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Paved with gold

Source: Global Times [21:59 May 25 2011]

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By Fang Yunyu

Roads are normally supposed to be for the benefit of the public. But in recent months some companies that operate tolls on expressways have announced enormous profits in their annual financial results, bringing attention to these "concrete money printers."

"You certainly have to use your connections to cut in line and become a toll road collector," an employee of a toll station in Shanghai told the Global Times on condition of anonymity.

The employee, a college graduate who majored in electronic engineering, just stretches his hand out and collects toll fees from passing vehicles. The job is physically simple.

But he said he didn't feel sad about not being able to use his qualifications in his post, since the salary for his toll gate job is just too "fat" to be complained about.

Tolled expressways in China are huge gold mines, but only for the operators.

Feel the margins

According to the 2010 annual financial reports of the 19 A-share Shanghai listed expressway companies, their total net profit last year rocketed to 12 billion yuan (\$1.84 billion), an increase of 16 percent year-on-year. And their revenue soared by 19 percent to 33.99 billion yuan.

Their annual reports also showed that 15 companies' operating margins were over 50 percent.

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And the highest operating margin was 88.26 percent, achieved by Chongqing Road & Bridge Co.

The Chinese Rich List 2011 released by Forbes magazine's China edition last month showed that nearly 30 percent of Chinese tycoons are mainly engaged in the real estate industry.

However, only 21 out of 126 Shanghai-listed real estate companies have operating margins above 50 percent.

Wang Xiaoyan, an industry analyst at China Minzu Securities, told the Shanghai-based Oriental Morning Post that the main reason why expressway companies' operating margins are so high is that their expenditure basically goes to depreciation of assets, labor costs and facilities maintenance, which add up to a relatively small amount, compared to revenue.

One example is the Beijing Capital International Airport Expressway, which cost the government and the Ministry of Transport 1.165 billion yuan in total as of 1993.

Since then the expressway has become a money machine.

According to the National Audit Office, the expressway tolls brought in 3.2 billion yuan in revenue by the end of 2005.

And it is expected that the tolls will generate another 9 billion yuan during the remaining 12 years of the 30-year contract, which is owned by HK-listed Beijing Enterprises Holdings Ltd.

The company last year had revenue of 327 million yuan and approximately 80 million yuan in net profit from its operation of the expressway, according to its annual report.

Rolling contracts

Usually local governments apply for bank loans to build highways, and their debts will be repaid by tolls in around 15 years.

Companies can also invest in road building, and as a result are allowed to make money from the tolls for 30 years at most, which is called a public-private financing method.

But all procedures require government approval.

It has been reported that some local governments have taken out loans to build expressways, and later transferred them to the public-private structure, then into listed companies, all for the sake of renewing the lucrative contracts.

Beijing Enterprises Holdings refused to comment on their expressway operation and said they did not have any spokesmen or publicity department when contacted by the Global Times.

"But now, some companies have cooked up a new idea, which is known as 'unified operating,'" said Wu Chaohua, a lawyer at Beijing Hengde Law Firm.

He said that the companies claim that if they have at least one valid contract, they should still be allowed to operate all their other toll roads, even if their operating contracts have expired.

Wu helped a client to sue the Beijing Capital Highway Development Group in 2007 for continuing to collect fees 15 years after its contract to operate the tolls had expired.

"It's impossible for us to win," Wu said.

Wang Tongshan, director of the Institute of Quantitative and Technical Economics at the Chinese Academy of Social Sciences, has said that 82 percent of the world's toll roads are in China. And toll fees account for 50-70 percent of all logistics costs.

According to the international accounting firm KPMG in 2008, logistics costs account for 18 percent of China's GDP, compared with 8 percent in the US and 7 percent in European countries.

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No getting around it

Henan Highway Development Co's Luoyang branch operates a 98.8 kilometer tolled highway with more than 400 employees.

"Without the toll road policy, Chinese transportation would never have developed to the current level," Deputy Minister Weng Mengyong of the Ministry of Transport said at a press conference earlier this year in response to the case of Henan driver Shi Jianfeng, who was sentenced to life for evading 3.68 million yuan in tolls by using military vehicle license plates.

Wu said tolls are supposed to be set for paying back bank loans, even if they are run by companies, toll roads and highways still contribute to public welfare.

"The government just can't give up the huge profits produced by tolled expressways," Liu Kaixiang, a professor at the Law School at Peking University told the Global Times.

However, at least one official voice has offered reassurance.

Last month, Feng Zhenglin, another deputy minister of transport, said that the ministry and other relevant government agencies would initiate a campaign to lower some of the higher toll fees, as well as shutting down some toll gates that are too close to each other or that are being operated under expired contracts.

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