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While reading, please keep in mind that Mr. Frérot's first language is French. Some questions were answered in French and then translated to English.

THE FRENCH MODEL:

In France today, you could say that for the water sector, about 70 or 75 percent of French inhabitants are served with in terms of water, potable water, by private companies. In terms of wastewater, it's about 50 to 55 percent of the population that are served by private companies.

We began with *Genéralé Des Eaux*...which became Veolia now...150 years ago for the drinkable water network of Lyon...the second city of France. We began with water and progressively we added the wastewater services.

In France we don't know what you call or what the British call privatization. The assets which are necessary to provide the water services or wastewater services, we are not the owners of these assets. The public authority is the owner of the assets. Sometimes through the contract, they could ask their private partner to build them or to finance them...And when the contract ends, the public authority launches a new tender process but the property of the assets is owned. So you will get back at the end of the contract all the assets and so that is the case now for 150 years. So about 95 percent of all the water assets are owned by public authorities. Just the new ones which are built during the actual contracts are still in the hand of the operator. But at the end of the contract, they will give it back to the public authority.

Privatization presupposes that a private company has water-related assets: pipes, pipelines, plants, water treatment plants. In our model in France, those assets are the property of the public authorities. Even if, for certain contracts, these public authorities ask their private operators to build and finance these assets, at the end of the contract, which is for a definite term, ownership of said assets always returns to the public authority. Which means that, after 150 years of such a system, most of the water-related assets are, today, owned by public bodies. The latter have always, from the start, defined the level of service they wish to offer their citizens, and, also, the rates that these citizens should pay. However, in a model that differs from the state model, said public authorities have defined the service, but have not sought to offer it themselves because they have preferred to use an experienced, professional operator to offer it, but only that service that they have defined, over a given period of time: the contract term. At the end of the contract, they take back all of the assets for themselves, and they re-launch a bidding process to choose another professional operator to perform a new contract, the content, level of services and rates of which the public authorities have defined themselves.

NOT A MONOPOLY:

The French market is probably...not probably...surely...the most competitive water market in the world. Keep in mind that every year we have about 800 tender processes in this country. That is not the case everywhere in the world. So there is no monopoly. We have three big private water companies in this country, but we have also about 20 smaller water companies. I don't know a lot of countries with more than 20 or 25 private water operators in their country.

The small group of companies that you are speaking about do not have a monopoly over the water contracts. There are 3 major companies in our country that do this trade, and then, as I told you, some twenty small companies. In France, there are 2 car manufacturers. In all of Europe, there are maybe 5 or 6, none of which are small. Twenty or twenty-five companies, 3 large and 20 small, is more than enough to make a dynamic market. And the fact that there are 800 calls for bids each year, with an operator change rate of 10 to 15 percent, is exactly the same rate at which the French population, or the German population, for example, changes the make of its car. And nobody finds the automobile market to be lacking in competition. Therefore, the water market in France is a very competitive market and fully mature. And with 25 operators, you have what it takes to have a mature market. It is quite normal to have, after 150 years of the market's existence, large and small companies. But it's a market that exists and which is dynamic... nowhere else in the world, I believe, do you have as many operators when a call for bids is launched.

150 YEARS OF EXPERIENCE:

One hundred and fifty years ago, in Europe and I think you have the same in North America, the water networks did not exist. I think the first one which has been built in Europe is the network of London. It was proposed by private companies, so it was a proposal coming from private sector to public authority to propose to build something which was not existing at this time. And the public authorities decided to go in this way and it was rather the case around the big cities of Europe. It became public later, at the beginning of the 20th century for different reasons that we could explain.

LINDEN MACINTYRE: ONE REASON MIGHT HAVE BEEN, AND IN SOME PARTICULAR CASES IT WAS THAT THE PRIVATE SECTOR WAS CHARGING TOO MUCH MONEY.

I contest completely that the private sector could be more expensive. I explained to you at the beginning of our speech that we are not defining the fares or the tariffs. It is in France like this everywhere when we use this delegated model. It is the task of the public authority to decide the fares which are bid to customer or to citizens. So we, ourselves as operators, are not deciding the tariff.

LINDEN MACINTYRE: BUT THEY HAVE TO FACTOR IN PROFIT, THEY HAVE TO FACTOR IN THE COST OF CAPITAL AND THEY HAVE TO FACTOR IN TAXATION?

The good question would be how could you make profits with given fares where public owned body could not make profits? That is a good question. I could say to you that we could make profit with smaller tariffs than a publicly owned company with higher tariffs. Why that? Because firstly, we

have 150 years of experience and this company did only this job during 150 years. Between six and seven generations of professionals, we just did that during their whole professional life. We are experienced, we are working for about between 6 and 7,000 cities in the world and we get a lot of experiences and we could propose a lot of best practices in terms of water or wastewater management to every city in the world. The second thing it is a question of organization. We are a private company, so the management of a private company has only to be concentrated on the organization of its work and delivering what we promised through the contract and making profit. It is not the case for a public body where the boss ultimately is elected people. It is not very easy to be at the same time an elected people... a politician... and a boss of the company because a boss has to take some tough decisions sometimes.... And it is difficult obviously to be at the same time a politician charged with politics in the city or in a region and to take the tough decisions in the publicly owned company. And I think it is the reason why having just to manage our company, we can get better result.

ILL-INTENTIONED MEMBERS OF PARLIAMENT:

LINDEN MACINTYRE: NOW IS IT NOT TRUE, THOUGH, THAT THE NATIONAL ASSEMBLY RECENTLY CRITICIZED THE PRIVATE SECTOR FOR THE RISING COSTS AND BECAUSE OF THE LACK OF TRANSPARENCY AND ACCOUNTABILITY? WAS THIS A FAIR CRITICISM?

Firstly, it is not the case, completely the case and of course it is not fair. I come back on the case. In the Assembly, we were not criticized for having too much, too high fares or too high tariffs. Just one month ago, was published a report from a national body about the price of water and wastewater and they completely explained and I could give you this report...it's a big report. They completely explain firstly that water in a region where there is a private operator is not more expensive than the other. But it is true that the Assembly criticizes the lack of transparency of our work. It is why they are thinking to regulate this transparency better than it is regulated now.

The French National Assembly has, today, taken on the water problem, and a very small minority of members of parliament are seeking to connect the real issue, the problem with the quality of water resources in our country, which is decreasing each year a bit more, and the role of private operators. The vast majority of members of parliament do not make this connection. What is the problem today? The problem is that in this country, for the past 40 years, a regulation that has borne its fruit has made it possible to decrease, by 3 or 4 times, the water pollution emitted by industrialists or by cities, by citizens. But it has not done anything about farmers. Yet, French farming policy, driven by European policy, has resulted in our agriculture becoming increasingly intensive and farmers using fertilizers and pesticides, nitrogen and phosphorus fertilizers, more and more often. And we now find excess amounts of those fertilizers in the quality of underground water or in rivers. In our country, private operators do their work in what we call the "small water cycle". That is, the production and distribution of drinkable water, and the collection and treatment of wastewater. We, the private companies, are not responsible for the quality of the water within the meaning of the "big water cycle". And since this water resource is increasingly polluted, the cost of treating this water and making it drinkable is becoming more and more expensive and, therefore, the price of water, for which the public bodies decide to invoice their citizens, increases.

Ill-intentioned members of parliament, those who would like to see not only the water sector, but the entire private sector disappear, try to draw a connection between the price of water, for which we are not responsible, because it is the public bodies that define it, and the poor quality of the resource.

Reasonable members of parliament, those who try to understand the issues and to find solutions, do not draw that connection. Those members of parliament know that if we are able to bring the water pollution issue under control, the cost of treatment will be lower and the price will go down because it is the public bodies, the municipalities that define the price of the water. Why is there this great debate in France today? It concerns who will pay the cost of trying to improve the quality of the water resources and to stop pollution at the source, as we did for 40 years for industrialists and for the cities. And this is where the issue becomes tricky, because farmers are in a poor economic position and it is obviously very difficult to imagine taxing them at the level that the pollution generated by farming practices costs. Therefore, the debate is now under way, first of all, to try to convince them to change their ways, provided that their income does not decrease, and then to find another level of solidarity in the country to compensate farmers who agree to adapt more reasonable farming practices.

The consequences of this type of action are found in the quality of the water, therefore, in the cost of treatment and in the price. But private operators like ourselves have nothing to do with this because our objective, our mission is always to seek the best solution, the best price-quality ratio vis-à-vis a given resource requested by the public bodies.

AN IMPORTANT THING TO REMEMBER: WE DON'T SELL WATER:

LINDEN MACINTYRE: THE BOTTOM LINE THAT THE CONSUMER WILL PAY FOR THE CLEAN WATER, EITHER THROUGH HIS TAXES OR THROUGH HIS FEES, WHAT IS THE DIFFERENCE HERE?

The fact of whether or not a profit is turned is not directly related to the price we give our clients. The fact of whether a company turns a profit is related, on the one hand, to the price billed to the client and to our manufacturing cost. What I'm saying is that a private operator with 150 years of experience, such as ourselves, that is serious and professional, is able to make productivity gains each year, much more so than a small company or a public company, which, by definition, is limited to the territory for which it was created. Our experience, our ability to put into general use good practices which we are able to update in different places. The meticulousness of a private company, the fact that the company's boss' only mission is to manage his company, without having any political agenda to manage as well, results in productivity gains each year. Our research and development – we spend a large part of our income on research and development – enables us to improve our techniques and decrease our costs. This means that even if our prices increase at a lower pace than inflation, our costs increase even more slowly than our prices. And, therefore, our margins increase. But that's how it works with all private companies. A little while ago I used the example of car manufacturers. It's exactly the same thing for them. The price of cars lowers, quality increases significantly, and manufacturers still turn profits, and sometimes even see their profits increase.

I think there's an important thing to remember: We don't sell water. An operator like us does not sell water. Because our consumers do not consume water. Our consumers, Sir, are like you. Every day they borrow water and every day they return it, in the same quantity, but not with the same quality. They return it dirtier. What you consumed today isn't water, because you have returned it. It is its quality, its purity, its ability to arrive in your kitchen and bathroom. What you consume isn't water, it's water-related services. And what we sell isn't water, because you return it, it's water-related services. And like any other company in the world providing services and products, we make profits on the efforts of our employees in properly delivering said services.

ANTI-GLOBALIZATION LOOSING STEAM:

LINDEN MACINTYRE: HOW SERIOUSLY DO YOU TAKE THE GROWING OPPOSITION REPRESENTED BY ORGANIZATIONS LIKE *EAU SECOURS* OR THE ACTIVITIES OF MR. MICHEL? IS THIS A GROWING MOVEMENT AMONG THE PUBLIC AGAINST PRIVATE SECTOR INVOLVEMENT IN WATER? OR IS IT JUST A PHENOMENON?

We take it very seriously, of course. And you could say that it is a growing movement, but it's focused on people or part of the population who are interested by the anti-globalization movement. It is interesting...it is probably a bigger part of the French population than it was before but it is still not completely expanded through the country. A special thing happening in France...but I think it's coming also probably elsewhere...is that the people in the media now can discover the big links between this anti-globalization movement and the hard left political movements we have had in France since a long time.

Yes, we, of course, take those movements very seriously because they dispute the very existence of our trade. In France, they are becoming increasingly important because they did not exist before and, now, a growing part of the population is interested in their theories, which are based on the fight against globalization – the movement called anti-globalization. That said, they have received a lot of good press over the past few years and today in France, the French, and especially the media, have noticed that more and more often, leaders or former leaders of far left parties are at the head of the French sections of these anti-globalization movements. And this connection, which is more than a connection, consists of the same people hiding their old political colours and brandishing new ones. That discovery, I believe, will somewhat discredit these anti-globalization movements.

At the European Social Forum in Paris, this anti-globalist had planned a major demonstration in front of our head office in order to speak out against the role of our company in the water sector. A few years ago, I believe, they would have rallied several thousands of people. This year there were under 30 people in front of the head office. Therefore, I believe that, in our country, by virtue of the connection between these two aspects - far left politics and anti-globalist movements – the latter may lose a certain credibility if they don't refocus on their true battle and if they continue to allow themselves to be poisoned by far left political movements.

MR. MICHEL INTIMIDATION:

LINDEN MACINTYRE: WHERE MR. MICHEL CONDUCTED AUDITS, HE DID DISCOVER CASES WHERE THERE WAS OVER-CHARGING AND THERE HAVE BEEN RATE DECREASES AND MOVEMENTS TO RETURN THE SERVICE TO THE PUBLIC.

I did not know Mr. Michel personally because I was not in charge of managing the company at that time. That was several years ago. But because of Mr. Michel's work, there are in this country about 20 research offices, consultants, who today help public bodies- in particular during calls for bids to renew contracts- to check if the previous operator did its job properly; To check the level of its costs and margins; To be able to make them available to the public and to launch a new call for bids. Therefore, Mr. Michel's work is done, today, by some twenty consultants in France...generally small firms. The association of French mayors, therefore of French cities, has even acquired a small tool with some 10 or 20 professionals to help the cities to assess a private operator's work and to help them put together the call for bids, the specifications for the call for bids, for the new call for bids. Therefore, the work Mr. Michel did 10 years ago is now done by several people.

LINDEN MACINTYRE: CAN YOU EXPLAIN FROM YOUR POINT OF VIEW WHAT HAPPENED IN THE SITUATION WHERE PEOPLE WERE CHARGED AND CONVICTED OF INTIMIDATING MR. MICHEL. WHAT WAS THE STORY THERE?

I could not tell you. I was not in charge at this time. But what I would say to you is that in a big company, in Veolia we have about 300,000 employees. In a big company, you don't have everybody perfectly clean. You could have, as we say in French a "moutons noir". So the organization, the company, has to fight that and we exclude these "moutons noir" and we did it and we continue to do it.

LINDEN MACINTYRE: BUT THE MOUTON NOIR STILL WORKS FOR THE COMPANY.

Are you sure?

LINDEN MACINTYRE: MR. CALMELS IS IN INDONESIA STILL.

Mr. Calmels? Mr. Calmels was not convicted...So coming back about the black sheep. Of course we have and will probably still have in the future some black sheep in this very big company. What I could say to you is that our procedures have been reinforced a lot for ten years now and a black sheep who is proven that their action was illegal and condemned by the court is excluded from the group. So...

LINDEN MACINTYRE: ONE OF THE ACCUSED BLACK SHEEP IS STILL WORKING FOR THE COMPANY, MR. CALMELS.

Mr. Calmels was "blanchit".

LINDEN MACINTYRE: CLEARED?

Cleared, completely cleared by the different courts. So he's innocent. When the courts decide that a man, an accused man is cleared, he's no more culpable...guilty. He is innocent. And Mr. Calmels was completely cleared.

EXPLAINING THE TOULOUSE CONTROVERSY:

LINDEN MACINTYRE: I DON'T WANT TO BELABOUR THE CONTROVERSIAL BUT IN THE CITY OF TOULOUSE THE COMPANY HAS BEEN CRITICIZED FOR CERTAIN ASPECTS OF THE CONTRACT. IT ALMOST LOOKED AS IF YOU WERE BEING ACCUSED OF ILLEGALLY ATTEMPTING TO RECOVER THE COST OF BUYING INTO A CONCESSION. WHAT HAPPENED THERE FROM YOUR POINT OF VIEW?

Yes. It is not at all illegal. Until 1992, when a municipality wanted to go from a publicly held body for their water management to a private operator, they have the choice to ask immediately, one shot, the benefits of the management of the private operator and to get the money back into the city account. It was stopped by the French Assembly I think in '94, '95. But before that it was legal for the municipality to tell to the private operator or the candidates: you will make better than my publicly owned body. So you will save money, given the quality I want. Please give me back immediately the money for the city to allow me to make other investments. That was done in Toulouse as in other cities in France.

What is contested today by the anti-globalization movement is that this money was used by the city, but not for water. Because water was delegated to private contract for roads, for schools and so on. What is contested is that the price of this economy was paid by the water consumer. What we are saying is that it is not at all the case because what we pay to the municipality was the savings we thought we would do during the water contract...though as savings, the consumer will not pay that. So in a delegated management model we share between the city and us the profit of our work, our effort, our savings...On this model of Toulouse we pay the part of the city immediately in one shot. It's not at all illegal and the water consumers have not paid anything in front of this money.

LINDEN MACINTYRE: THIS IS THE PROBLEM THE ACCUSATION IS THAT YOU TREATED IT AS A LOAN AND YOU WERE RECOVERING IT THROUGH THE WATER FEES.

It is, it is false. We deny that and we'll deny it publicly. As you probably know because you are well informed, the courts, the court didn't judge anything about this. We are not in process, not yet in the court. But if we go one day to the court we will explain to the court that the consumer never paid this part of money. Because this part of money is the money we...we thought that we would save during the contract. What the anti-globalization people could say is why did you give this money in one shot to the city and not directly to the consumer? But it is another question. The consumer didn't pay that. But what they could say is that the consumer could pay less than they pay because the money we save between our profit we keep it. And the profit...the part of the profit we give to the city, the consumer could say we contest the fact that you gave back some money to the city for other things like roads and schools.

But the water bill, I told you, we do not decide. It is the decision of the city. And at this time it's not at all illegal. And in a lot of countries it is still legal today to pay one shot to the city, the savings we promise to a city. It was the case for the contract in Berlin for example... So for a city which has a lot of investments to do, in a lot of countries it is completely legal to give, to share profit between a private operator and a city. And the city could get this money and spend it for this other use. It is no more legal in France. So we stopped it for ten years about.

CONTESTING THE IDEA OF PAYMENT FOR WATER IS A CRIMINAL ATTITUDE:

LINDEN MACINTYRE: HOW DO YOU ASSESS THE IMPORTANCE OF THESE CONTROVERSIES, THE ACTIVITIES OF THE ANTI-GLOBALIZATION PEOPLE, THE SETBACKS IN FRANCE...HOW DO THEY AFFECT THE OVERALL FUTURE OF THE PRIVATE WATER BUSINESS?

Difficult to say and to read in the future. What I would say is that probably this contestation could help the model we are using usually at Véolia. It will force I think the public authority to play their role of public authority. That is to take responsibility to decide which quantity and which quality of water service or wastewater service will be delivered to the citizen and at which tariff. I think this contestation will force to clarify the role of the public authority and the role of the operator. And if it is the case, it would be a good thing.

I don't think that this contestation will push the public authority not to delegate the management of their water business or their water services. My feeling is that they could by forcing the clarification between the role of the public authority and the role of the private operator which is a role of execution, as I told you, I think it will help the public authorities to think about the best way to deliver the water services and probably, and I hope and I think, they will come to the conclusion that a big professional, an old professional private operator could bring to them more and better than a new local publicly owned company.

And the anti-globalization people what are they saying obviously? They are saying water is a gift of God. We cannot make payments from a gift of God. Do you think the anti-globalization people are silly? Totally not. I explain to you that we are not selling water. The private operator is not selling water because the consumers are not consuming water. They are consuming the purity, the quality, the ability to come directly to the kitchen and to the bathroom. We are not selling water because you are not consuming water. We are consuming services around water. And these services have costs, because it needs a force and it works because of people and these people are not living without money for that. So water services have costs.

If you contest the idea to pay these costs...that somebody will have to pay the costs or that you have to share the payment of these costs...you are condemning people who have no water services or no water services today to never have water services. And these anti-globalization people know that, because they are not silly. So the attitude of contesting the idea of payment for the services is a criminal attitude. Because it means to condemn the people who do not have water services today to never have water services. And I think the public authority or the elected people...politicians...local politicians...will discover that: that water services have necessary costs.

The discussion is not to contest the costs or to contest any payment. The right question is who has to pay this cost? The consumer, the taxpayer, and so on. And the question is different in each case. Let us take the case of developing countries. In these countries you have a different sort of population of course. And you have a population who could pay the global cost of water and a population who could not pay at all this cost and perhaps only 10 or 20 percent, and no more.

But let us remember what happened in Europe a hundred years ago. In France, for example, the beginning of the 20th century, the consumer was not paying the full cost of water. In France about a hundred years ago, the consumer was paying half of the cost, the taxpayer the other half. Why could we impose to the developing countries different things that we did in Europe a hundred years ago? So the right question is which part of the cost could be paid by different people, which part could be paid by another way – taxpayer or international subsidies if there is. But the question is not to contest the cost. And this idea to use the sentence, that water is a gift of God, which has no price, is a criminal sentence.

THE MILLENNIUM DEVELOPMENT GOALS:

LINDEN MACINTYRE: THE UNITED NATIONS SET MILLENNIUM GOALS. THERE WAS A GREAT DEAL OF EXPECTATION PLACED THAT THIS INCREASED ROLE OF THE PRIVATE SECTOR WAS GOING TO ACHIEVE THE MILLENNIUM GOALS.

Yes.

LINDEN MACINTYRE: AND IT HASN'T REALLY PROGRESSED THE WAY IT WAS EXPECTED AS OF YET. WHAT DO YOU SEE AS THE PROSPECTS FOR ACHIEVING THOSE GOALS AS MATTERS NOW STAND?

I have some comments to do on that. I agree that the millennium goals could be reached only with the building of partnerships between private sector and public authorities. I am convinced about that. It is my job but I am completely convinced that without the help of big professional water services we will not be able to reach this goal...Why it is necessary to use the capacity of the private operators, but not only them? Because as I told you, I think it is very important for the local municipalities to understand clearly their role and the role of the operator. Their role is to decide which level of services they want to propose to the citizen...And the role of the operator, private or public, is to execute that. These are two different roles.

I'm sure that with these private operators, it will go, it will go quicker than without them. Because the private operators they are not existing at this time, their services are not existing. So the operators are not existing. To build them, to train their people takes too much time. So I'm sure that we need the help and the role of the private operators is to execute these services. Not only them, there will also be some publicly owned operators but we will need private operators.

Why did we not progress? Let us say since about one year or two years perhaps, one and a half year? Because, mid 2002, I think this contestation of the services of water and price, this negotiation, discussion, reflection, thinking about who has to pay this cost. What is the role of

public authority? What is the role of private or publicly owned operators? Who has to pay the costs passed on to the consumer and for which consumer? Which part for taxpayers? Which role for international subsidies? To whom have to go the subsidies? To the state? To the local municipality? How to spend to control that? We did not progress because we are still at the same beginning. The same beginning is: do water services cost or not?

LINDEN MACINTYRE: SO YOU'RE SAYING THAT THE ANTI-GLOBALIZATION MOVEMENT IS HOLDING UP THE PROCESS. THEY'RE CAUSING THE DELAY.

Yes, yes, because they are still discussing the same things for two years now.