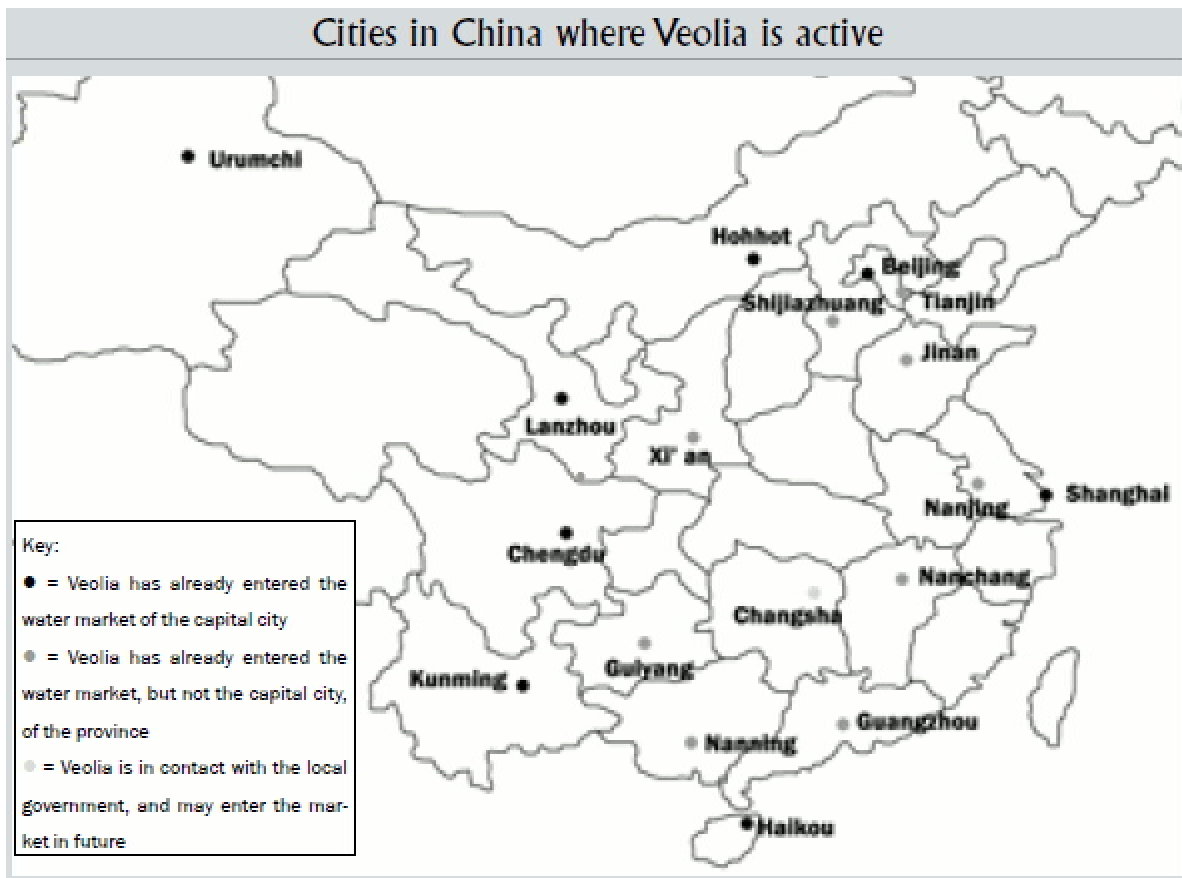


# Has Veolia Water overstepped the mark in China?

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**GWI China editor Kathy Liu suggests that the French company may be making some powerful enemies as it continues its drive to be the leading player in the country's water market.**

Veolia's bid for a 50% share in the Haikou Water Group faces strong opposition from within China.

In April, negotiations between Veolia and the Chinese government appeared to be progressing well, and there was optimistic talk of a contract being signed in the near

future. By the beginning of May, however, the mood had changed, and the concept of vast foreign investment in public utilities was beginning to cause unrest.

Many companies, including Beijing Capital, the only local company likely to compete against Veolia, oppose what they see as an acquisition strategy which drives high asset price inflation. Many people felt that even if Veolia were to get local government approval, the Ministry of Commerce would potentially hesitate before giving the final go-ahead to the Haikou Water Group purchase. For better or worse, the agreement to transfer the 50% stake in the group to Veolia was approved on 6th June, effectively sealing the deal.

Veolia's strategy has already aroused China's suspicion. The company has interests in the water market in half of China's 34 provincial cantons, and is now focusing on capital cities, which will provide footholds for further expansion within each region.

Many Chinese worry about how Veolia will recoup its huge bid price for the Haikou Water Group. Veolia has increased water tariffs in the past and although it is to hold a conference to discuss the prospect of tariff rises in Lanzhou, many are sceptical, believing that the decision has already been taken. Veolia has also been criticised for bidding high, and then leaving its local partners to pick up the bill.

An insider from a local private company claims that in many large projects Veolia actually invests less than 5% of the total sum. Instead, Veolia gets its partners, mainly financial groups such as CITIC (formerly China International Trust and Investment Corp.) and China Everbright International, to invest in projects, while it assumes the role of project manager.

Veolia has churned up China's water market and now faces opposition from Beijing Capital, which feels "robbed" of Haikou Water Group, a deal it has been working for four years. To rub salt into the wound, Veolia was Beijing Capital's partner in the purchase of the Shenzhen Water Group in 2003.

If sufficient Chinese take issue with Veolia due to dramatic water tariffs rises, and if enough companies argue that Veolia's investment strategy is creating a monopoly, China can be expected to take action.

**See: Veolia's big bid for Haikou Water**

<http://www.globalwaterintel.com/archive/8/6/general/has-veolia-water-overstepped-the-mark-in-china.html>