and strong-willed man, Herr von Hinckeldey. Mindful of his duties as the head of the public health police and not led astray by the great number of wells, he subjected the local water supply to a sharp and comprehensive expert investigation. Thus, what we believe to have depicted in some detail in the discussion above has been in part established and ascertained. That was enough to bring about the decision that an ensuing condition of such unpleasant and fatal character had to be improved at all costs; and soon a company of enterprising capitalists came along, who – with hopes for profits to come and trusting that their enterprise, so beneficial for the well-being of the inhabitants, could at all times count on the protection and support of the authorities – were willing to provide at their own risk the city with an appropriate and state-of-the-art water supply system.”*

### **Public well-being in peril**

The desired profit for the “enterprising capitalists” took some time to materialise. The population was just too used to the supply by the about 5600 wells easily accessible for everybody. A year after the company had gone into operation, a mere 314 houses were connected to the water supply. Still in 1859 the figure reached 1141 houses and *Waterworks* was able to make a small profit for the first time. In the 1860s profits rose so swiftly that by 1868 the company paid dividends of more than 9 per cent. Despite the positive profit growth the entrepreneurs didn’t feel compelled to make further investments apart from expanding the capacity of the works at Stralauer Tor in adjustment to the increasing need for water and profit. Yet for higher situated districts these measures were insufficient due to the lacking water

pressure. Repeatedly the company demanded a contract extension of 25 years for the required expansion of the supply network, something the municipality frequently refused to do. What is more, since 1868 the magistrate had sounded out the conditions allowing the city to take over the waterworks. Concern about the people living in the city was the main argument of the magistrate. “In time,” the contract with the Waterworks Company would have *“caused a health hazard and thus threatened the public well-being. Given that the company of the waterworks was not obliged to further expand its facilities on the one hand and the authorities having promised to prevent any facility of a similar kind, on the other, only the flats of 250,000 inhabitants of Berlin are provided with running water, whereas 450,000 have to do without this blessing.”*

But the low degree of connection among the population was outweighed by the problem of wastewater disposal that continued to exist. The mere providing of water to flush the gutters had not improved the hygienic situation – quite the contrary, in many places it had deteriorated and another cholera epidemic had afflicted the city in 1866. This possibly accelerated the decision in 1867 to set up a commission of magistrates and municipal councillors headed by Rudolf Virchow (see inset), that was to prepare the design for the sewer system. It was not unexpectedly that Virchow as a physician took the lead of this commission, given that it had been the physicians in particular, who had pointed for years to the miserable living conditions in the working-class districts of Berlin.

### **Substantial municipal water economics since 1873**

1873 was to become the crucial year for the creation of the - to this day - exemplary water supply and wastewater disposal system. On December 31<sup>st</sup> 1873 magistrate and the Berlin Waterworks Company signed a purchase contract for the waterworks with the whole equipment. The sale proved to be a lucrative business for the English company: a mere 4,615,000 thaler of the purchase money of 8.375.000 thaler accounted for the estimated lost dividend till 1881, when validity of the original contract would have ended.

Simultaneously the magistrate had already decided on March 6<sup>th</sup>, 1873 the construction of the sewerage system. Work on the radial system containing 12 drainage cycles began already on the 14<sup>th</sup> of August of the same year. Using natural descent the wastewater of an area was merged by sewers. At the deepest spot, where the sewers met, pumping stations were built that pumped the wastewater via huge machines onto the sewage fields. This is where the treatment of the industrial water took place. At the same time it turned the city into a great landowner, since it had to buy up former knight's estates. Until 1890 these manors equalled 11,500 hectare, which were used for agriculture as well.

Construction of the first radial system took about four years and had sewers about 80 km. In 1909 the last of the twelve substructures went into operation. By then the total of subterranean sewers amounted to 1,029 and 31,000 properties were connected to the sewerage. Depending on the sewers height – varying between 0,2 and 2 m – a group of bricklayers accomplished between 3 and 30 meters line a day. Like the buildings aboveground the underground sewers were very solidly, almost affectionately, built to last. To ensure this high standard of quality the municipality had specified that construction works were to be performed solely in the presence of officers and the official contracting terms for the award of construction performance contracts excluded private companies. The first chapter of private water supply in Berlin was definitely closed. Stinking gutters and epidemics belonged to the past and finally Virchow's expert words introducing sewers were realised:

*“State and town get their value only through the people and their work. The whole wealth, the whole importance of both a town and a state depends in the end on the activities of its inhabitants. Hence can there be a bigger loss than the loss of a human life? Not just from a humane or Christian point of view, but also economically, disease and death are as tragic for community and state as for the family.*

*To keep them as much as possible at bay is one of the most serious tasks, misconceived only there, where the human life is worth nothing. [...] The state striving for public education should strive for public health as well. First*

*health, than education. No money is invested more lucratively, than money employed for health.”*



Michael Weber  
Forum Umwelt und Entwicklung – Ak Wasser  
Berlin, November 2004

### **Gloomy prospects – the expense of water privatisation for nature**

It simply doesn't add up: generating a maximum of profits in a minimum of time and making provisions for the future at the same time. And in particular, this applies to water economics.

Well, it is not as though once in charge, private companies straight away start exploiting the water resources ruthlessly. During the five years since the partial privatisation of the Berlin waterworks neither the condition of the ground water in Berlin nor in the rivers, Havel and Spree, or the big lakes, Wannsee and Müggelsee, has notably deteriorated. After all laws for the protection of our water – like the Budgetary Act for Water and the Berlin Water Act – apply in the same way to private water distributors. In December 2000 the EU Water Framework Directive has been added to that, stating: "Water is not a commercial product like any other but, rather, a heritage which must be protected, defended and treated as such." Berlin's excellent drinking water quality, its secured supply out of municipal territory – a remarkable quality in a metropolis – as well as the high environmental standards seem to be sufficiently government protected.

Still, sooner or later we will have to come to terms with the fact that it would be better to run our water in the interest of the public well-being instead of profits. The *Berliner Wasserbetriebe* will increasingly focus on the lucrative activities; measures "merely" for the benefit of environmental precaution will be suspended by and by – unless the Land Berlin purchases them as environmental services at an expensive rate. This becomes already apparent in the choice of locations, where the Berlin waterworks plan to process their water in the future and where not: preferably in the woods of Berlin and in the surroundings of the Berlin lakes, where naturally clean water can be abstracted in large volume at low prices, for instance in the Spandau Forest (waterworks Spandau, maximum volume 160,000 m<sup>3</sup>/d), in the Grunewald forest (Beelitzhof, 180,000 m<sup>3</sup>/d) or in the city's Southeast, surrounding the Müggelsee (Friedrichshagen, 220,000 m<sup>3</sup>/d).

But right there, in these green oasis of Berlin, exist valuable humid biotopes, which only stay ecologically intact as long as the ground-water remains close to the soil's surface. Thus the remaining Berlin moors threaten to drain due to sinking levels of ground-water as in the cases of the *Krumme Lanke* or the *Teufelsmoor* in Köpenick, for example. Friedrichshagen waterworks has reduced the capacity of its wells at *Krumme Lanke* in the mid-90s and slowly the jeopardized boggy vegetation begins to recover. Hence for nature's sake increased pumping of water has to be prohibited there.

The Berliner Wasserbetriebe shuts down its waterworks, where it is expensive to pump water. Since 1990 seven, predominantly small waterworks have been shut down. The

last to be taken off the net were the waterworks *Johannisthal* (drinking water volume, 20,000 m<sup>3</sup>/d) and *Jungfernheide* (50,000 m<sup>3</sup>/d). According to the *Berliner Wasserbetriebe*, one had tried to operate the remaining nine waterworks “more effectively” in view of the continuously sinking water consumption. Given, however, that the Land Berlin feared dampness damages to the adjacent houses due to rising ground-water levels, *Johannisthal* still pumps an average volume of 27,000 m<sup>3</sup> a day, if only to discharge it into the Teltow canal or the Spree. Besides, should the ground-water level suddenly rise around here, residual pollution close to the *Johannisthal* waterworks would contaminate the ground-water. Winning drinking water here turned into an environmental service, and the Land will have to pay for the expenses. It is more than likely that in the long run, water preserves will be sacrificed and ground-water resources irretrievably abandoned.

## **Annex:**

### **A. Annotations**

### **B. Tables**

### **C. Further reading**

## A. Annotations:

### **Annette Fugmann-Heesing – Privatisation Protagonist in Berlin**

The Social Democrat politician born in 1955 has read for the bar and was town treasurer of Herford from 1985 to 1991, before she became minister of finance in Hesse under today's Federal Minister of Finance, Hans Eichel. In 1994 she resigned from office on the background of a corruption scandal involving the *Lotterie Treuhand GmbH/Wiesbaden*. In 1996 she became senator of finances in Berlin. In this capacity she pushed ahead privatisation politics in the German capital, becoming a member of the notorious *Berliner Bankgesellschaft's* board of trustees at the same time. Until the year 2000 the senator "controlled" the company's ruinous business practices and failed to remember in retrospect any kind of irregularities.

The *Gesellschaft für Entwicklung, Beschaffung und Betrieb* (GEBB), founded by the Ministry of Defence, was the lawyer's next line of action. As GEBB managing director she was responsible for the privatisation of the Bundeswehr's (Federal Armed Forces) real estate and thus in part for the reorganisation of military institutions. The proceeds anticipated were not even nearly generated. Allegedly the politician was rewarded for both her activities as well as her retirement from the company with an annual salary of 600,000 DM and a compensation of the same amount.

Besides her activities as a member of the Berlin House of Representatives the Social Democrat has been working since September 2002 for the consulting firm *Berliner Beratungsdienste* (BBD) of her fellow party member, former acting mayor of Berlin, Dietrich Stobbe. To the main areas of BBD consulting activities belonged the reorganisation of municipal enterprises, i.e. the privatisation of services of general interest, like e.g. waterworks.

Sources: i.a. Radio Berlin Brandenburg: radio broadcast *Klartext* on 21.4.04, "*Uferlos: Wasserpreise in Berlin künstlich hochgehalten*"

(Boundless: Maintaining water prices in Berlin on an artificial high")

[http://www.rbb-online.de/\\_fernsehen/magazine/beitrag\\_jsp/key=rbb\\_beitrag\\_400337.html](http://www.rbb-online.de/_fernsehen/magazine/beitrag_jsp/key=rbb_beitrag_400337.html)

### **What is Multi-Utility?**

Multi-Utility describes the comprehensive supply by pipe- resp. net-bound goods, i.e. the single-handed provision of electricity, gas and water. Uniform accounting techniques for service and maintenance as well as a newly constructed infrastructure in the form of combined mains result in synergies for big concerns like that, which work cost abating and promises huge profit margins. Due to this effect multi-utility is internationally and nationally rated as a growth market. Turnover-wise RWE is one of the Germany multi-utility giants to finish up front in international comparison.

### **Partial privatisation's miserable balance**

- since January 1, 2004 water charges increased by 15 per cent
- increase in charges would have been twice as much, had the senate of Berlin not forsaken its licensing fees.
- the next charge increase has already taken place on January 1, 2005.
- massive employment reduction, additional jobs were dropped in delivery companies
- investments to maintain the infrastructure were reduced
- costs resulting for the Land Berlin due to e.g. guaranteed profits remain incalculable
- the Land Berlin has barely any influence on the enterprise's business policy.
- instead of services of general interest now the private making of profits became company target

### **Rudolf Ludwig Karl Virchow – Protagonist of municipals responsibility**

Rudolf Virchow (1821-1902) is known as the founder of cyto-pathology that added a new basis to medicine. His scientific activities, however, included anthropology and pre-history as well. It was the same Virchow, who coined medicine as a "social science" with the obligation for political expression. Something the physician himself minded all his life.

"Who can be surprised by that fact that democracy and socialism found nowhere more followers than among physicians? That everywhere on the far left, partly as leading figures of the movement, were physicians? Medicine is a social science and politics is nothing but medicine on a large scale." As a deputy, the physician acted also according to this principle: apart from a 43-year membership on the town council of Berlin, he was for five years a representative of the Prussian *Landtag* (Diet) and for 13 years a representative of the German *Reichstag*, where he was one of Bismarck's fiercest opponents. After a harsh battle of words Bismarck even challenged Virchow to a duel. Virchow declined and following the mediation of the minister of war Bismarck withdrew his request .

Already during the revolution of 1848 Virchow had manned the barricades together with workers and craftsmen und complained in letter about the short firing range of his pistol. But all the further went Virchow's socio-political work. Thus not only the constructions of public parks, children's playgrounds and the first municipal hospitals have their origin in Virchow's doings but as well the development of the widely branching sewerage.

Source: Fischer-Homberger, Geschichte der Medizin, Springer Verlag 1975, p. 170

## B. Tables

### Progress of Investments and Employment Rates of the Berliner Wasserbetriebe

<b>Year</b>	<b>Investments (in million €)</b>
1995	642
1996	529
1997	393
1998	416
1999	367
2000	288
2001	320
2002	362
2003	275
2004	220 planned

<b>Year</b>	<b>Employees</b>
1994	7145
1995	7014
1996	6737
1997	6583
1998	6413
1999	6262
2000	6116
2001	5550
2002	5391
2003	5283

Source: Press releases of *Berliner Wasserbetriebe* for the sit-rep of each previous year

## Statistical data of the Berlin waterworks

Source: <http://www.bwb.de/unternehmen/statistik.html>

### Profit and Loss Account

		2003	2002	2001	2000	1999
Turnover from						
Water sales	million €	374	363	373	381	378
Sewerage services	million €	581	587	588	583	607
Income total	million €	1.202	1.114	1.155	1.132	1.169
Personell costs	million €	274	270	272	286	290
Depreciation	million €	221	212	213	213	215
Annual result	million €	116	34	-81	126	-47

### Sewerage Services

		2003	2002	2001	2000	1999
Property connections	1000 pieces	226	223	219	203	204
Water Treatment Plants		4/6	5/7	5/7	5/7	5/7
Wastewater treatment	million m <sup>3</sup>	230	248	238	242	231
Sewerage services	million m <sup>3</sup>	215	217	220	217	219
Sewers						
Sanitary sewers	km	4.100	4.026	4.011	3.963	3.883
Combined sewers	km	1.894	1.930	1.887	1.886	1.887
Stormwater sewers	km	3.166	3.161	3.133	3.107	3.094
Special sewers	km	68	68	68	68	68
Total	km	9.228	9.185	9.099	9.024	8.932
Sewage pump stations	amount	146	146	146	145	142
Force mains network	km	1.092	1.044	1.044	1.035	1.011

## Water Supply

		2003	2002	2001	2000	1999
Waterworks		9	9	9	11	11
Work's capacity	1.000m <sup>3</sup> /d	1.140	1.140	1.140	1.140	1.140
Water delivery	million m <sup>3</sup> /annum	222	215	217	222	224
Water sales	million m <sup>3</sup> /annum	214	208	213	217	218
Pipeline network	km	7.827	7.816	7.802	7.787	7.759
House connections	1000 pieces	257	256	254	250	250
House connections per km pipeline		33	31	31	32	32

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## C. Reading suggestions:

- Bärthel, Hilmar: Geklärt – 125 Jahre Berliner Stadtentwässerung. Berlin 2003
- Bärthel, Hilmar: Wasser für Berlin. Berlin 1997
- Berliner Wasserbetriebe (ed.): Die Wasserversorgung Berlins und die neuen Wasserwerke in ihrer Bedeutung für die Häuslichkeit und das Familienwohl. Berlin 1857 (Reprint for the 125th anniversary of the Berlin Waterworks, Berlin 1981)
- Helming, Stefan: Der weltweite Durst nach Wasser. In: Mitbestimmung – Magazin der Hans Böckler Stiftung, 4/2002, pp. 46-49
- Kluge, Thomas/Schramm, Engelbert: Wassernöte – Umwelt- und Sozialgeschichte des Trinkwassers. Alano-Verlag, Aachen 1986
- Lanz, Klaus: Private Wasserspiele in Europa. In: Mitbestimmung – Magazin der Hans Böckler Stiftung, 4/2002, pp. 36-40
- Schermer, Gerlinde: Die Teilprivatisierung der Berliner Wasserbetriebe. In: Erkennen und Gestalten No. 22, Thursday Circle of the Social Democrats, Berlin, June 2004
- Österreichische Gesellschaft für Politikberatung und Politikentwicklung (ed.): Privatisierung und Liberalisierung öffentlicher Dienstleistungen in der EU. Vienna 2002, ([www.gdgfsg.at/news/wasser/wasser.pdf](http://www.gdgfsg.at/news/wasser/wasser.pdf))
- Zelle, Ulli (ed.): Berlin am Meer – Eine Stadt in Ihrem Element. Bostelmann & Siebenhaar, Berlin 2000
- Geschäftsberichte und Presseerklärungen der Berliner Wasserbetriebe
- Minutes of the Berlin House of Representatives