

# Problems of Water Privatization and Responses in Korea

Korean Government Employees' Union (KGEU)  
Joint Action against Water Privatization

## 1. Introduction

In February 2006, the Ministry of Industry, Ministry of Environment, and Ministry of Transportation & Construction in Korea made public their 'Plan to Foster the Water Industry'. According to this plan, the government will continue to pursue its 5-year roadmap toward structural reform of waterworks management, in order to double the size of the water industry to 20 trillion won (approximately USD 20 billion), and to promote the growth of two water corporations as among the global 'top ten' firms in the water industry. Ultimately, the main objective of the Plan is to commercialize drinking water, and therefore privatize relevant corporations. Water is now becoming a commodity in Korea.

Transnational water companies are also aiming for Korea. *Veolia* has already signed a memorandum of understanding (MOU) with the city of Incheon since July 2006. The ISO international standards (ISO/TC 224) are about to be implemented and negotiations for a Korea-EU Free Trade Agreement (FTA) is also about to begin. Because most transnational water corporations are European, the Korean government expects that the waterworks sector will be opened up to European capital as a result of the FTA and the implementation of the ISO standard.

In other words, water in Korea is about to be fully privatized due to the anticipated signing of international agreements such as the ISO or the FTA, on the one hand, and the introduction of public-private partnerships (PPPs)<sup>1</sup> and increased operation by domestic private corporations, on the other.

## 2. Water Supply in Korea

After the economic crisis in 1998, Korea started to aggressively promote privatization of public infrastructure and services. However, during that time, waterworks was not included in the privatization drive because the government feared negative reaction from the public and resistance from the workers sector. Almost 15 years later, with Korea having gone through an economic crisis, the IMF intervention and the more aggressive privatization drive, waterworks privatization is now once again on the government's agenda. With the revision of the law regarding waterworks in 2001, and given the fervor within the government for privatization and liberalization during the last 7-8 years, privatization of water supply has become a major policy objective of the government. This change in policy direction has largely been the result of pressure coming from the big business sector, domestic and foreign, who has been dissatisfied over the relatively slow reorganization of waterworks in Korea.

In order to understand the logic behind the government's promotion of water privatization and the effects that water privatization in Korea will cause, let's first of all look at the general conditions of waterworks and some of the arising problems.

### ***Current problems regarding water services***

The 164 local governments in Korea are responsible for the water supply. Those that have a local source of water are responsible for the entire process of water withdrawal, purification and distribution. Those that don't

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1) Public-private partnership in Korea entails the local government giving operational authority of waterworks to the private sector. At the moment, operational authority of waterworks belongs to KOWACO, a public corporation. The local government would be paying a concession fee to the company for its operation services. Formal ownership remains with the local government. After signing a basic contract, the two counterparts will go through a feasibility analysis, table the proposal at the local council, and then sign an execution contract. Concession contracts for waterworks last usually 20 to 30 years.

have their own local resources buy water from KOWACO<sup>2</sup>, a publicly-owned corporation. KOWACO is responsible for 'wholesale' water supply to 16 main regions of the country. The regional KOWACO headquarters builds and manages the dams that supply the water, and local governments for smaller cities and townships distribute the KOWACO water to households.

As of December 2004, 44,187,000 people (90.1% of population) have access to tap water, and 16,145,000m<sup>3</sup> is being produced and supplied daily. The gap in access to tap water between rural and metropolitan areas is substantial, with the cities<sup>3</sup> at 98%, *eup* areas at 82.6%, and *myeon* at 37.7%. *Eup* are townships with a population of 20,000 to 50,000, while *myeon* are those with a population of 20,000 or less. *Eup* and *myeon* are usually located in the rural areas.

### 1) Polarization in access to clean water

The biggest current problem in the water supply is polarization in access. There is a big gap between urban and rural areas as regards access to water supply. In the largest cities, water is supplied to nearly all households, but in some of the smaller farming and fishing communities, the rate is only 37.7%.

Given these conditions, privatization would only lead to further polarization in access because companies will not be willing to take on the management of and investment into rural water facilities for they would not be considered profitable. In fact, KOWACO, which is the main corporation that is taking on the management of local waterworks as part of PPP program, either excludes rural water facilities from its contract, or leave it up to local governments to make infrastructural investments.

	Population (thousand)	Population supplied with tap water (thousand)	Supply rate (%)	Facility capacity (1000m <sup>3</sup> per day)	Supplied amount (1000m <sup>3</sup> per day)	Supplied water per person, per day(ℓ)
National	49,268	44,671	90.7	23,156	16,374	367
Seoul and metropolitan cities	23,079	22,832	98.9	14,930	8,025	351
<i>Si</i>	17,061	16,641	97.5	6,146	6,410	385
<i>Eup</i>	3,909	3,231	82.6	1,347	1,232	381
<i>Myeon</i>	5,219	1,167	37.7	733	707	606

### 2) Public mistrust of tap water and poor quality

Much investment goes into the metropolitan areas but public mistrust of tap water remains very high. In mid to small sized cities, investment in water supply infrastructure, and relevant budget, is very low. Facilities are getting old, levels of water leakage are high, and debts are also increasing. The situation is even worse in small farming and fishing villages. The local government has lost interest in the issue, and administrative capacities are low. Water quality is deteriorating, from run-down facilities and the pollution of nearby areas.

### 3) Disparity in water prices

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2) Although it is a public corporation with 100% government ownership, the government has recently started to promote restructuring in all public organs to make it more profitable and more market-oriented. There is no visible plan as yet to privatize KOWACO itself, however, this is really a matter of time in view of Korean government's urge to privatize major public corporations.

During the last few decades since its establishment, KOWACO has mostly focused on construction and management of dams, and during the development boom of 1970's and 80's, it was the leading corporation in the field of land development and construction. Korea is now experiencing serious environmental destruction as a result of the indiscriminate development of land and water resources as well as abrupt construction of massive dams. However, KOWACO is now challenged by decrease in profitability from over-accumulation in dam construction, at which it decided to venture into a new business area – water supply.

<sup>3</sup> This includes *Si*, cities with population of more than 500,000, and *Gun*, counties with population between 150,000 to 500,000.

Another problem is the great differences in the price of tap water. The price of water is not fixed according to a single scale across the nation. The problem arises particularly in the rural and mountainous areas where the production cost is high. In these regions, there is an incessant pressure to raise the water charge to bring it closer to the production cost and because it is considered a financial burden on the local government budget. Furthermore, the price structure is being revised in order to make it more suitable to privatization. If they were to do this, prices will have to be doubled. Unfortunately, the places that are confronted with this kind of disparity between production costs and charges are mostly small farming and fishing rural communities, who will be unable to afford higher prices for tap water.

With privatization, this disparity and polarization can only become worse. From the standpoint of capital, it would be natural to demand 'market prices' for public services, which in turn would mean dismantling the current public pricing system where the local government provides some form of subsidy.

**4) Problems identified by the government and pro-privatization agents**

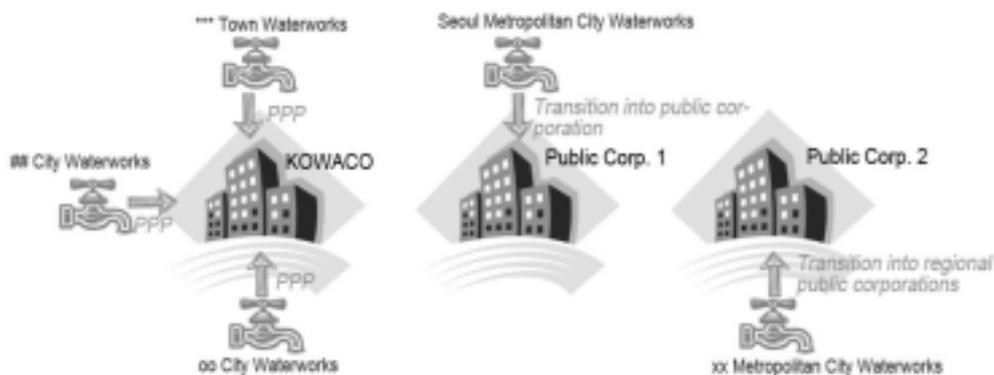
Those who call for privatization foremost take issue with the inefficiency of government-run operations. They claim that monopoly over the service, the small scale and lack of competition all lead to inefficiency. Moreover, they say that the limited budget does not allow for the much-needed improvement of facilities.

It is indeed a problem that local governments lack funds to operate the waterworks properly, and it is also true that there is a lack of regulation. However, the government's 'Plan to Foster the Water Industry' and its 'Plan on Restructuring Water Supply Service' cannot solve these problems. The introduction of competition and ultimate privatization of water and water supply can only aggravate these problems.

**3. The Government's 'Plan to Foster the Water Industry'**

*Scenario of water privatization process in Korea*

**Stage One: Introduction of PPPs and Public Corporations**



**Stage 2: Competition between several public corporations, private companies and TNCs**



**Stage 3: Monopoly of Water Market by 'winner' of competition**



The Korean government's push toward privatization began when the Ministry of Environment amended the Law on Waterworks to allow private participation in water supply operations. This change fell short of allowing complete private ownership of water supply, but allowed private entities to manage and operate the facilities. The KOWACO has taken over operations of water supply from several local governments, starting with Nonsan

in March of 2004. There are now over 30 other local governments that have signed similar agreements to do so. The terms of the agreement are effective for extended periods, and most contracts are for 20 or 30 year terms. In December of 2005, the Ministry of Environment expanded the scope of companies that could participate in water supply operations from the KOWACO and Environment Management Corporation (both public corporations) to all relevant organs.

Afterwards, in February of 2006, the government (Ministry of Industry and Resources, Ministry of Environment, and the Ministry of Transportation & Construction) announced the 'Plan to Foster the Water Industry', under direct orders from President Noh Moo Hyun. The Plan provides an analysis of the trends within the domestic and foreign water industry, and aims to double the size of the water industry to 20 trillion won (approximately USD 20 billion), as well as promote the growth of two water corporations as among the global 'top ten' firms in the water industry by year 2016. It set out five main challenges: structurally reorganize the waterworks services, improve relevant infrastructure, improve core technology and train experts in the field, strengthen export capacity of bottled water, and foster a global brand in bottled water.

The government also adopted the "Roadmap on Structural Reorganization of Water Supply Services". It is a core part of the government's Plan to Foster the Water Industry. The highlight of this Roadmap is to introduce PPPs to city and town (population of 500,000 or less) waterworks, to turn the 7 competitive regional metropolitan waterworks into public corporations, and to actively open water supply operations to private firms. These measures are taken as part of the introduction of a market system. The ownership structure of the competitive metropolitan waterworks will be changed into public corporations first so that a market system will function without provoking too much public resistance. At the moment, the main corporation taking on concession of smaller waterworks is KOWACO; however, it is also anticipated that the concession will expand to include conglomerates or *jaebols*, as well as water TNCs like *Veolia*. The process of privatization will go through 'integration' to gain competitiveness, and during this transitory phase, private and public firms will compete. The final outcome will be 'total market liberalization'.

Under the rhetoric of proposing various forms of 'restructuring' and fostering a new 'niche market', the government is in fact introducing privatization. It is expected to finalize the Plan and the Roadmap, legislate an appropriate law during latter half of 2007, and start implementing both the Plan and the Roadmap in 2008. However, the Plan on Fostering the Water Industry and the Roadmap on Restructuring of Water Supply Services that the Korean government announced in February 2006 and November 2006 respectively, are not an answer to the various water supply problems that Korea currently faces, as the government claims. On the contrary, such policies are likely aggravate the polarization in water access, to the detriment of peasant and farming communities.

#### **4. Responses and Struggles of the Movement against Water Privatization in Korea**

The Korean Government Employees' Union (KGEU), which encompasses 90,000 government employees working in central and local governments, has been in the forefront of stopping PPPs at the local level and has managed to succeed in several municipalities. It has now initiated a coalition to fight against PPPs and privatization of water in general, in line with the central government's promotion of 'Plan to Foster the Water Industry'.

In september 2006, the Joint Action against Water Privatization was formed as a coalition of 26 trade unions, social movement organizations and NGOs. It is focused on disclosing and exposing the problems of the government's water privatization policy and raising public awareness of the issue. Aside from organizing workshops across the country, the coalition is also organizing mass struggles against privatization, participating in exchanges with anti-privatization organizations abroad, and engaging in research to come up with alternative water supply policies that strengthen the public character of the service and that are environmentally friendly.