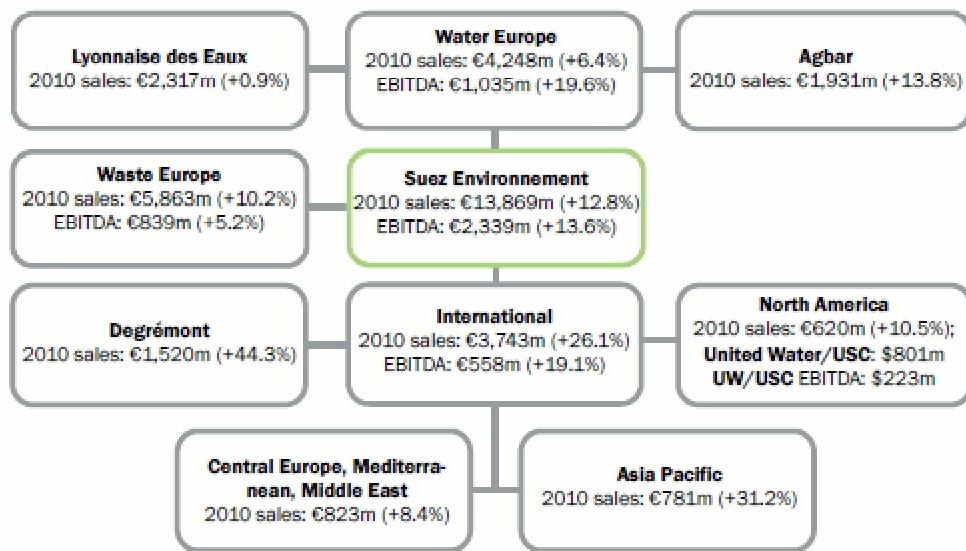


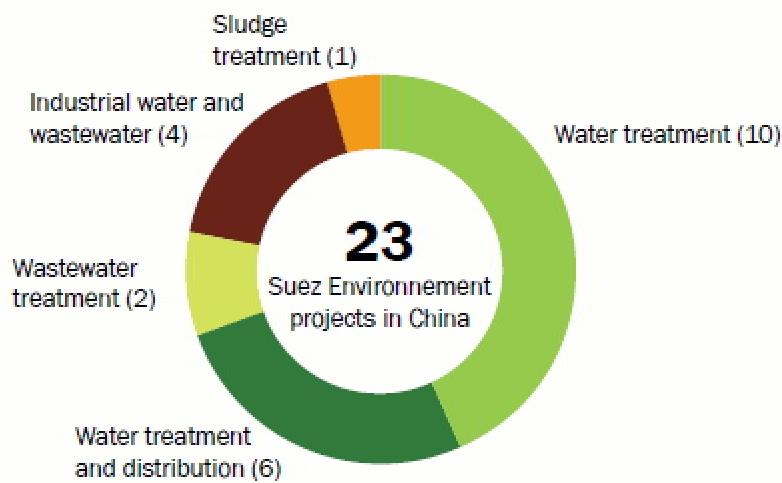
Keeping Suez's Eastern promise alive

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Suez Environnement's global revenue breakdown in 2010



Suez Environnement's project mix in China



Charles Chaumin, president of Suez Environnement Asia, talks to Olivia Jensen about the region's importance for the company.

Suez Environnement's 2010 results announced on 9th February showed a good year for the company all round, with revenues up 12.8%, and a particularly good year for the company in Asia. 2010 revenues for the region – not counting those of its engineering subsidiary Degrémont – were up 31.2% to €781 million (versus €595 million in 2009), making it one of the fastest-growing parts of the company's business.

Where is all this growth coming from? Since Chaumin took over from Erik de Muynck in July 2009, SE has been following a three-pronged strategy – further development in the fully-fledged national market in China, successful entry to the growing Indian market, and keeping an eye open for promising individual project opportunities in the rest of the region.

Chaumin has the classic background of a French captain of industry. A graduate of the Ecole Polytechnique and the Ecole Nationale des Ponts et Chaussées, he has spent the last 30 years in the Suez group. He started his career at Safege, the group's consulting engineering arm, and then spent five years immersed in the challenges of emerging markets at Aguas Argentinas. Before taking up his current position, he was CEO of Ondeo Industrial Solutions.

As far as both Chaumin and Suez Environnement are concerned, China can already be considered a mature market. It has a portfolio of 25 water and wastewater service contracts on the mainland, and Degrémont recently signed its 200th project there.

Chaumin is confident that the group can maintain growth of 10% in China, with one to two new projects a year adding to organic expansion under existing contracts. This is in line with the 9.6% projection for Chinese output in 2011 published in the IMF's World Economic Outlook in late January, and on which Suez Environnement CEO Jean-Louis Chaussade has based his guidance for the group during the year ahead.

Suez's sustained growth in China is all the more striking as it is being achieved in a market that many describe as saturated. There has been a clear slowdown in BOT and concession tenders in the last two years, due in large part to the ready availability of public finance and easy access to credit for public infrastructure under the stimulus plan. Competitor Veolia has failed to announce any major new water deals in China since 2007. So where has SE been finding growth opportunities?

Under Chaumin, Suez's strategy in Asia has been one of diversification, in terms of sectors, clients and contract types. Just in the last two years, Suez Environnement has announced a slew of new projects in different shapes and sizes: a sludge treatment project in Suzhou Industrial Park, one of China's top investment locations for foreign companies; two new industrial treatment projects, including a complete water services project for Chinese petrochemicals company Shengda, and two O&M contracts.

Waste, not want

The most important new departure for the company is perhaps its entry into mainland China's solid waste treatment market. "We've launched a new plan for the waste sector in China," says Chaumin.

"We need to capture growth in the waste treatment market in China and we are actively pursuing our first projects in this sector, where we see potential for growth in the future." The waste treatment sector was given a boost under the 11th Five- Year Plan, which targeted a treatment rate for municipal waste of 60% and \$15 billion of investment over five years. More demanding treatment targets are expected to be set for the next planning period, covering municipal and hazardous waste.

The company certainly has the experience. Through subsidiary SITA, solid waste constitutes a very significant part of the company's business in Europe, generating €8.6 billion in revenue, compared to €4.25 billion for water. SE has been operating in Hong Kong's waste sector since 1989 through a joint venture between its subsidiary SITA and the Swire Group. In 2009, SITA bought out Swire's 50% stake to leave it in control of two major landfills and a waste collection system. "We decided to take over Swire's part of the business because we wanted to move more strongly and more rapidly, in particular in the Chinese waste treatment market." Chaumin expects to win two to three new waste projects each year on the mainland.

In contrast to its water business, where all projects are pursued under the Sino-French JV with New World, SE is confident of going it alone in solid waste, although it will consider partnering on an ad hoc basis.

"In the water sector, nearly all of our operations are based on the model of a joint venture with the local utility company. In the waste sector, our development will be more diversified. There will be in many cases a basis for investment on our side, but under more open models than we have in water."

A market whose time has come

Among the BRIC nations, it is not only China which is getting Chaumin excited. "India is a market whose time has come," he maintains. "In terms of PPPs, it has been a long awakening, but we believe that the moment has come and we are certainly not the only ones to see it that way."

Competition for a slice of the Indian market is heating up, not only from major global companies like Veolia Environnement, which has been operating projects for several years in Karnataka and Maharashtra, but also regional players like Manila Water, and local companies including SPML Infra and Jindal Infra.

Degrémont has enjoyed some success in the EPC segment of the market, winning a major contract at TK Halli near Bangalore in 2009, but Suez Environnement has yet to bid on a PPP project. For example, the company decided not to submit a proposal for the 20-year concession in Aurangabad, Maharashtra, which was awarded to the SPML Infra

consortium, where Degrémont's former head of business development now leads the water business.

So far, SE has been concentrating on marketing, but looks set to submit bids in 2011 for projects ranging from DBOs and BOTs to NRW reduction contracts. "The momentum is building," Chaumin continues. "Some tenders have been launched and there are a number of projects under preparation which are at or close to the RFP stage" (see story p35).

"Authorities have waited for a long time and then launched projects now because infrastructure and operations improvements are needed and they have incentives under the [Jawaharlal] Nehru [National Urban Renewal] Mission. Funds are being poured in by the federal and state level governments, but it is a young market, and this shows in the quality of the tendering process. Some projects are well thought through; others are incompletely structured."

Part of the problem lies in contracting authorities' focus on physical investment in plant and networks, at the expense of operations and infrastructure management issues. India's infamously low tariffs, on the other hand, are less of a problem. "Attention will need to be paid to regulation and tariffs, which are very low, but tariff hikes are not always needed to allow the development of private sector participation," maintains Chaumin.

Asia at the centre

Alongside pure growth aspirations, Chaumin emphasises the fact that Asia is more to Suez Environnement than just a field for new projects: it is also becoming a source of Suez's global competitiveness. "India and China will be a platform for us to export solutions to the region and elsewhere," he explained to GWI. Today, the production and sourcing of equipment and materials are mainly localised around projects, but the two giant Asian nations are set to play a role supplying SE's projects around the world in the future.

In the longer term, SE is also hoping to take its partners abroad. As Chinese construction companies make strong headway in European markets, SE foresees the possibility that it may engage in joint projects with existing partners in other countries. At the same time, Chinese SOEs are getting a push from the central government to launch into international markets.

One obvious candidate will be Chongqing Water Group, Suez's partner since 2002. In 2010, CWG and Suez landed their first joint project outside the utility's service area, to provide water services to the chemicals industrial park of Changshou near Chongqing city. The challenge now will be to see whether this partnership can be extended abroad.

Suez initially linked up with CWG in 2002 for a water treatment project, followed by a wastewater treatment project in 2007. These ventures have been steaming forward, driven by demand increases of 10-15% a year and higher quality standards requiring upgrades to existing technology.

CWG, a huge state-owned enterprise, is based in western China's most dynamic city. 500,000 people flood to the city each year, creating phenomenal demand for urban infrastructure, and the city's position above the Three Gorges Dam in the headwaters of the Yangtze is forcing it to pay closer attention to its impact on the environment.

In 2008, Suez cemented the partnership by taking a strategic stake in CWG, acquiring 15% jointly with its long-time partner in China, New World Infrastructure, for RMB1.5 billion (€140 million). Not only has this strengthened the relationship, it has also generated a tidy paper profit, thanks to CWG's 2010 IPO on the Shanghai stock exchange. At current market cap, their joint stake – diluted to 13.4% – is worth €400 million.

An open mind in South-East Asia

Elsewhere in the region, Chaumin is on the look-out for attractive project opportunities, but does not expect to see flourishing country-wide markets develop that could compare to India and China.

Vietnam is a partial exception, as the regulatory environment for private sector participation is becoming increasingly supportive. But with only two cities boasting a population of over one million, and a high degree of fragmentation in the sector's structure, it is unlikely to generate more than a handful of project opportunities.

Suez's attitude to South-East Asia is a far cry from its heyday in the 1990s, when the company won major concessions in Manila (Maynilad) and Jakarta (Palyja). The company has long since left Manila, but despite the bumpy ride, it is still present in Jakarta, where it is now half-way through the concession term. There is, however, a clear echo in Suez Environnement's plans for India and China of the enthusiasm that it brought to Asia a decade ago.