



Weekly Briefing

Macedonia Economy briefing:
The Way Forward for the Kichevo-Ohrid Highway
Anastas Vangeli

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping



1052 Budapest Petőfi Sándor utca 11.



+36 1 5858 690



office@china-cee.eu



china-cee.eu

The Way Forward for the Kichevo-Ohrid Highway

Introduction

In November 2018, Macedonia's Government unveiled the framework for advancing the construction of the Kichevo-Ohrid highway financed by the China ExIm Bank, with Sinohydro being the principal contractor. The highway has been a subject of a number of controversies discussed in previous reports. After a long period of uncertainty, the Macedonian Government announced that it has managed to agree to the terms with the Chinese partners on how to proceed and conclude the project. At the same time, Macedonian institutions have also provided a comprehensive assessment of the situation, addressing the key questions about the project. After the Government has put forward the motion, the proposed third appendix to the contract between the Government and Sinohydro also got the support in the Parliament. Nevertheless, the news of the agreement also opened new debates and yielded various reactions by political actors. This report first overviews the information provided by the Government on the next stages of the project, and then discusses the public debates on the topic.

The Official Account of the Government

On November 2, the Vice Prime Minister in Charge of Economic Affairs, Kocho Angjushev, together with the Minister of Transport and Connectivity Gjorgji Sugareski, the Minister of Finance Dragan Tevdovski, and the Director of the Public Enterprise for State Roads Zoran Kitanov held a press conference to announce the reaching of the agreement with Sinohydro, the signing of the Third Appendix to the Contract for the Kichevo-Ohrid and Miladinovci-Shtip Highways, and to clarify a number of questions about the former. Angjushev and the others provided the final, official account on the reasons for the delays

as well as the financial conditions under which the continuation of the works will take place.

The central claim of the Vice Prime Minister was that the Government considers that it has gotten the best out of a generally bad deal. As Angjushev said, if this current Government had a chance to decide whether to start this project or not, it would have definitely chosen not to pursue it, and would have not signed the contract with Sinohydro. However, having “inherited” the project and the contract with Sinohydro by the former Government, the assessment was that the most responsible way is to proceed forward and try to negotiate better conditions than the initial ones arranged by their predecessors, because the costs of terminating the contract with Sinohydro would have been too high; and that it would have been a tremendous loss to terminate a project that has so far been more than halfway completed. This point was also picked upon by the Minister of Transport and Connectivity, Sugareski, who said that the decision to continue the project and extend was an extremely difficult but the only rational one. As he said, he expects that the citizens will be now angry about the new spending and the new debt, but the alternative would have been to have an unfinished road, and to pay penalties. Sugareski repeated that the SDSM-DUI Government did not arrange the initial deal and was not responsible for the mistakes, but either way had the task to solve the problems. Moreover, he said that they had to negotiate with tied hands, due to the previous agreements. He has put the blame on the former Government of VMRO-DPMNE – DUI, and argued that this case was an example of their irresponsibility.

With the new Appendix of the contract, the cost of the project will increase for an additional sum of EUR 187 million. Added to the initial sum of EUR 411 million, the total cost of the highway will be EUR 598 million. Himself an opponent to big public spending, Angjushev elaborated that this is actually a positive and “winning development. According to him, if the new agreement was done on the basis of the initial conditions arranged by the former Government, the cost of the extension of the works could have amounted even

to EUR 282 million (which would have pushed the total cost towards EUR 700 million). This is in fact what Sinohydro had initially expected and pushed for, based on the arrangements and costs as agreed with the previous government. Angjushev proudly claimed that the current government, thanks to its negotiating success, has managed to reduce the price of the extended works to EUR 187 million, which he portrayed as saving EUR 95 million of the public funds. The new costs will be financed via new loan with the China ExIm Bank. The Minister of Finance, Tevdovski clarified that the new loan will be under the same conditions as the previous one: 2% interest rate; 20 years long period of repayment; and 5 years of grace.

Angjushev also clarified who were the institutional actors involved on the Macedonian side – and at the same time praised them for their devotion and good work. The several months long negotiations with Sinohydro were a coordinated effort by Angjushev and his cabinet, the Ministry of Transport and Connectivity, the Public Enterprise for State Roads, the Faculty of Architecture and Civil Engineering at the University Ss Cyril and Methodius in Skopje, who worked on improving the project. However, the Macedonian side was not alone in the process, as it had also cooperated with consultants from Austria, experts from the International Federation of Consulting Engineers (FIDIC), who helped with ensuring financial sustainability. Angjushev described the negotiations as being extremely tough and draining for all the participants involved, but worth the time and effort.

As for the specifics of the project, Angjushev again argued that a number of works were not foreseen with the initial contract signed by the former Government, but were deemed necessary by the current one for the highway to be functional, such as additional geological and mechanic research, dislocation of infrastructural objects such as cables, transmission lines, and other works, as well as securing the construction works near a water reservoir. These are however less significant items in terms of the costs. The most significant cost increase arose from the fact that the type of earth in which the tunnels were to be

built turned out to be different than assumed. Initially, the project planners prepared for the highway to be constructed throughout an area full of rocks, which requires the least effort and funding. Nevertheless, after additional geological research it turned out that the earth in that area was much softer, which in turn required particular efforts in shaping of the terrain, an operation that also involved getting new machinery, all of which significantly increased the costs (EUR 75 million). Furthermore, the tunnels (2 x 2km) that were initially planned to be built into rocks, now had to be built into softer mountains, which also meant spending much more steel and concrete for the supporting structures. Similarly, the area where the columns of the viaducts were to be built, also turned out to be much softer, which required much more concrete. Finally, the Government planners also insisted on adding eight new crossroads/exits from the highway, and constructing regional roads connected to the highway (EUR 33 million).

Angjushev clarified that the highway has so far been constructed by five companies: Sinohydro as principal contractor; and four subcontractors – Granit, Transmet and Ilinden from Macedonia; and Victoria from Albania. These same companies will continue the works, with the exception of Transmet, a company that is implicated in some of the grand corruption cases that arose from the illegal wiretaps. Sinohydro will have to choose its replacement, but the Government will not intervene. The new company has to be a Macedonian one, since according to contract 51% of the project has to be done by Macedonian companies.

Angjushev also argued that the construction of the highway never actually stopped or was halted, but it has significantly slowed down due to the complications. So far, 60% from the work projected with the initial contract has been completed; if one takes in account the extension of the work, about 45-50% of the total amount of works has been completed. Starting with November 2018 and the formal approval of the Amendments of the Special Law that regulates the highway, the works on the ground will intensify. According to the new terms,

the highway has to be finished by mid-2021. The director of State Roads, Kitanov argued that the Macedonian side has found itself in a very undesirable situation, and the toughest construction works are yet to be built. He argued that all the works in terms of the research, planning and re-arrangement of the conditions with Sinohydro, that took a year, were things that are normally supposed to be done before starting the project. Kitanov informed that the expropriation of the land where the new works will be done is almost completely carried out. He reconfirmed that as the different sections of the highway will be completed, they will be put to use.

Angjushev argued that once the construction of the highway intensifies, it will positively affect the overall economic situation of the county. The Kichevo-Ohrid highway alone equals 20% of the total construction works in Macedonia. With the solving of the problems, construction works in the country are expected to come back to normal, while saving money. Angjushev argued that the government also had a choice to start the works sooner using old prices and spend more, in order to show high numbers in the construction sector and increase the GDP; or resist the temptation of easy growth and fix things first, save the money and intensify the work only when some sustainability has been reached. He made a prognosis that in the final Q4 2018 there will be much higher numbers regarding the economic growth. The optimistic outlook was shared by Tevdovski.

Debates in Parliament and the Media

The Parliament debated and approved the Appendix of the Agreement by adopting Amendments on the Special Law that regulates the construction of both the Kichevo-Ohrid and the Shtip-Miladinovci highways. It was done using a special, expedited procedure. The parliamentary debate was heated, as opposition MPs raised a number of questions and counter-arguments to the ones of the Government.

The opposition MPs claimed that paradoxically, the new Appendix of the Contract with Sinohydro and the Amendments of the Special Law in a way vindicate them, rebuking the claims by the SDSM-DUI government and its supporters that the highway projection is completely mistaken and that it is being constructed illegally. They also raised the issue that the additional works are being done without a competitive public tender. MPs from the opposition argued that even the former Government had planned some extensions of the work such as additional exits and local roads, these were planned as separate projects that were to be funded by the government budget itself (without loans), and not pursued by appending the contract with Sinohydro and borrowing more as the current Government has done.

Related to this, they raised the issue whether a highway of 56 km needs a total of 9 exits, as projected by the Government. Some MPs from the opposition have argued that the additional construction of eight exits makes the highway have an exit on every six km on average which is an unprecedented practice; anti-government netizens on the social media took the criticism further arguing that the construction of additional local roads towards the rural areas in Western Macedonia made no sense as these are villages that have almost no residents. Some critics suggested that these extensions have been done because of the vested interests of certain structures within the new government.

In addition to the Parliamentary debates, the attentive public also debated whether by adopting the Appendix to the contract the Government was responsible for double standards: on the one hand, blaming the predecessors for doing not only an incompetent but also an illegitimate and potentially illegal deal, while at the same time not only implementing it, but extending it. During a heated interview on the national TV Alsat, Prime Minister Zaev was asked how he feels about implementing and extending a project that is a subject of a court case based on the illegal wiretaps he himself has leaked. Zaev here repeated the argumentation made by Vice Prime Minister Angjushev – that by continuing the cooperation with Sinohydro, they opted for the more responsible option.

While politicians and the attentive public were involved in heated the debates, in November the Chinese workers from Sinohydro completed the construction one of the two tunnels at Preseka. 1996 meters long, the Preseka tunnel is officially the longest one on Macedonia's territory. The event was celebrated by the workers, and was reported in some of the media; nevertheless, there were no politicians in attendance.