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The muddy waters of financialisation and new accumulation strategies in the global water industry: The case of AGBAR

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ABSTRACT

Since the turn of the century the global water industry has seen an influx of new financial actors, investment vehicles and markets along with a discernible change in the corporate strategies of big water operators. In this paper we argue that 'financialisation' is materially shaping ownership, control and geographical organisation in the global water industry. To make this case the paper investigates the historical development, geographical organisation and accumulation strategies of *Aguas de Barcelona* (AGBAR). By tracing out the development of AGBAR's operations in Argentina, Chile and the United Kingdom the paper provides a window onto the complex links between the industrial activity of providing water, both in developing and developed markets, and the chain of actors, techniques and activities that have deepened the industry's links with the circulation of finance capital. The paper argues that financialisation has been of an uneven and spatially variegated intensity, taking hold where the network of services and infrastructures involved in its delivery can be most profitably embroiled within new investment vehicles. This in turn has reacted back upon the geographical and strategic accumulation strategies of traditional water companies that are shifting from ownership operation to management contracts and research-based investment.

1. Introduction

In recent years the global water industry has attracted the attention of many scholars that have investigated, *inter alia*, processes of privatisation, commodification, the dynamics of the 'hydro-social' cycle, and the role of social struggles and resistance over water governance (see for instance Bakker, 2010; Bond, 2010; Castro, 2007; Harris et al., 2013; Domènech et al., 2013). However, the proliferation and impact of new financial markets, investment techniques, and actors in the water cycle has been somewhat under-researched. In a special issue of *Water Alternatives,* dealing with so-called 'water grabbing', Mehta et al. (2012) acknowledged that the financialisation of water services and of the resource itself is a 'somewhat unchartered territory'. Of course 'financialisation', given its proliferation in the academic literature, can function as somewhat of a nebulous concept. Yet it is this uncertainty around the concept, and within the sector itself, that we believe warrants a closer look at what 'financialisation' in the water sector may entail.

Unlike oil and other natural resources such as carbon, water has not been 'financialised' in the sense of being traded on various platforms through spot prices, futures markets, and derivatives (see Labban, 2010). Commentators and analysts point towards this possibility, but it is not yet a reality.[1] Rather what have been integrated into new investment vehicles are water infrastructures, services and ultimately the revenue streams generated by households. The wave of privatisation in the 1990s opened up the provision of water to new sources of private ownership, operation and investment which since around the turn of the century has attracted a broader array of investors and new forms of financial engineering (Inderst, 2009). This has been of an uneven and spatially variegated intensity. In short, it is not water itself, but the network of services and infrastructures involved in its delivery, that has been embroiled within the contemporary financial environment.

This paper sets out to explore how 'financialisation' is shaping ownership, control and geographical organisation in the global water industry. To do so, we investigate the historical

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[1] As stated recently by chief economist of Citigroup, "I expect to see a globally integrated market for fresh water within 25–30 years. Once the spot markets for water are integrated, futures markets and other derivative water-based financial instruments... will follow. There will be different grades and types of fresh water, just the way we have light sweet and heavy sour crude oil today. Water as an asset class will, in my view, become eventually the single most important physical-commodity based asset class, dwarfing oil, copper, agricultural commodities and precious metals" (Business Insider 2011: online; FT Alphaville 2011: online).

development, financial investment strategies and corporate restructuring of *Aguas de Barcelona* (henceforth AGBAR). AGBAR is one of the world's biggest water operators currently controlled by French utility giant *Suez Environnement*. Whilst we do not want to suggest that AGBAR should be taken as the 'critical case', representative of changes for the water industry at large, we will show that its financial history, scale and scope of operation provide a useful indication of changes that are at the cutting-edge of financialisation in the global water industry. Indeed, by tracing out key areas of AGBAR's global operation we will be able to shed light on how the impact of changes in the global economy and the entry of investment, pension and infrastructure funds have had a material and geographical effect in the water sector. Thus, our aim is to provide a detailed empirical case study of important changes undergone by AGBAR and use this as a platform from which to reflect upon how far the case is representative of, challenges, or perhaps, extends our understanding of financialisation in the water industry. We do so through reference to the theoretical premises of financialisation in general and processes of financialisation in the water industry in particular. The former provides a macro framework and context for on-going changes in the global economy and the latter provides insights into specific transformations within the water industry.

The paper argues that through its global operations AGBAR has encountered obstacles and opportunities as financialisation has deepened within the water sector, which, in turn, has influenced its accumulation strategies and seen it embark upon a geographical reorganisation and strategic consolidation within the sector. This we argue represents a specific, but 'muddy', case of 'financialisation'. By describing this as 'muddy', we have two intertwined processes in mind: first, instability in the global economy, itself linked to processes borne out by financial liberalisation and deregulation (currency swings and devaluation, capital over-accumulation, capital flight and political instability) which gave rise to a profitability crisis in, and retrenchment from, certain markets; second, the entry into the global water industry of new financial actors and the creation of new financial markets therein, created the material conditions through which AGBAR was able to re-direct its accumulation strategy from ownership-based operation and into knowledge intensive research and the provision of water services. It is by investigating the interaction between these two processes that we can develop an understanding of how 'financialisation' is shaping ownership, control and geographical organisation in the global water industry.

The paper is structured as follows. Section 2 covers the general theoretical premises of the financialisation literature and then moves to unpack the concept and its implications as seen through changes in the global water industry. In Section 3 we develop a detailed qualitative case study of the changes AGBAR has undergone during its evolution as a global water company by means of focusing on three specific geographies: Argentina, Chile and United Kingdom. In Section 4 we reflect theoretically upon how AGBAR's accumulation strategy has been influenced by financialisation and how far the case-study is representative of financialisation and the water industry. We finish with a summary of our findings and argument and suggest some future lines of research.

2. Mobilising 'financialisation' to understand changes in the global water industry

One of the novelties of post 1970s capitalism has been the apparent rise to dominance of financial markets in the global economy. During this time the growth in the magnitude of financial assets has outstripped the growth of global GDP. For instance, Harvey (2010: 30) has pointed out that in global terms "the US$40 trillion annual turnover in 2001 compares to the estimated US$800 billion that would be required to support international trade and productive investment flows", illustrating the apparent disunity between global finance capital relative to industrial production. A significant amount of research, across the social science disciplines, has been devoted to investigating the roots of this phenomena, prior to but especially post the 2008 financial crisis. The implications of this process are still much disputed (French et al., 2011), and the literature that coalesces around the concept of 'financialisation' is extremely wide ranging. For instance, to recount just some of the most well-known accounts, financialisation has been mobilised to refer to the new locus of profits within capitalism (Crotty, 2005; Dumenil and Levy, 2005; Foster, 2007); a class based project to restore the conditions of capital accumulation (Harvey, 2005); the growing usage of financial concepts and cultures in daily life (Martin, 2002); the dominance of the financial industry in the economy at large, measured by the share of finance-related income in non-financial firms (Krippner, 2005); the creation of a new class of asset owning rentiers (Epstein and Jayadev, 2005; Zeller, 2009); and the ascendency of shareholder power in the influence of corporate business strategies (Froud et al., 2007; Peters, 2011; Stockhammer, 2008).

This proliferation obviously poses the risk of appealing to an empty abstraction – the fate arguably of concepts such as 'globalisation' and 'neoliberalism' (Engelen, 2008) – that has been invoked in so many scenarios as to lose explanatory power (for the full range categories see Lee et al., 2009).[2] With this danger in mind, we want to recognise that there is a universal element to financialisation that can provide insights into the macro-economic context, but then proceed analytically through appeal to the activities and income sources that are associated with the micro-economic processes in the water industry. At its most general level we would concur with Swyngedouw (2010: 308–309) that financialisation is a process linked to "a particular form of circulating capital, premised upon transforming geographically specific, relatively fixed, and particular conditions into abstract circulating and interest yielding capital". At this level of abstraction the concept of financialisation has extensive applicability, but arguably could also contain within it processes such as commodification and neoliberalisation. Indeed, Fine argues (2010: 108) that financialisation can be seen as integral to (even shorthand for) neoliberalism and not merely one of its consequences. Thus to distinguish further what we mean by 'financialisation' in an empirical sense two interlinked processes are relevant: the *activities* that financial institutions pursue which include financial intermediation, financial advisory, and financial investment and the financial *income sources* that can derive from such activities which include such things as interest and dividends (Christophers, 2013).

It is well known that institutional investors from the Anglo-American world, especially pension funds have tended to dominate flows of global finance (Clark, 2001, 2005). The move by pension funds and other institutional investors away from equities and into fixed assets (property and infrastructure) in conditions of natural monopoly, especially following the bursting of the dotcom bubble in 2001, could be taken as a further example of what Mitchell terms "the easier and more secure profits of rent" over "the difficult profits of productive activities or competitive trade" (2004: 22). This refers to the steady stream of revenue that owners of

[2] In comparison to the logical properties of sociological concepts such as modernisation and secularisation Engelen has argued that financialisation "contains an epochal perspective on social reality with teleological overtones and a suggestion of gradual spatial extension. To shed these properties, the financialization literature has to become more sensitive to contextual variables and the way these interact with the wider capitalist developments that the concept of financialization is purported to denote" (Engelen, 2008: 114).