Mergers lead to thousands of job cuts in Britain's utility companies

Paul Mitchell
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British utility companies have blamed their shedding of at least 10,000 jobs on price cuts ordered by government regulators. Ian Byatt of the Office of Water Services, OFWAT, has ordered a 12.3 percent average cut in water bills next year. Hyder, which owns Welsh Water and South Wales Electric, is cutting 1,000 jobs—a third of its workforce—and Eastern Electricity and London Electricity are cutting 800 jobs, one quarter of their workforce.

In truth, the job losses are the by-product of the ferocious competition in the utilities sector. Ever since the Conservative government began privatising utilities 15 years ago, there has been an unending round of mergers and take-overs. Governments around the world have done the same with the result that financial analysts estimate just six major corporations will compete globally for the estimated $800 billion of utility infrastructure expenditure needed over the next decade.

Britain's Labour government has been even more aggressive than the Conservatives in promoting competition. Soon after winning office in 1997 it passed a Competition Act, effective from March next year, that prohibits anti-competitive agreements and the abuse by a company of its dominant market position. This will make it illegal for companies to agree not to trade in each other's areas, for example.

Labour has criticised other European countries for not following their lead. Energy Minister Helen Liddell attacked the French government for not implementing the European electricity market directive. Pointing out that Electricité de France—owner of London Electricity—is still a state-run organisation, she said, "there are clearly not the same opportunities for UK companies to enter the French market as there are for French companies in the UK."

The Labour government is also pushing through a new Utilities Bill, which insists that regulated companies like water will be able "to finance the carrying out of their functions".

Prices have risen 40 percent in real terms since privatisation, while share dividends remain amongst the highest in the country—equivalent to 25 percent of bills paid by customers. Despite claims of providing "value to the consumer", the government's bill is aimed at answering the concerns of the major financial institutions that the water utilities are too protected and have not cut costs sufficiently to be internationally competitive. So far, most attempts to make profits from international ventures have proved disastrous. Labour and the City of London now aim to change this by shaking up the private utilities, even if it means they cease to be owned by British companies.

For their part, the water companies are urging the government to allow "UK companies to grow large enough to take full advantage of enormous opportunities overseas". Mergers between British-owned water companies are presently not allowed and UK water companies point to the success of their French competitor, Vivendi. The company is the largest water corporation in the world—worth $15 billion as a result of its take-over of US Filters—and owns a small water company in Britain.

The utility unions have responded to the threatened job losses by defending higher charges. In their appeal to OFWAT, the main water union UNISON said "We appreciate that the companies have to look to their share price and reaction of the Stock Exchange" and that "no other private company could be expected to live with the loss of income resulting from the price reductions" proposed. The union has offered to make submissions on behalf of any companies should they appeal against the price cut.

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