

**Title:               Reforming The Urban Sewage And Waste Treatment Sectors**

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About 160 million tonnes of urban waste are discharged every year in China and only half this amount is properly treated. In 2001, around 22.8 billion cubic meters of urban sewage were discharged, but less than 35% went through centralized treatment. Sewage and waste discharge have become the main sources of pollution in urban areas.

On September 10 2002, State Development Planning Commission (SDPC), the Ministry of Construction (MOC) and the State Environmental Protection Agency (SEPA) jointly issued the *Promoting Development of Industrialization of Urban sewage and Waste Treatment Sectors Opinion* (the Opinion) in an effort to improve the quality of the urban environment and achieve sustainable social-economic development.

The Opinions have mainly tackled reforms in the pricing and management systems in the two sectors, and are aimed at generating a real market economy for these sectors.

### **Price Reform**

Until recently, the sewage and waste treatment sectors have been highly subsidized by the government. End users have paid little or nothing for treatment services. However, to attract private debt or equity investors much more revenue must be collected from end users. User fees can also provide incentives to minimize sewage and waste, especially if structured in accordance with the “polluter pays” principle, as upheld by the *PRC Environmental Protection Law*.

To accelerate price reform in the urban sewage and waste treatment sectors, the Opinions require those cities that have built treatment facilities to immediately introduce sewage and waste treatment fee charges. All other cities shall introduce such charges by the end of 2003. In both cases, charges are to be approved by municipal governments after price hearings are properly conducted.

The collected fees shall be used solely for construction, operation and maintenance of urban sewage and waste treatment facilities. Cities that have introduced fee charges, but do not yet have such facilities, shall within three years complete the construction of treatment facilities and start operations.

A reasonable return on investment will be determined by reference to long-term loan interest rates, operational cost and other conditions, depending on individual cases.

### **MANAGEMENT SYSTEM REFORM**

With the Opinion, the government has promoted a concession system whereby the project developer obtains the right to operate a sewage or waste treatment project for the concession period, through a public tendering process.

For Greenfield projects, concessions are granted allowing the investor to build and operate the facility for a certain period of time and subsequently to transfer it to the government for free. The capital contribution for this type of project shall be at least 20% of total investment and the concession term will be 30 years maximum.

With respect to existing treatment facilities, currently subsidized operators are encouraged to transfer their operation and management (O&M) rights to private contractors on a concession basis through competitive tendering. Private O&M contractors are encouraged to operate and manage facilities as sole proprietors, joint ventures or by way of lease arrangements.

For private contracting, the concessionaire shall have appropriate qualifications as well as qualified management and technical personnel. The registered capital shall not be less than 50% of the yearly total cost for operating such facility. The concession term shall be no longer than eight years, after which a new public tendering process will be conducted.

### **PREFERENTIAL POLICIES**

The Government has signalled its support for projects operated and managed in accordance with the Opinions. Preferential and supportive policies for favorable projects will include the following:

- (i) electricity consumption for the projects will be charged at a discounted price;
- (ii) concessionaires of Greenfield projects may be allocated the necessary land use rights for the entire concession term;
- (iii) municipal governments may pledge sewage or waste treatment fees as a security for financing, and raise funds to develop urban drainage pipelines and waste collection and transportation facilities;
- (iv) the government may earmark a certain percentage of funds, sourced from municipal maintenance and construction taxes, urban infrastructure connection fees and state-owned land grant premiums, for the purposes of the construction of sewage collection systems and waste collection and transportation facilities, as well as to

contribute towards operational costs for sewage and waste treatment facilities, in case treatment fees have not been fully collected;

- (v) government will help project companies to have access to overseas financing; and
- (vi) appropriate subsidies will be provided to projects in the central and western parts of China.

The government has changed its role in these sectors from direct management to macro-supervision. As a consequence, the government is now also in the process of enacting ancillary legislation on such diverse topics as mergers and acquisitions, construction, auctioning, the provision of security, asset restructuring, and fee collection management, in preparation for the full opening of the urban sewage and waste treatment sectors to private investment and participation.