

China's dirty water brings profit - Business - International Herald Tribune

By David Lague

CHONGQING, China — From the heights of this sprawling hillside city, the turbid, coffee-colored waters of the Jialing River, sluggish and drawn low by a once-in-a-century drought, seem an unlikely raw material for a thriving business.

But for Sino French Water Development, the river is satisfying a growing thirst for clean drinking water in this municipality of 32 million people in south-central China.

Water treatment is becoming a big business across China as demand for clean water expands along with rapid industrialization and a mass migration of people from the countryside to towns and cities.

Additional services to treat wastewater are also sorely needed as pollution from agriculture, industry and sewage increasingly contaminate rivers, lakes and dams in a country where per capita water resources are less than a third of the global average. For Sino French, that translates into a billings boom.

Under a 50-year contract that began in late 2002, Sino French pipes water to more than 850,000 residents in a joint venture with the city government. The company pumps from the Jialing to its four treatment plants that serve a rapidly expanding area of northern Chongqing. Sino French is a partnership between the French company Suez Environnement and a subsidiary of the Hong Kong company New World Development.

Demand for water in the year to August increased more than 13 percent from a year earlier, according to company figures. In August alone, the volume of water sold increased 26 percent from a year earlier, although this growth was amplified by sales to surrounding drought stricken areas.

"This is a great contract for Sino French," said Robert Brito, managing director of the joint venture. "I have never come across this level of growth in any city I have worked in and with that growth comes water sales."

What makes China even more appealing to domestic and international water services companies is that the authorities realize that a shortage of fresh water now poses a threat to the country's economic health. There are now clear signals that China is prepared to spend heavily to avert a crisis.

The authorities plan to spend about \$125 billion over the next five years to improve water supply and wastewater treatment according to recent reports in the official media. More than \$43 billion has been earmarked for sewage treatment plants in urban areas.

"This is the price China will have to pay if it wants to sustain its economic growth," said Suez Environnement's chief executive, Jean-Louis Chaussade. "They really understand that growth can be limited by contamination."

The local authorities still dominate water treatment services, but foreign specialists like Suez Environnement, a division of the French utility company Suez, and its French competitor, Veolia Water, a unit of Veolia Environnement, are increasingly looking to China for business growth.

The two French companies are the leading foreign water treatment suppliers in China, but their combined business accounts for small portion of the overall market, according to industry analysts.

Siemens, the German engineering conglomerate, is also seeking to expand its water treatment business in China. The company last month bought a Chinese industrial water treatment specialist, CNC Water Technology, for an undisclosed price. Since 2002, CNC had been involved in some of the biggest projects in China for desalination and municipal and industrial wastewater treatment, Siemens said.

Water treatment experts expect local and foreign private companies to expand their share of the market as the municipal authorities begin to phase out subsidies and move toward recovering the full cost of water supply and waste treatment.

"The penetration of private companies will get deeper as cities get richer and increasingly adopt user pays approach to water and wastewater," said Fiona Waters, a director of GHK Hong Kong, an economic development consultancy.

One advantage for foreign companies is that they often have access to state-of-the-art filtration and treatment technology needed to tackle heavy contamination. An estimated 70 percent of China's lakes and rivers are now polluted according to environmental experts.

Official figures show that only half of the urban and industrial wastewater is treated in sewage plants before discharge. In rural areas, which are home to the bulk of China's people, sewage treatment is virtually nonexistent.

Environmental groups also complain that many Chinese factories lack adequate wastewater treatment facilities. And many of those that have installed the legally required equipment do not operate it in an effort to save money.

For Suez Environnement, China accounts for about 5 percent of the company's overall business, with revenue increasing 20 percent in 2005 to about €600 million, or \$755 million.

The company's total investment in China, where it will soon operate 20 joint ventures with local governments through Sino French, now exceeds €327 million.

These joint ventures treat or manage water distributed to 13.5 million people in major cities including Chongqing, Tanggu, Qingdao, Sanya, Shanghai, Changshu and Macao.

About 20 percent or 250 million of China's urban population drink water that has been treated in plants designed and built by Degrémont, a unit of Suez Environnement. Profits from China are already approaching the 10 percent annual average return on capital that the company gets from its global operations.

"We expect it to be as profitable as the rest of our businesses in coming years," said Chaussade, the chief executive.

One reason for this strong performance is that so-called collection rates, or the proportion of customers paying for their water, is close to 98.5 percent, about the same as Britain. In the Chongqing venture, the collection rate is 98.5 percent.

"Chongqing people pay their bills," said Brito, the managing director of Sino French.

Last month Suez expanded its presence in this city on the junction of the Yangtze and Jialing River valleys. Through Sino French, the company signed a 30-year contract with the local water authority to manage, operate and maintain a €60 million wastewater treatment plant that can treat 300,000 cubic meters of sewage a day. Before the plant began operation, this volume of raw effluent would have been discharged directly into the Yangtze River.

For cities like Chongqing that are upstream from the Three Gorges Dam, curbing the discharge of wastewater and raw sewage is crucial to preserving water quality in the reservoir which will soon fill to capacity. Some environmentalists warn that the dam could become a vast sewer if pollution in its headwaters continues unchecked.

"Water protection and water treatment is of very great importance to our city," Chongqing's vice mayor, Yu Yuanmu, said at a reception last month for visiting Suez executives. "Chongqing is a big environmental protection market and companies from the United States, Europe, Japan and other countries are showing great interest."

Veolia Water is also expanding rapidly in China, where it is involved in the supply of water to almost 19 million people. The company said last month that it had signed its 19th water contract in China, a 30-year deal to manage the water supply for Liuzhou, a city of a million people in Guangxi, an autonomous region in southern China. It said the contract was expected to generate revenue of more than €340 million.

But China's huge budget for water treatment would not translate into a nationwide bonanza for local or foreign companies senior Suez executives have said. They say they believe that the bulk of sewage and water treatment will remain the responsibility of government, particularly in poorer and remote areas.

"We are looking at cities that are growing and are reasonably affluent," Chaussade said.