

## 2013 Year of the Water Snake: Making a splash in China

As the year of the water snake slithers into 2013, it seems quite fitting that investors are once again shifting their focus toward water-related themes. It's no secret that water shortages and water pollution are some of the most pressing environmental challenges faced by China. Analyst Junwei Hafner-Cai highlights some steps that the Chinese government is taking to address its water crisis and how these translate into investment opportunities.

China is reportedly confronted with an average of 1,700 water pollution accidents per year, reflecting the seriousness of the water challenge. The number of cases continued to increase throughout 2012, leading to growing public discontent and more frequent demonstrations protesting against unsafe water supplies. For instance, in Jiangsu province last year, a paper company was planning on building a pipeline that would discharge 150,000 tons of wastewater per day into Tanglu Port. The project was cancelled by the local government after thousands took to the streets in protest.

Water scarcity is also a concern, and the United Nations has declared that China is one of 13 countries experiencing extreme water shortages. This is particularly true in the more arid north, where the concentration of heavy industries such as steel and petrochemicals places disproportionate pressures on the limited water resources in the region.

But the Chinese government does recognize the severity of the water crisis and has kicked off the year with a series of enhanced guidelines addressing water usage, quality, pricing and protection. For instance, to encourage water efficiency, water consumption targets are set for each province. In Jiangsu – one of China's most industrialized provinces – water consumption must be reduced by 1.8% CAGR over the next five years. This will require business solutions enabling the more efficient use of water resources.

The municipal waste sector is also beginning to see some reforms. More cities are introducing solid waste treatment fees through the water bills. This will encourage further development in the waste

management industry, which is crucial for the protection of water resources.

Finally, based on the recent guidance issued by the Ministry of Environmental Protection on the 12th Five Year Plan (2011 – 2015), revenues from the environmental protection sector – which includes solid waste, wastewater and sludge treatment – should grow at an annual rate of 30% over the next five years.

Given the Chinese government's favorable policies supporting waste management, water and environmental protection, we expect the year of the water snake – which according to ancient Chinese beliefs, is lucky with finances and always seems to have money flowing its way – to see more investments flowing towards water efficiency and wastewater treatment, offering a positive outlook for the water sector in China.



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