



## **Weekly Briefing**

**Slovenia economy briefing:**  
**Second Railway Track project promised funding by the European**  
**Investment Bank**  
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# **Second Railway Track project promised funding by the European Investment Bank**

## **Summary**

*After years of uncertainty about the large scale building project of the second railway track between Divača and Koper, which would greatly benefit the development and potential of the only Slovenian sea port, the Port of Koper, two important developments occurred in May this year. First, the government signed the agreement giving the concession for the building and the management of the second railway track to the 2TDK company. Second, the European Investment Bank agreed to finance an important share of the investment.*

## **Background: Second railway track and the establishment of 2TDK Company**

The key element in the development of Slovenia's sea port Koper is its connection to the inland transport networks, most notably the railway connection, which at present is not serving the needs of the growing port and the perspectives are yet less promising. Especially the railway connection between the coastal town Koper and the inland town of Divača is seriously outdated, having been built in 1960s and not being able to guarantee higher train speeds and greater transport capacities. The connection between the capital and Port of Koper was also damaged to a great extent in the glaze frost natural disaster in 2014, which destroyed parts of the connecting railway segment Logatec-Borovnica. The improvement of this railroad connection has been debated for decades and many different versions of the projects have been reviewed, ending in the virtual consensus of the concerned parties that the building of an additional track would most optimally solve the mentioned problems.

The length of the track is fairly small, only 27km. The landscape, however, poses many problems. The track follows the rapid decrease of sea level, which is 400m lower at the coastal side of the track, due to the landscape change between the Karst plateau and the coast. As it is planned now, the additional track between Divača and Koper would require the building of 8 tunnels, effectively making 75% of the track length in tunnels. In addition to this, the building of the track would also require 2 viaducts, 2 bridges and 1 gallery.

In March 2016 the government established a state-owned company 2TDK in order for it to manage all the necessary activities in the process of the building of the second railway track Divača-Koper and in to run its functioning for the duration of the concession agreement, i. e. for 45 years. After the concession period is over, the state of Slovenia becomes a direct

owner of the railway infrastructure together with all equipment and appliances needed for its functioning. This type of arrangement is a novelty in the functioning of Slovenian infrastructure system. The establishment of project company was modelled after similar companies established to run large scale infrastructure projects in other EU countries. This model enables a relief for the state budget by organising the involvement of other countries and by applying for EU funding.

### **Recent changes in the financial construction of the project**

Government proposed the Act on the construction, management and governance of the second track of the Divača–Koper, which was brought to a referendum by its critics in September 2017. With a low turnout and the majority of the voters supporting the proposed law, the referendum failed, but its proposers contested its validity at the Supreme Court which decided to repeat the referendum. The second referendum in May 2018 also failed and the Act came into force. Many different plans were proposed for the financing of the project. In the early years of the project formation, in 2015, the Chinese state infrastructure giant China Road and Bridge Corporation reportedly made an offer for a public-private partnership which would include loans from the Chinese Export and Import Bank (EXIM). Russian Railways were also speculated about as a potential partner.

Finally the offer of Hungary, for which this railroad is an important outlet into the Mediterranean, was accepted by the Miro Cerar government. The negotiations with Hungary were kept closed without media or public access, which caused a lot of dissatisfaction and criticism both from the side of Cerar's coalition partners (notably Social Democrats) and from the left-wing opposition. Information leaked about Hungary allegedly demanding a change in the concession agreement of the Port of Koper, which would give them concessions over some territories in the port area. The financial construction of the project was estimated to 961 million Euros without tax, in which Hungary would contribute 200 million Euros. As of 2017, the government was able to secure 233 million Euros from EU funding sources, 109 Euros for the building of the tunnels, 44.3 million for the preparatory works and 80 million Euros of cohesion funds for the eighth tunnel and two viaducts. After criticism about the Hungarian involvement started, Cerar's government justified their decision for having made the agreement with the claim that the collaboration of inland countries was a prerequisite of European financial institutions for giving the necessary loans. After the new government was sworn in in autumn, one of the first measures of the new minister of infrastructure, Alenka Bratušek, was to review the problematic regulations of the negotiated deal with Hungary. In addition to this change of direction, newly revealed documents at the end of October 2018 made clear, that the

preconditions that Cerar government was referring to when justifying the agreement with Hungary, actually never existed. The financial construction itself was also reviewed by the new minister, especially objecting the demands of the two building companies selected for the project, to raise the total price for one fifth. Bratušek conditioned the signing of the concession agreement with 2TDK with the withdrawal of their demands.

### **Concession Agreement and the European Investment Bank decision**

On May 9, 2019 the Minister of Infrastructure Alenka Bratušek, the General Manager of 2TDK and the Managing Director of 2TDK, Marko Brezigar, signed the concession agreement for the building and managing of the second railway track between Divača and Koper. Agreement followed the regulation on the concession which was adopted by the government in April this year.

The regulation determines that 2TDK Company becomes a concessionary for the set concession period of 45 years. 2TDK as a legal person becomes the bearer of all the loan contracts and other related obligations, also bearing the risk of the project. The state would only take on a limited risk in case of extreme situations, but in even in those cases the extent of that would be limited. 2TDK will also cover the costs of the company that manages the infrastructure, in this case the Slovenian Railways-Infrastructure company. A monthly payment for accessibility will be paid by the state to the 2TDK company. These payments would help in paying off the loans and cover some of the expenses of the company, but only in case the track is operative. If not, the payments will be lowered proportionately. These payments will be channelled from three sources – higher highway fees, taxes for transshipment in the port of Koper and the fee for using railway tracks. The construction predicts that after the 45 year concession period the project will be paid off and will not pose an additional cost for the taxpayers.

On May 15, 2019 European Investment Bank approved the loan for the Second Railway Track project. The amount of the loan is 250 million Euros. The decision was awaited with a lot of tension, since the end of May was set as a finally date before which Slovenia would have to finalize the financial construction for the project or else it would have to return the funding received so far from the European Commission resources. The condition for the approval of the loan is state guarantee, which has to be determined with passing a related law, which has to happen before the agreement with European Investment Bank is signed.

The total project costs are now estimated at approximately 1.2 billion Euros total. The estimated capital needed to finance 2TDK from the state budget is 400 million Euros. 250 will

come from nonrepayable European grants and 250 million from the European Investment Bank loan. In addition to the national budget and EU resources, 167 million Euros will be obtained by loans from commercial banks and another 122 million Euros with additional raises in highway fees. The budget contribution could also be lowered with a potential contribution of the related inland countries. While the last negotiations are going on, the building has already started with the building of 12 out of 23 access roads and the archaeological work.

### **Conclusion**

The recent changes in the plans for the application of the project of building the second railway track between Divača and Koper, especially the decision not to accept Hungary's demands and the newly received European Investment Bank loan offer, changed the financial construction of one of the most important large-scale building projects in Slovenia. The concession given by the government to the state owned 2TDK Company also enabled this entity to finally start operating with its original purpose.