SECTOR Note

Utilities Sector

Background

The Conclusions adopted at the Tripartite Meeting on Challenges and Opportunities Facing Public Utilities held in May 2003 reiterated the point stressed in the Conclusions adopted in 1999 that public utilities were essential services that played a vital role in economic and social development and that they must serve the public interest whether they were provided publicly or privately. Governments were ultimately responsible for ensuring reliable universal access and continuity of service under transparent and accountable regulatory frameworks. Increased competition and globalization in the utilities sectors in recent years has forced changes in regulatory frameworks as well as ownership structures of enterprises, in addition to business diversification of such enterprises. These have impacted job security and working conditions in the sector. Technological innovations can improve work efficiency, but an adequate level of staffing and sufficient training in the use of new technologies are still important for ensuring efficiency and the safety and health in the workplace and for the enterprises to remain competitive. The Meeting also encouraged the adoption of good governance and corporate social responsibility (CSR) by enterprises as they could provide them with strategies and initiatives for applying best practice, particularly when addressing social and employment issues at the time of restructuring. The participants of the meeting were convinced that good governance and CSR would demonstrate how efficiency and profitability on the one hand could go hand in hand with decent working conditions on the other.

Privatization of utilities services used to be encouraged during the last few decades because of the widely accepted belief that the private sector could deliver services much more efficiently than the public sector where public debts had accumulated. A number of multinational companies won contracts and went into many developing countries as investors with a firm conviction that their investment would be beneficial to both the development of the host countries and global expansion of their business operations. However, when privatized enterprises must comply with the principle of universal access as well as having to accept the decisions of regulatory institutions with regard to tariff fixing, for example, many realized the difficulty of making adequate investment for the kind of service improvement intended, particularly in countries where per capita income was still quite low to the extent that a significant tariff hike was not possible to ensure quick returns to the investment. In countries where regulatory institutions did not function properly, ordinary customers often experienced tariff hikes to the levels that were more than they could bear, and those who could not pay were denied the access, resulting in deteriorated service delivery as well as unsatisfactory returns to the investors. The services became unsustainable, and by the time the investors decided to withdraw from the host countries altogether, the people of the affected area were often left with unreliable services of poor quality or services they could not afford. There are many such examples of failed cases of public utilities that had been privatized throughout the world mainly because of dysfunctional or incompetent regulatory institutions.

More progress needs to be made as access to these services, particularly to clean

water, is still often inadequate and inequalities persisted between countries and within countries. Ensuring universal access to clean water, which is vital to human health and survival, remains a challenge particularly in developing countries.

Probably the main challenge in these sectors is to strike a balance between commercial and business concerns, calling for cost-efficient, profitable operations; and broader public service values, that emphasize the provision of cheap, reliable and widely accessible services (whether or not the ownership is public). This duality is found in all the problems and in all the solutions relating to these services, and makes it demanding to reconcile what are sometimes conflicting requirements.

Electricity and gas

The global population is expected to increase by nearly 90 million a year during the next 30 years, with most of the growth taking place in developing countries, but how will these people be provided with the minimum services in energy they require for basic health and survival? The average annual world energy consumption per capita in the developing world was 0.71 tons of oil equivalent (toe) in 1999. This meant that a yearly increase of almost 65 million toe was required just to meet the needs of the growing population in the developing countries where developed energy infrastructure often lacked. This would also add to the stress already placed on the environment. It is believed that various forms of restructuring under way in many countries, including privatization, may have both positive and negative effects on the natural environment. The use of new technologies in waste treatment, for example, or clean production of electricity by private enterprises may curtail further environmental damage. However, economic pressure may also prevent companies from investing in renewable, energy efficient programmes and the companies seeking short-term profitability might resort to more pollution-generating techniques.

In the OECD countries the total supply of all forms of energy amounted to 5,395 Mtoe (million tonnes of oil equivalent) in 2003, which was an increase of 14.6 % since 1993 (OECD, 2005: OECD in fugures). Among the EU-15 countries it was 1,526 Mtoe in 2003, an increase of 13.6 % over 1993. In G-7 countries it recorded 4,090 Mtoe, an 11.9% increase since 1993. The supply in the United States alone in 2003 amounted to 2,281 Mtoe, a 12.8% increase over 10 years. The increase in energy supply over 10 years was considerably larger in the countries which had developed economically rather rapidly in recent decades than in the others. For example, Republic of Korea, Spain, Ireland and Portugal showed increases of 64.3%, 45.5%, 43% 36.6% respectively, while France, Japan and the United Kingdom recorded increases of 12.8%, 11.6% and 5% respectively. Germany recorded only a 2.1% increase since 1993, which was perhaps a reflection of economic downturn the country experienced since the integration with the former East Germany.

Ageing inefficient infrastructure, increased demand for energy and environmental and safety concerns are changing the type of energy production. These changes will affect the workers employed in the energy sector. Commitments by governments to reduce greenhouse gas emissions will reduce the dependence on energy sources such as coal and oil impacting negatively on employment in these areas. In developing national energy policies which reduce emissions and meet demand through cleaner sources, governments need to ensure that the energy supply is not jeopardized by a shortage of properly trained workers. This requires the re-skilling of workers in areas that will be marginalized and developing training for new

labour market entrants.

Recent electricity blackouts in several countries have raised concerns over the deregulation and privatization of energy. The lack of investment in infrastructure in some areas has weakened power transmission systems creating a crisis when they fail. In addition, some argue that opening the sector up to competition has reduced employment to levels that are not adequate to keep proper maintenance schedules.

The security of energy supplies requires broader diversification in order to decrease the impact of power supply interruptions. Power grids, nuclear plans and gas pipelines are all considered susceptible to hazardous accidents and can be targets for terrorist attacks. Explosions, radiation leaks, and other disasters could prove to be catastrophic to communities and economies. Diversifying supply can limit the impact if such an event should occur.

Natural gas is the fuel of choice for most new generation projects since plants are cheaper and quick to build, and demand fewer workers to operate them. But supplies of natural gas are not readily available in many areas requiring the need for extensive pipelines and transport systems. Regions such as the European Union are heavily dependent on imports, with five of the top ten importing countries located there. This makes these countries susceptible to price hikes, supply shortages and security issues.

Technologies utilized for generating renewable energy are considered as effective means of expanding the energy supply base without a costly investment or highly skilled experts for operation. They not only help reinforce local industry capacities but also contribute to employment generation. They make it possible for creating small-scale energy installations which can easily be run by local communities in both developed and developing countries. Such decentralization of energy supply could contribute to the growth of small and medium-scale industries and businesses in rural areas where inhabitants are often dependent on subsistence-level income. Such operations could form the basis of income for rural communities, if managed properly. Other benefits from the decentralization of energy generation include the revitalization of rural areas, which would lead to improvements in the quality of life, education and health of the inhabitants, resulting in the curtailment of migration to urban areas. Such technologies can also be used for improved agriculture, such as water pumping for irrigation, crop drying and better marketing of crops through improved communication systems. .

Water

Water is an integral part of most development activities, from health and sanitation, to the location of human settlements, agricultural production, nutrition, and the maintenance of ecological balance. It may be difficult to accept the idea in many countries where water has been considered as a “free commodity” for generations that it can be an economic good with distribution costs that have to be paid if the service is to remain sustainable. It is reported that over the past few decades the amount of water available has been reduced from 12,500 to 7,500 cubit meters per person, while consumption has doubled. One and a half billion people are said to be without clean water, and half of the world’s population is without adequate water purification devices, the situation of which is believed to be linked to 80 per cent of all diseases reported in poor countries. In many parts of the world throughout history, access to water has been and remains a potential source of conflict, but it can also be a catalyst for regional cooperation and development.

Quality of life and working capacity are severely threatened by the lack of an adequate supply of safe drinking water and proper sanitation. A major challenge facing the water sector is how to provide access to safe and sustainable drinking water to the 1 billion people who currently lack it. The problem is acute in many developing and transition economies. Inevitable population growth has far surpassed water supplies creating an urgent need to address the impending crisis. It becomes an even greater challenge in the future when in 2025, approximately two thirds of the worlds' population might live in countries with moderate to severe water shortages.

During its 29th Session in Geneva (11-29 November 2002), the United Nations Committee on Economic, Social and Cultural Rights (ECOSOC) declared the right to water (pdf, 267k). In its findings, the Committee determined that: "The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water." They also declared that water was necessary for securing work and attaining an adequate standard of living, particularly since it was one of the most fundamental elements of survival.

In some instances the public sector is not able to meet the needs of its people, often requiring outside intervention. This has led to the involvement of the private sector, which often do not act in the public's interest as they seek a profitable return. The major difference between water operations and electricity in the private sector is that the service provision model is often used in water delivery. This is when the government maintains ownership of the assets, but contracts out for service and management. Therefore little capital investment by the private sector goes into infrastructure. However, to meet future needs, new infrastructure must be built and old systems upgraded. This requires large amounts of capital and technology, which has traditionally been rendered possible in other areas through private investment. Today, water service delivery in the form of public-private partnerships (PPPs) is often promoted to combine the relative efficiency of the private sector with service on the interest of the public at large.

A general assumption that private sector performs more efficiently than the public sector has been crucial for justifying the promotion of PPPs. However, more recent studies on public and private sector efficiency in water service, covering both developing and developed countries, have been released by some international and regional lending institutions, such as the IMF, the World Bank and the Asian Development Bank. Surprisingly, these studies show that there is no consistent conclusion to be drawn from the evidences gathered and that there is "no systematic significant difference between public and private operators in terms of efficiency or other performance measures." One of the conclusions of these studies is that a change of ownership from public to private is not necessarily a solution for an under-performing service(David Hall and Emanuele Lobina, 2005: The relative efficiency of public and private sector water, PSIRU, Business School, University of Greenwich, U.K.)

Workforce reduction in the water sector has not been as severe as the numbers in electricity, but nonetheless the tendency of cutting labour costs to enhance profits will continue in the future. Employment reductions through mergers and acquisitions will also remain an issue. Social dialogue can play a major role in alleviating negative consequences to workers resulting from restructuring and can also improve productivity in the remaining workforce.

Industries in change

During the last few decades economic pressure and increasing global competition have affected the sphere of public services throughout the world, but the services in developing countries have been seriously impacted particularly under the pressure of the structural adjustment programme imposed by the international lending institutions against the backdrop of growing national deficits. Restructuring of public utilities usually preceded privatization in the efforts to improve services, but irrespective of which option to be taken for service improvement, the Conclusions adopted at the ILO Tripartite Meeting in 1999 and 2003 underscored the importance of transparency in information and procedures and of workers' representatives participating in such processes to ensure positive results for all stakeholders. The Conclusions emphasized, however, that privatization could not be a substitute for the State's responsibility for ensuring basic services to all, whether they are provided publicly or privately. The importance of strengthening public accountability during and after restructuring and privatization processes was also pointed out to prevent deterioration in quality of and access to services.

The Conclusions also noted that when governments opted to privatize public utilities, it was important that a structured and coherent plan and timetable be elaborated jointly by all parties and stakeholders concerned in accordance with national realities. A proper assessment of benefits, effects and costs before undertaking privatization could help to avoid problems arising from short-term political considerations. Public benefit assessment could include financial and budgetary considerations and implications for economic and regional development. Impact on environment, social welfare, equity issues, implications for consumers and the full range of employment and labour issues covering such topics as employment levels, working conditions, industrial relations and occupational safety and health, should also be considered. The range and type of options would vary depending on national and regional circumstances and there was no one model that could be applicable to different situations The joint elaboration of a plan and timetable could include defining the scope of privatization, identifying the priorities and principles, undertaking general tripartite discussions and dialogue with all parties and stakeholders. Such a process could provide a good basis for the development and implementation of legislation and sectoral agreements, including agreements with investors. Consultations with workers' representatives at an early stage of the process must be ensured in the drawing up of such agreements for securing the collaboration of workers with management for successful implementation of an agreed plan.

Major changes witnessed in the utilities sector in the last couple of decades also include technological developments, which can improve the quality and quantity of services and also show promise of permitting better working conditions, for instance by reducing some physically strenuous tasks and offering opportunities to women. However, their effective introduction requires careful planning and joint consultation, in view of the potential impact on jobs, conditions of employment, work organization, training needs, etc. For instance, many water, gas and electricity services, particularly in developing countries, are experiencing serious shortages of skilled personnel.

Privatization is being accompanied by an opening of utility markets to cross-border competition, as in the case of electricity and gas supply in the European Union, where both supplies are expected to achieve full liberalization for all customers by 01 July 2007. As of July 2005, full liberalization in electricity supply was declared to have been achieved in Austria, Denmark, Finland, Germany, the Netherlands, Portugal, Spain, Sweden and the

United Kingdom, while the rate of liberalization in the rest of the EU countries ranged from 0% in Malta to 90% in Belgium. In the gas market, on the other hand, full liberalization was declared to have been achieved as of August 2005 in Austria, Denmark, Germany, Italy, the Netherlands, Spain and the United Kingdom, while the market is still under total public protection in the Czech Republic, Finland, Greece, Latvia and Portugal (Eurostat, 07/2005 and 08/2005: Statistics in focus).

In the wake of these sweeping changes, utility firms are also becoming transnational. Privatization is being accompanied by an opening of utility markets to cross-border competition, as in the case of electricity supply in the European Union since mid-1996. Cross-border ownership is also spreading, sometimes through mergers but usually through acquisitions. European companies have topped the leaders of activity as countries around the globe are opening up their utility industries to competition. Many States in the developing world are redesigning their utility services, but are constrained by the requirements of international lending institutions, which often reduce labour and involve private enterprise. An interesting development in the sector is that some state-owned corporations are acting as multinational enterprises. They are taking advantage of increased competition in other countries and rapidly increasing their presence across the globe while being protected from competitors in their home market.

All these trends are entailing increased competition, and thus more pressure to emphasize commercial and profit concerns. Yet, while reforms may be necessary, namely to make services more efficient, effective and economical, the public service raison d'être remains important. In a similar vein, the repercussions of these changes on the workforce need to be understood and addressed. For instance, cost cutting that leads to lower employment and poorer working conditions can backfire if the best workers leave or if the workforce reduces its work effort. Retrenchments, sometimes massive, also pose serious problems, particularly in the current high unemployment context. Following liberalization in the European Union, more than 250,000 jobs were lost between 1990 and 1998. According to some, privatization and mergers and acquisitions may reduce employment by another 25 per cent in the industry by 2006. Given the vital role of these industries, governments usually retain some supervision over their operation, irrespective of ownership. Regulations and monitoring span a variety of areas; typically, the health and safety of utility workers and of the communities where firms are located, professional requirements, the volume, structure and conditions of employment and work; and also competition, services delivered and their price. But regulating a large multinational enterprise can often be more difficult for a government than providing the services themselves. Nonetheless, in the wake of privatization and economic liberalization, there is pressure towards deregulation. Undoubtedly the key feature and challenge of this sector in the next few years is change. Change could be well-designed and the transition properly managed if workers, management, users and other stakeholders are involved in shaping it, and if the benefits along with the possible costs of the processes are equitably distributed among those actors and society at large. Social dialogue can play a major role in the transformation of the industry. However in many cases, this requires capacity building for all parties involved.