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Is a fair price for water too much to ask?

IN the last few years, water has been the source of too much dissension between Malaysia and Singapore. It should not. A torrent of rhetoric, allegations and occasional misrepresentation has muddied the central question: Can any person on this earth, in this day and age, truthfully say that three Malaysian sen - or 1.4 Singapore cents or 0.8 US cent - is a fair price to pay for 1,000 gallons of water?

Of course Malaysia must fully consider Singapore's concerns. But is a fair price for water from Malaysia too much to ask for?

Although Singapore has generated a profit of RM662.5 million from Malaysian raw water in 2001 alone, Singapore paid Johor only RM2.39 million - or S\$1.09 million or US\$628,947 - in 2001 for a whole year's supply of water. This works out to just 26 Singapore cents (US 15 cents) per person per year.

In other words, Singaporeans got all the water they wanted from Malaysia for an entire year for just one small bite of a Big Mac.

On the other hand, Johor paid Singapore RM6.3 million for the treated water it took in 2001.

The intention of this document is to set the record straight. We hope it will lead to a better understanding on both sides of the Causeway and beyond, where Singapore has taken its fight.

A good bilateral relationship is clearly difficult if Singapore continually portrays Malaysia at home and abroad as a big bully, a country that does not play fair, and a nation incapable of abiding by international agreements.

Throughout the years of negotiations, Malaysia has always tried to be a good and generous neighbour. Malaysia has never in its history interrupted the supply of water to Singapore. Malaysia will never stop the supply of water to Singapore. That is the promise made by Malaysia, as stated by Malaysia's Prime Minister.

Malaysia has never tried to take advantage of Singapore's need for water. Malaysia has never breached any of its legal commitments. Despite fluctuations in bilateral ties, Malaysia has never withheld from Singapore a single drop of water.

In the future, Malaysia is happy if Singapore continues to source water from Johor or if, because it does not like the price, Singapore decides not to buy a single gallon.

All we ask for is a fair price, a fair deal.

In speech and in writing, distributed worldwide (see for example, Singapore Ministry of Information, Communications and the Arts 2003 Water Talks? If Only It Could), Singapore has been aggressively on the offensive and raised many issues. It is time for Malaysia to respond, to set the record straight.

1. If 3 sen per 1,000 gallons is a ridiculous price, it was Malaysia's own doing.

Singapore:

In 1961, it was the Malaysians who decided to price the raw water from Johor at three sen. If the Malaysians are unhappy with the price, it is their own fault.

Malaysia:

What has been omitted is the context. In July 1960, the first serious discussions took place between the then Federation of Malaya and Singapore

regarding a possible merger.

At that time, the political situation in Singapore was volatile. In a July 1961 by-election, the PAP campaigned on a platform of merger with Malaysia. Unfortunately, the opposition Workers Party won the by-election.

After the by-election, 13 PAP assemblymen defected and joined the opposition to form "a new party on the extreme left of the political spectrum, the Barisan Sosialis".

"Thus is the course of three months, the (Singapore) Government had its voting strength reduced from 43 seats to a bare majority of 27 in the 51-member Assembly. More than anything else, this defection was the result of opposition to the PAP's policy toward union with Malaya." (Malaysian Politics by Gordon Means, pp 296-297)

Undaunted, in August 1961, Lee Kuan Yew met Tengku Abdul Rahman for three days to draw up a preliminary agreement for merger. Mindful of the uphill battle the PAP faced in selling the merger proposal to Singapore voters, the Federation of Malaya decided to be generous on the issue of water and on other issues.

2. Malaysia has lost its rights to review the price of water.

Singapore:

"(Malaysia) insisted that they had the right to review the price of current water, while we pointed out that they had lost their right of review..." (Statement by Professor S. Jayakumar, Singapore's Minister for Foreign Affairs, in the Singapore Parliament on Jan 25, 2003.)

"The Public Utilities Board, as the successor-in-title to the City Council of the state of Singapore in relation to the above Agreements, does not accept that the Government of the State of Johor is entitled to seek the reviews referred to in your letters." (PUB letter dated Oct 9, 2002, in reply to the Johor Government's letter dated Aug 14, 2002.)

Malaysia:

Singapore has repeatedly claimed that Malaysia has lost the right to review the price of water because Malaysia failed to do so in 1986 and 1987 respectively, exactly 25 years after the date of the two Water Agreements of 1961 and 1962.

In fact, Clause 17 of the 1961 Agreement and Clause 14 of the 1962 Agreement state clearly:

"The provisions of paragraphs (i) and (ii) of the foregoing clause of these presents shall be subject to review after the expiry of 25 years from the date of these presents ..."

Twenty-five years after 1961 and 1962 respectively means any time after 1986 and 1987. This does not mean the review must take place immediately on these two dates. Any time after 1986 and 1987, both sides are legally permitted to review the price.

3. Malaysia had many times agreed on the price of water...

Singapore:

"At a meeting between Dr Mahathir Mohamad and Mr Lee Kuan Yew on Aug 15, 2000, the two leaders agreed that in return for Malaysia agreeing to sell water to Singapore beyond the expiry of the current agreements, Singapore would pay 45 sen per 1,000 gallons now." (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only It Could, page 8.)

Malaysia:

Singapore's offer was never accepted by Malaysia.

This assertion is supported by an article on the Aug 16, 2000 meeting written by Ms Irene Ng, then political correspondent of Singapore Straits Times, now Singapore Member of Parliament. Headlined "Singapore-KL pact's success hinges on details", Ms Ng wrote:

"Like any skeleton, the broad agreement to resolve the outstanding

issues between Singapore and Malaysia will not come to life until it is fleshed out properly, and spirit breathed into it.

"The agreement reached by Senior Minister Lee Kuan Yew and Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad last Tuesday is now being filled out by officials.

"The details they have to tackle include the price of water under the current agreement and the ratio of raw to treated water beyond 2061.

"As for spirit, its nature will depend much on such details, where they say the devil often is." (Singapore Straits Times, Aug 16, 2000.)

Moreover, Senior Minister Lee Kuan Yew himself confirmed the lack of agreement on price. In a letter dated Aug 24, 2000, written nine days after his meeting with Dr Mahathir, Mr Lee wrote to then Finance Minister Tun Daim Zainuddin:

"To make it easier for us to write to each other, to test various options, all notes or letters I send to you or Mahathir, or vice-versa, will be treated as Without Prejudice: that there is no agreement until all points are agreed and signed by the two PMs."

We are unable to understand why Singapore continues to insist that Malaysia accepted its offer to pay 45 sen per 1,000 gallons for raw water on Aug 15, 2000.

So far, Singapore has put many prices on the table. So has Malaysia. No agreement has been reached on a fair price for water. In Mr Lee Kuan Yew's own words, all prices cited or mentioned are "to test options". All prices cited or mentioned are subject to negotiation and agreement by both sides.

4. After agreeing more than once, Malaysia has repeatedly reneged and shifted the goal posts.

(a) from 45 Malaysian sen to 60 Malaysian sen per 1,000 gallons.

Singapore:

"Six months later, however, in February 2001, Malaysia backtracked on the 45 sen agreement. Dr Mahathir said Johor believed that 60 sen was fair.

Singapore later offered a compromise: 45 sen for water now, and 60 sen for water after 2011.

In March 2002, Malaysia sent Singapore a shocker. It wanted 60 sen for water now and it wanted the price backdated to 1986 and 1987.

Not only that, it also wanted RM3 for water from 2007 to 2011. From 2011 onwards, the price would be adjusted yearly for inflation." (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only It Could page 8.)

Malaysia:

Malaysia has never accepted Singapore's offer of 45 sen per 1,000 gallons. So the question of backtracking does not arise.

In his letter dated Feb 21, 2001, Dr Mahathir said Johor believed that 60 sen was a fair price. Nowhere in the letter does Dr Mahathir suggest the 60 sen price should be applicable after 2011.

Dr Mahathir wrote:

"Johor is agreeable to revisions in the price of raw water that it now supplies to Singapore and the treated water that it buys from Singapore. The price of raw water that it sells to other Malaysian States should not be a basis for determining the price of raw water. There are elements of subsidies to this supply.

"Johor believes that a fair price would be 60 sen (per 1,000 gallons per day of raw water). The price should be reviewed every five years."

It is clear from Dr Mahathir's letter that the proposed price of 60 sen was for now, for the immediate time frame - and not in 2011 as suggested by Singapore.

Subsequent to this letter and in a letter dated Oct 18, 2001, in reply

to Senior Minister Lee's letter of Sept 21, 2001, Dr Mahathir also clearly stated the need to move on and that removal of all impediments to the bilateral relations was only possible when each side is fully satisfied that it has secured a fair and reasonable deal.

Malaysia's stand has always been consistent. There is no discrepancy between the two letters written by Dr Mahathir dated Feb 21, 2001 and March 4, 2002. Nor have the goal posts changed.

b) to RM6.25 per 1,000 gallons ...

Singapore:

"But that wasn't the end of it. When the Foreign Ministers of both countries met in September 2002, the Malaysian side presented yet another pricing formula. The formula resulted in a price 200-fold higher - RM6.25 per 1,000 gallons." (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only It Could, page 8.)

Malaysia :

The price of RM6.25 per 1,000 gallons is, of course, derived from using Singapore's own suggested formula, one that Singapore said "would stand the test of time". It is a basis for calculating the price of water rather than an indicative price.

Making an offer and the other party responding by making a counteroffer is a normal part of negotiation. It is not a "shifting of goal posts".

Of course, RM6.25 is a tremendous jump from the current price of three sen per 1,000 gallons. But this should be seen in its proper context:

* The original price of three sen per 1,000 gallons was preposterous. A price that is 100 or 200 times a preposterous base price is not necessarily preposterous.

* We have received many lectures in the past from Singapore leaders on how the free market works, sometimes when we are in desperate straits and gasping for air. Perhaps there is some virtue in referring to how the free market operates. Clearly enough, even RM6.25 per 1,000 gallons of God's water (as opposed to water from the sewer) is much better than the comparable cost of Singapore's alternative sources of water. According to Singapore, NEWater (Singapore's recycled sewage water) costs RM7.50 per 1,000 gallons while desalinated water costs RM7.65 per 1,000 gallons.

In a letter dated April 11 2002, Singapore Prime Minister Goh Chok Tong himself proposed pegging the price of treated water from Johor to an agreed percentage of Singapore's cost of alternative sources of water, a pricing mechanism that could stand the test of time.

And at the Malaysia-Singapore Ministerial meeting on July 1 and 2, 2002, Singapore's Foreign Minister Professor S. Jayakumar formally proposed pegging the price of treated water to an agreed percentage of the price of Singapore's NEWater.

5. Getting the basic facts and figures right.

Singapore:

"Singapore buys only half of its water, or about 150 million gallons per day (mgd) from Malaysia. The other 150 mgd come from its own reservoirs." (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only It Could, page 6.)

Malaysia :

We are puzzled. The records of water intake (recorded after Singapore and Malaysia jointly read the meter) show the following facts:

Year	Daily supply from Johor (million gallons)	Annual payment by Singapore to Johor (RM)	Overpayment by Singapore if it took only 150 mgd (RM)
2000	202.280	2,221,032	574,034
2001	218.561	2,393,246	750,743

2002 258.524 2,830,837 1,188,338

If Singapore claims it received only 150 million gallons per day, there are only two possibilities:

* A massive leakage every day of 52.3 million gallons in 2000, a hefty leakage of 68.6 million gallons in 2001 and a staggering leakage of 108.5 million gallons in 2002.

* Based on the amount of water Singapore claims it received from 2000 to 2002, the island republic grossly over-paid Johor.

It is simply untrue that Singapore's Public Utilities Board (PUB) obtains only half of its water supply from Johor. Based on joint meter readings, PUB sourced 66 per cent of its water from Johor in 2000 and 72 per cent in 2001.

Are there good reasons why Singapore would like to understate its annual intake of water from Johor (and its gratitude to Johor for selling cheap water raw water) by billions of gallons?

6. Singapore is losing money; Singapore is subsidising Johor Singapore: "... Singapore loses money when its sells water back to Johor. The water that Singapore sells to Johor is treated water. It costs Singapore RM2.40 to treat every 1,000 gallons of water. By selling it to Johor at only 50 sen, the subsidy Singapore absorbs is RM1.90.

Multiply that by the total amount of treated water that Johor buys from Singapore, and the subsidy adds up to RM70,000 a day and RM25 million a year!" (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only It Could, page 6.)

Malaysia:

Based on Singapore's claim that it cost RM2.40 to treat every 1,000 gallons of water, the subsidy borne by Singapore totalled RM21.1 million in 2000, RM23.9 million in 2001 and RM26.5 million in 2002. Singapore says it is "RM25 million a year!". (Note the emphatic exclamation mark).

However one figures it, Singapore's subsidy on treated water is hardly a king's ransom. (Malaysia is pleased to inform the island republic that in the future, this "subsidy" will be no longer necessary. Johor will buy no more treated water from Singapore.)

Besides the fact that every year Johor has paid much, much more for the modest amount of treated water it purchased from Singapore than Singapore has paid Johor for the ocean of raw water the island republic receives, guess how much Johor has been subsidising affluent Singapore?

Year	Malaysia's annual subsidy to Singapore (million)	Singapore's annual "subsidy" to Malaysia (million)	How much more Malaysia subsidises Singapore (Malaysia's net subsidy of Singapore) (million)
2000	RM375.4	RM21.1	RM354.3 (S\$161)
2001	RM404.5	RM23.9	RM380.6 (S\$174.1)
2002	RM478.4	RM26.5	RM451.9 (S\$205.4)

Instead of paying RM2.83 million in 2002, if Singapore did not have access to raw water from Johor and if it had to produce NEWater to substitute for the Johor raw water it took, it would have cost Singapore RM478.4 million or S\$217.5 million (US\$125.9 million) in 2002.

If Singapore was subsidising Malaysia annually to the tune of "RM25 million!", Malaysia has over the last three years (alone) subsidised Singapore to the tune of RM1,258.3 million! (Singapore \$572 million or US\$333.1 million).

Malaysia's net subsidy to Singapore was RM354.3 million in 2000, RM380.6 million in 2001 and RM451.9 million in 2002! (Perhaps here an exclamation mark might be justified).

7. Payment for operational and infrastructure costs

Singapore:

"All these years, Singapore has been paying for the infrastructure, such as dams, pipelines, plants and equipment. It also pays for the operational and maintenance costs. These add up to millions of dollars a year. Johor benefits too as the waterworks also supply water to Johor residents.

The same payment principle was used when Johor signed the Linggiu Dam agreement with Singapore's PUB in 1990: Singapore paid for the construction of the dam. Johor owns the dam, but Singapore pays for all its operational costs. These sums are on top of the RM320 million paid to Johor upfront in 1990 as compensation for the loss of use of land.

All in, Singapore has spent more than S\$1 billion on the water projects. This is money that has gone into the Johor economy. The dam has also benefited Johor residents. Would Singapore have invested so much in the project if it knew that Malaysia was going to up the price of water 10 years down the road?" (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only It Could, page 7.)

Malaysia:

Singapore Government officials are very smart people. Did they expect the price of 1.4 Singapore cents per 1,000 gallons to last forever? Would they have paid so much money without making sure that Singapore was receiving good value for money?

Instead of buying 468.7 billion gallons of water from Johor at three sen per 1,000 gallons from 1997 to 2002, if Singapore has used NEWater as a substitute, the island republic's water bill would have swelled by an additional RM2,376.4 million or S\$1,080.2 million.

What this means is that from 1997 to 2002, by supplying water at three sen per 1,000 gallons, Malaysia subsidised Singapore by a total of RM2,376.4 million - or RM176.4 million more than the island republic's claimed infrastructure expenditure in 1990 of S\$1 billion (RM2.2 billion).

This does not take into account the amount of land which Malaysia has had to set aside in order to maintain a catchment area for the supply of water to Singapore, a catchment area that is many times larger than the entire island of Singapore.

8. The central issue: a fair price or the process of negotiation?

Singapore:

"Being legalistic is not a matter of choice. As a small country, law is Singapore's only protection. For Singapore, the key issue is not how much we pay, but how any price revision is arrived at." (Singapore Ministry of Information, Communications and the Arts, 2003 Water Talks? If Only it Could, page 10.)

Malaysia:

We disagree with Singapore. The central issue is not about how a price revision is arrived at. The central issue is a fair price - for both parties.

We have always believed in a winwin situation. For this reason, we have considered prices for Johor water at a level that will ensure that Singapore continues to make a thumping profit.

At 117 Singapore cents per cubic metre, and the 30 per cent water conservation tax, each domestic user in Singapore pays S\$6.91 per 1,000 gallons (or RM15.21 per 1,000 gallons).

Assuming Singapore pays Johor RM6.25 per 1,000 gallons and assuming it buys the same volume of raw water - 94,361,000,000 gallons for the whole of 2002 - and based on Singapore's claim that it costs RM2.40 to treat every 1,000 gallons of water, Singapore will earn RM600 million in profit just from Johor water alone.

Singapore can afford to pay as much as RM6.25 per 1000 gallons of water WITH-OUT having to charge users in Singapore a single cent and still smile

all the way to the bank.

In other words, this is a win-win situation for everyone: Johor gets a higher price, users in Singapore pay exactly the same price for exactly the same water, and Singapore will continue to make a thumping profit.

CONCLUSION

In his Ministerial statement to the Singapore Parliament on Jan 25, 2003, Professor S. Jayakumar, Singapore Minister of Foreign Affairs said: "Of course Singapore will not be impoverished by an increase from three to 45 sen. Neither will Malaysia be enriched."

We agree.

In Singapore dollar terms, the amounts involved are minuscule. Even if Singapore were to pay Malaysia RM6.25 per 1,000 gallons, the cost for an ENTIRE YEAR'S SUPPLY OF WATER LAST YEAR would have amounted to only S\$268.1 million - just 0.17 per cent of Singapore's 2002 Gross Domestic Product - or less than one-fifth of one per cent of Singapore's GDP.

At RM6.25 per 1,000 gallons, each of the 4,163,000 people living in Singapore will pay just RM64.40 or less than 19 Big Macs in exchange for a whole year's supply of Johor Water.

Even at RM6.25 per 1,000 gallons, the cost of a whole year's supply of water to a person living in Singapore is less than 0.17 per cent of his per capita GDP of S\$37,401 last year.

Singapore enjoys one of the highest standards of living in Asia and is by far the richest among Asean countries, apart from Brunei. The Singapore Government's reluctance to pay an easily affordable and fair price is puzzling.

By prolonging and continually quibbling over the price of water, Singapore risks damaging its relationship with a neighbour with whom it shares much of its past and with whom it must share a future devoid of rancour, full of promise, propelled by friendship, mutual respect and mutual benefit.

On a people-to-people basis, the Singapore Government is depleting a fast evaporating reservoir of goodwill.

Malaysia would like to reiterate what we have said before: we have always abided by our legal commitments and we will continue to abide by our future commitments.

The people of Singapore can count on Malaysia's continued supply of raw water to Singapore, at least until 2061, when we would prefer to supply treated water instead.

By continually repeating this commitment to assured supply, Malaysia has consistently undermined its negotiating position. Why do we do so? It is because we understand the importance of legal obligations. It is because we are aware of the need to reassure Singaporeans that Malaysia promises that their vital need for water will never be sacrificed.

The Singapore Government might want to ask this simple question which Malaysians constantly ask.

Why don't we put all this quarrelling behind?

Why not a fair price?