



In 2008, China produced 223 million tonnes of urban solid waste.

It's official: China's waste industry is going green. From 2011 onwards, the country's central government will be forcing cities and other communities to build recycling facilities - a drive that it will be underpinning with billions of Yuan. Furthermore, the government will be offering incentives to encourage foreign companies to play a part in this green crusade.



The Middle Kingdom is filling up with waste at the same time as its demand for raw materials is increasing massively. In 2008, China produced 223 million tonnes of urban solid waste: 80% of it was consigned to landfill while much of the remainder was incinerated. This huge country operates only 460 facilities for waste disposal, including 366 landfills, 17 composting plants and 66 incinerators. But this situation is about to change. China's central government is now looking to turn the tide in its battle against waste by implementing several new laws and regulations to promote recycling. According to official data, the entire market value of China's recycling industry amounted to approximately 1 trillion RMB in 2009, which is equivalent to some US\$ 147 billion. But the Chinese government is predicting that this market valuation will rise to 1.2 trillion RMB (US\$ 177 billion) as early as 2015. And it won't be stopping there.

For the Chinese government, the establishment of an efficient, effective and sustainable waste management system is pivotal to its political agenda, a fact that can be appreciated by comparing past and proposed government investment in solid waste recycling and disposal: the budget in the country's 11th Five Year Plan

(2006-2010) amounts to 210 billion RMB (US\$ 31 billion) whereas the allocation leaps almost fourfold to 800 billion RMB (US\$ 118 billion) in the 12th Five Year Plan which starts in 2011.

Dedicated law

China is confronted with extraordinarily high levels of pollution of its air, ground and inland waters. Realising that the time for change has come, the government's next Five Year Plan is dedicated to the 'greening' and sustainable development of the country. This will mean China turning its back on landfilling and focusing instead on the environmentally sound recycling of 'waste' materials.

To this specific end, the government has enacted a 'Law for the Promotion of the Recycling Industry' dedicated to the setting-up of a special fund for research, project development and implementation. Furthermore, the government is prepared to grant related tax incentives and subsidies to companies in China and beyond. Beijing is pursuing ambitious recycling targets. On May 4 this year, the state-prescribed treatment volume of municipal waste stood at 60 000 tonnes per day; by the end of 2010, 60% of this waste is to be disposed of in an environmentally friendly way. It is required by law for

more than 90% of China's population centres - from small district towns to large metropolitan areas - to have developed a disposal system for municipal waste or to have improved their existing systems, thereby creating extraordinary opportunities for foreign companies.

Encouragement to invest

The 'Catalogue for Guiding Foreign Direct Investments' codifies the branches in which overseas companies may set up subsidiaries in China, as well as eventual special pre-conditions. Since April 13 this year, recycling and other environmentally friendly industries have been added to the branches in which foreign firms are being offered great encouragement to invest through, for example, the granting of preferential loans, discounts of up to 30% on property prices, subsidies for the construction of headquarters or R & D centres, allocation of capital from special funds for economy-boosting projects, and tax exemptions.

Furthermore, it is intended that foreign companies' investment proposals will be handled more quickly and with less bureaucracy from now on. Unlike in the past, there will no longer be the need to involve the national Ministry of Commerce in the case of major projects; instead, the request will be directed to the Chamber of Commerce in the region for which the investment is planned - a change that will save investors a huge amount of time. Among other criteria, the provinces are measured by their economic output and so these regional governments usually approve large foreign investment projects very readily and rapidly.

Eligible for incentives

Certain types of plant and machinery will join a number of industries in qualifying for state funding: indeed, a total of 147 technologies are listed in a section entitled 'Catalogue of Environment Protection Equipment, Products and Systems that are Funded by the State'. These equipment firms will also be eligible for subsidies and tax incentives; at the same time, subsidies will be available to the customers of these plant manufacturers.

Purchasers of equipment listed in the catalogue will receive an 'investment-based tax exemption'. If an operator has to pay more corporation tax in the current tax year than in the previous year, the increase will be compensated by up to 40% of the investment sum. If the increase in corporation tax is less than 40% of the total

investment, the balance may be transferred to the subsequent year. In this way, the total amount can be distributed over a maximum of five years.

It should be emphasised that such incentives have rarely been seen in China.



Currently, China operates only 460 facilities for waste disposal, including 366 landfills, 17 composting plants and 66 incinerators.

Find the right partner

In future, Chinese companies and local authorities will be forced to operate economically, as well as to recycle municipal and industrial waste in an efficient way. This entails massive change given that, despite its enormous market value, domestic disposal and recycling of solid waste is still in its early stages of development.

At present, for example, there is no orderly competition; the market is in a state of relative disorder, with industrialisation and consolidation levels remaining low. Right now, there are around 2800 companies with a market value of at least Yuan 50 million (approximately US\$ 7.4 million), plus countless smaller companies.

Since this market is ripe for significant further development and yet massively subsidised by the state, it offers great opportunities for foreign equipment manufacturers. However, they must look to enter the market sooner rather than later - and preferably in co-operation with a Chinese company. Undoubtedly, it will be important to develop good concepts and to find the right partner. □

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Critical factors for success in China

Investigative market intelligence:

- Identification of current and future projects.
- Identification of key decision-makers.
- Determination of allocation criteria.

Investigative competitor analysis:

- Identification of the main competitors.
- Investigative analysis of the competitors' situation and offers.
- Detailed analysis of the competition's strengths and weaknesses.

Search for and contact with Chinese partners:

- Analysis and evaluation of potential partners.
- Knowledge of cultural particularities during negotiations.
- Efficient project management.

Contacts with Chinese authorities:

- Analysis of the legal framework and regional requirements.
- Personal management of governmental relations/lobbying.

Intellectual property rights and know-how protection:

- Development of concepts for know-how protection.
- Registration of property rights in China.
- Protection of trade secrets.

Selection of the 147 subsidised facilities and technologies

- Jaw-breaker facilities for rubble recycling
- Comminution and sorting facilities for cable waste*
- Waste processing facilities for biological organic waste*
- Wood-plastic-composite extrusion facilities*
- Storage and removal systems for biomass fuel*
- Biomass tanks with circulating fluidised bed*
- Recycling facilities for thermoset plastics*

* New for 2010.