Slovenia economy briefing:
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Summary

The second track is the largest infrastructure project of tunnel construction in Slovenia and the largest railway infrastructure project since the country's independence. It is a construction challenge and a deal for many foreign companies, such as Hungarian, Turkish and Chinese, which have been bidding for the contract from the beginning. Last year, the government passed an intervention law to remove obstacles to the implementation of important investments, which introduced a significant change in the area of public procurement. It made it more difficult for bidders from non-EU countries, including Chinese and Turks, to participate in public tenders. In early March, the consortium of Slovenian Kolektor CPG, in cooperation with Turkish companies Yapi Merkezi and Özaltin, offered the most advantageous bid and was awarded a contract worth just over 625 million euros (excluding VAT).

A project that promises a better future and long-term development

A look at the European transport network map (TEN-T) shows a picture in which nine corridors of the core transport network are intertwined, two of which run through the territory of Slovenia. These are the Mediterranean Corridor and the Baltic-Adriatic Corridor, of which the new railway line between Divača and Koper, also called the Second Track, is an integral part. The existing railway line between Divača and Koper is more than 50 years old and has reached the point of oversaturation, as transport on it is slower and slower and with increasing delays. That is why the construction of the second track is all the more urgent. The times in which we live also call for the modernisation and expansion of this route as soon as possible, partly in order to deal with the Corona crisis, which will have long-term and global economic consequences. Intensive investment in the modernisation and expansion of infrastructure and the modernisation and expansion of the railway network will be able to significantly accelerate the country's economic development.

The advantages of the second track are reliability and safety, shorter travel times, higher speeds and a greater number of train compositions that will connect the freight Port of Koper
with the hinterland countries and the wider European railway network. The second track will be very important for the logistics and construction industry as well as for the wider industry. The impact will be reflected in multiplier effects, such as new well-paid jobs, and the achievement of the European Green Agreement transport goals by shifting freight traffic from road to rail. Accelerating and thus increasing the volume of freight traffic towards hinterland countries that do not have access to the sea will also be a strong factor in the country's continued economic growth. This is therefore an infrastructure project that is extremely important for Slovenia.

**The second track between Črni Kal and Koper will be built by a consortium with a local construction company**

At the beginning of March, the company 2TDK, which is in charge of the project of the construction of the second track, received only one financial offer for the construction of the second track Koper-Divača on the section between Črni Kal and Koper from the consortium led by the local contractor Kolektor CPG. The consortium Kolektor CPG, in cooperation with the Turkish companies Yapi Merkezi and Özaltin, submitted a tender in the exact amount of EUR 224,749,369 without VAT in due time. As the limited value for the works on the Primorska section of the second track was 230.7 million euros, the bid was valid.

Earlier, the Kolektor consortium had also submitted the lowest bid for the construction of the second track on the Karst section, for just over 403.6 million euros. It thus offered a price 60 million euros lower than the consortium Austrian Strabag in cooperation with the German company Ed Züblin and the Turkish company Gülermak Agir, which amounted to 463.5 million euros. The price for the main construction works on the second track will therefore be just over 625 million euros (excluding VAT), which is less than the initial estimates when the values of the construction works were around 700 million euros.

Last year, the government passed an intervention law to remove obstacles to the implementation of important investments, which introduces a major change in the area of public procurement. It makes it more difficult for bidders from non-EU countries to participate in public tenders. For example, the new law allows non-EU bidders to be excluded from tenders if they undercut the competition with unusually low prices. The state will check whether they receive covert support from their home countries and use unfair business practices in foreign markets. Their bids must meet European standards on environmental protection and compliance with labour laws. Without proof, the commission can now reject the bidder if it does not
convince it that it can carry out the contract at the price offered while complying with all the rules. In this way, European countries want to prevent the outflow of much of the money for investment abroad. Foreign builders bring their workers, subcontractors and related logistics to Europe so they can offer by far the lowest prices. But during the epidemic COVID-19, this proved to be an obstacle. Turkish Cengiz, which is building the Karavanke Tunnel and also bid for the second track, is still unable to bring its workers to the construction site.

**Resources for financing the second track**

The Second Track project is not just a challenging construction effort. Equally challenging has been the acquisition of 1.2 billion euros in resources to fund construction, which 2TDK has worked hard to achieve over the past two years. This is an amount that represents more than 11% of the annual budget of the Republic of Slovenia. The result is a cohesive financial construction of the project and thus the conditions for the start of the main construction works have been met.

A special challenge, besides the amount of funds, is their diversity, which is unique compared to similar projects. The investment program approved by the Government of the Republic of Slovenia in January 2019 envisages financing of the project from capital, various sources of EU grants, loans from international financial institutions and commercial banks, as well as from increased user fees collected by Slovenian Railways to finance the project. Funding from the increased user fee represents a smaller but no less important share in the structure of funding sources. It has received regular monthly funding since January 2019. The largest share of the funds, 522 million euros, represents the capital that the Republic of Slovenia is gradually paying into the company as its owner. The source of capital also comes partly from the surcharge on the toll collected from (mostly foreign) truck drivers for the construction of the second track by DARS and paid into the state budget. 135 million in capital will be disbursed by the end of 2020, and the remaining 387 million by the end of construction in 2026. The second largest share of the funds are loans from international financial institutions and commercial banks. In the current investment program, these are earmarked up to an amount of 417 million euros. By approving the loans, the financial institutions have confirmed the economic viability of the project and the appropriate risk management.

The third group of sources are grants from various European funding instruments. Part of the funding for the project, after successful application in the tenders, was provided by the European Commission through the agency INEA, which awarded the project 154 million euros.
in grants. The second part of the grant, amounting to 80 million euros, was awarded by the European Commission from the Cohesion Fund in September 2020 after more than two years of demanding negotiations. The award of a European grant proves that the project has met all the necessary criteria for approval by the European Commission. The second track has thus been approved as a European project by the European Commission. In the coming years, 2TDK will focus its activities on the efficient and transparent use of the allocated funds in the area of finance and on optimizing the financial structure.

**Conclusions**

The Second Track project is important not only for Slovenia, but for the whole of Europe and for the wider area from the point of view of the economy of the hinterland countries, which will benefit from the new line. A railway line will be built on which passenger trains will travel at a speed of 160 km/h, which is a huge improvement compared to the current situation. Freight trains will be able to travel at a speed of 120 km/h, which is a non-negligible level of rail traffic, especially in view of the increase in throughput in the Port of Koper. It is extremely important for Slovenia to catch up with the timetable by 2026 with the construction of the second track, otherwise logisticians could choose other transport routes and then it would be more difficult to return to the second track between Divača and Koper. In fact, this route is already the cheapest and most accessible for all hinterlands gravitating to the Port of Koper.