

SUMMARY OF THE RAIL REFORM IN MACEDONIA

I should like to proceed in three steps: Firstly, I should like to present the legal framework. Secondly, I will highlight how the financing for the railway infrastructure and the PSO is realized by the State budget. And thirdly, I will try to outline how is achieving the development of the investments for Corridor VIII and Corridor X.

Legal framework

Just to remind you the two laws were adopted and published in the Official Gazette as follows:

- Law on the Safety of the Rail System, and
- Law on the Rail System.

Both laws were prepared in line with the Railway Liberalization Directives; the “First Railway Package”; the “Second Railway Package”, and the “Third Railway Package”.

Safety Authority:

The Directorate for safety in the rail system will be formed for the purposes of performing the activities related to the safety of the railways, as an authority within the Ministry of Transport and Communications. The procedure is ongoing for a director to be appointed by the Government of the Republic of Macedonia, upon a proposal from the Minister of transport and communications. The director shall have a term of office for a period of four years.

Committee for investigation in case of accident and incident:

The Committee was formed as a permanent body in May 2010, consisted of three investigators, experts in the railway field named by the Government of the Republic of Macedonia, out of which one is appointed as investigator in charge. The Committee will be independent in its organization and decision making and it is independent of the infrastructure manager, railway undertakings, safety authority, railway regulator and the Ministry of Transport and Communications.

The funds for the operations of the Committee are provided by the Budget of the Republic of Macedonia and they are intended for undisrupted performance of its tasks.

In the scope of the Law on the Rail System is the Agency for regulating the railway sector.

Last week the Agency invited people from the Ministry to be present at the presentation of the Quality control of the railway services study done by an engaged consultant from Bulgaria.

This year, in 2010, to the Agency from the State Budget were transferred 65 000 Euro through the Ministry of transport and communications for proper functioning of the Agency. The rail market is liberalised and there will be new entrants who will pay to the Agency an annual fee for regulating the market of railway services. The basis for

calculating the annual fee shall be 1.5% of the collected annual infrastructure access charge, which the infrastructure managers collect from the railway undertakings for the minimum package of services and the track access charge to the service facilities. The annual fee paid by the infrastructure managers shall amount to 30% of the amount. Each infrastructure manager shall pay a fee proportional to their share in the total collected revenues from the track access charge for the minimum package of services and the track access charge to the service facilities. The annual fee paid by the railway undertakings shall amount to 70% of the amount. Each railway undertaking that participates in the market of railway services shall pay a fee proportional of their share in the total cost incurred for the track access charge in the Republic of Macedonia for the minimum package of services and the track access charge to the service structures. The infrastructure managers and the railway undertakings shall be obligated to pay the fee twice per year, not later than the 31st of March and the 30th of September of each year.

Therefore, the Agency gradually will transfer as independent body not financed by the State Budget.

The Agency shall prepare its annual program for work and development and annual financial plan which shall be enacted by the Management Board no later than the end of January every year.

Financing of the railway infrastructure:

This year, 2010, the Government adopted an Annual plan for constructing, reconstructing, modernization, renewals and maintenance of the railway infrastructure which provides means for realization in total amount of 3,250 million Euros, and an annual plan for preparation of project documentation for Corridor 8 in total amount of 488 000 Euros.

Also, draft amendment and addition to the annual programme for the preparation of project documentation for Corridor 8 for this year was recently prepared. Following the adoption of the supplementary budget for 2010 for investment in rail infrastructure rate decreased for 325 000 Euros and increased in project documentation for 130 000 Euros. For this reason it was necessary slightly to modify some of the figures on the annual plans for both of them. At the same time it is proposed a new summary activities and their implementation too.

Loan from IBRD (World Bank):

Railway Reform Project:

During the last transport sector visit, held in June, the World Bank team was informed that MR-T expects the delivery of the 25+11 flat-bed wagons to take place at the end of July. Unfortunately the realization of this activity on the manufacture, inspection and acceptance and delivery of the wagons will result in delays for both contracts. It was brought to MRT's attention that goods delivered after the loan closing date will have to be paid for by them and not from the loan. For that reason both companies agreed to ask for loan extension time and the proposed the closing date to be in April 2011. The procedure is ongoing.

Additional procurements are ongoing in the scope of adopted PIP as follows:

The PE MR Infrastructure-Skopje have completed a contract with ISKRA (Slovenia) for a *video wall* which will be configured out of 16 HD screens mounted in two rows on self standing frame and controlled by video wall server with adequate numbers of video controllers.

The PE MR Infrastructure-Skopje signed a contract with Grant Thornton for *Valuation services of its capital*, for the purposes of financial reporting in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The services will be delivered at the end of October this year.

The PE MR Infrastructure-Skopje signed a contract with MERMEC S.p.A (Italy) for a *Railway Infrastructure Management System (RIMS)*. RIMS shall represent a means to collect, relate, store, and view all data concerning railway infrastructure, including (but not limited to) inventory, condition, work-history, layout and operating, as well as all other relevant data, coming either from hard-copy sources as well as from all existing systems and tools, including information from any 3rd party systems through one user interface and allow detailed and comprehensive visualization, long term trending based on linear and non-linear deterioration modelling, and automatic rule-based Maintenance and Renewal (M&R) planning to be undertaken. The contract shall be completed until April 2011.

The MR Transport –Skopje have procured one van and 4 (four) light cars for its own use.

Loan from EBRD:

An act of borrowing a loan for the Republic of Macedonia following an agreement with the EBRD for the project to improve the railway track on Corridor 10 was published in the Official Gazette on September 20 th.

The loan is in the amount of €17.6 million. This will take the form of the replacement of wooden with concrete sleepers and the supply of new rails where, applicable, along approximately 52 km of track. The total project cost is €19.7 million, and technical co-operation funds are also being provided.

The Project will contribute to transition through the provision of further assistance to the on-going railway restructuring process. This will take the form of ensuring that there is the correct environment for open access, through support for the Agency and assisting the MoTC with the establishment of a Safety Authority. The project will also address cost recovery by assisting in defining an appropriate level and structure for the Public Service Obligation (PSO).

The following technical co-operations funds are envisaged as part of this project:

- Assistance with Project Implementation. €400,000. Funding to be sought from bi-lateral donors;
- Assistance with Sector Restructuring. €400,000. Funding to be sought from bi-lateral donors;

- Feasibility study and ESIA Study for Corridor VIII, section Kumanovo-Deve Bair, border with Republic of Bulgaria. €500,000. Funding to be sought from bi-lateral donors and the tender procedure is ongoing.

The Invitation for Expressions of Interest for a Feasibility Study and Environmental and Social Impact Assessment Study (ESIA) for the Eastern section of Rail Corridor VIII (Kumanovo-Beljakovce-Kriva Palanka- Deve Bair, Bulgarian border) was issued in June 2010 and it is anticipated to start in October, 2010. The assignment's duration is 10 months after signing a contract. The scope of work will consist of the following main activities:

- Review current situation;
- Prepare traffic and revenue forecasts and to produce scenarios which assume that there is a completed rail link and another one which is not constructed to Albania;
- Selection of preferred alternatives;
- Development of preferred alternatives;
- Economic and financial evaluation;
- Environment and social impact assessment

Kicevo-Albanian border link:

In mid-November 2010, a feasibility study and preliminary design for the missing section on the western link will be completed, financed by GOM. This will be complemented by an economic evaluation and EIA to be funded by IPA.

PSO:

With the entry into force of the new Law on railway system, the public passenger's services will be performed by MR Transport JSC- Skopje until its privatization and / or liberalization of railway transport.

In the State Budget for the year of 2010 funds were allocated in amount of 1, 5 million Euros for the PSO, but with the Supplementary Budget the amount decreased and the amount is 1.25 mill Euros. A contract is signed between the director general of the RU (current RU: MR Transport JSC-Skopje) and the minister of the Ministry of transport and communications against a Decision brought by the Government of the Republic of Macedonia in July.

With this agreement the RU in a role of as service provider will provide compensation of costs incurred in the performance of the carriage of passengers according to time table for year 2009/2010 for the period of August 1 to December 14 and only compensation for the track access charge paid to the IM against copied invoices. If the funds are overspent before the end of this year the RU will not get paid for services which will continue to service, but will pay from its own expenses.

The funds are limited because the Budget is brought annually. In the future, the funds shall be provided against the Law and a contract shall be signed for a period of at least three years with the Government of the Republic of Macedonia or the mayors of the municipalities or the mayor of the city of Skopje. The contract shall stipulate a compensation for the selected RU based on calculations specified in the contract.

<u>Bilateral Agreements:</u>

Slight modifications were made against the text and as agreed the MoFA will send through a diplomatic channel the modified version of the Framework Agreement to the competent authority of the Republic of Kosovo. The Agreement is expected to be signed soon.

A letter has been sent to the MoFA to initiate of eventually to begin negotiations with the Republic of Serbia and the Republic of Greece for the same purpose done with the Republic of Kosovo.