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Legal Briefing

Serbia: Infrastructure

Legal Briefing

**Serbia:
Infrastructure**

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Serbia on the Right Track

THE EUROPEAN AND WORLD TRANSPORT NETWORK

Given its geographical position in the central part of the Western Balkans, Serbia is often referred to as a “bridge between East and West”.

Known as the shortest continental route between Europe and Asia, including a significant pathway through Serbia, and recognized as a significant part of the international waterway of the Danube River, Serbia is strategically important to the European and World transport network.

Corridor VII (the Danube as a waterway) and Corridor X (road-railway) make up the basis of the transport system in the Republic of Serbia. In addition to these corridors, Corridor XI will also be of great importance including the road and part of the Route 4 Belgrade – South Adriatic E-763, as well as the E-79 railway line.

Serbia is surrounded by other Pan-European transport corridors and their branches, such as Corridor IV (*Dresden / Nuremberg – Prague – Vienna – Bratislava – Győr – Budapest – Arad – Bucharest – Constanța / Craiova – Sofia – Pernik – Thessaloniki or Plovdiv – Istanbul*), Corridor V Branch C (*Ploče – Sarajevo – Osijek – Budapest*), and Corridor VIII (*Durrës – Elbasan – Skopje – Sofia – Plovdiv – Burgas – Varna*).

Parts of these Corridors which are still under construction will become part of the Trans-European Transport Network (TEN-T), a planned system of road, rail, air and water transport networks in the European Union, to be fully operational by 2030.



DID YOU KNOW?



Path toward EU

Serbia is continuing its path toward EU membership: the EU negotiation process has officially started and it should be ready for accession by 2025.



FDI Inflow

In 2016, net FDI inflow stood at EUR 1.9 billion, 3.2% higher compared to 2015 and concentrated mostly in tradable sectors.



Moving Up

Serbia moved up 116 spots in the World Bank's global Doing Business 2017 ranking according to the recent data regarding dealing with construction permits, coming in 36th out of 190 ranked countries.

Overview of Finalized, Ongoing, and Planned Projects

ROADS | RAILWAY | WATER | AIR

Serbia has a growing need to build new public infrastructure and to rejuvenate existing facilities. Therefore the creation of legal and institutional frameworks for attracting private investments in this area is vital to the development of a major transport system.

With the enactment of the Law of Public-Private Partnership and Concessions, there has been an increasing interest by both state and local authorities

to consider development of public infrastructure projects through public-private partnership (PPP). Unfortunately, the number of PPP projects implemented in Serbia are very low compared to PPP projects in EU countries.

Nevertheless, Serbia is planning to invest close to 4.8 billion EUR in transport infrastructure projects through 2020 with the ratio of 3:1 in favor of investments in railway projects.

DID YOU KNOW?



City of the Future

Belgrade was named the City of the Future in Southern Europe by The Financial Times.



Strategic Partnership

In 2016, Serbia and China established a comprehensive strategic partnership and signed a total of 22 agreements on cooperation pertaining to the sectors of construction, infrastructure, telecommunications, trade, defence, and media.

GOOD TO KNOW!



FIDIC contracts

FIDIC contracts are commonly used in Serbia for infrastructural projects.



Are public private partnerships (PPPs) common in local construction projects?

The concept of PPP has been introduced in Serbia only recently. Therefore, in practice these partnerships are not numerous and the methods for application are still not completely clear and developed. So far, PPPs have been used in the following sectors: Construction, Transport, Infrastructure, Public services, Utilities, Energy.

Roads

CORRIDOR X

The total length of Corridor X roads within the territory of the Republic of Serbia is 792 km.

Work on Corridor X are organized under five sub-projects:

- **Project North:** E-75 from border crossing into Hungary (Horgoš) to Novi Sad (108 km);
- **Project Main Axel of Corridor X:** E-70 section from Belgrade to border crossing with Croatia (121 km) and E-75 from Belgrade to Niš (237 km);
- **Project South:** E-75 from Niš to border with the Republic of Macedonia (74 km);
- **Project East:** E-80 from Niš to border with the Republic of Bulgaria (86 km);
- **Project Belgrade Bypass Ring Road:** the goal is to detour transit traffic from Belgrade downtown (47 km).

Implementation period: *Project North* is partially finished, whereas the deadline for remaining “Y fork” from Subotica junction south to the border crossing at Kelebija will be completed near the end of 2019. *Project Main Axel of Corridor X* was completed in previous decades; hence, rehabilitation on certain parts might be required in the near future. *Project South* is partially completed, whereas the agreed deadline for the remaining part of the *Project South* is expected to be completed by the end of 2017. *Project East* is expected to be completed by the end of 2017; however, other parts of the project are not expected to be completed until the end of 2018. *Project Belgrade Bypass Ring Road* is partially completed, whereas a Memorandum of Understanding (MoU) was signed between the Republic of Serbia and consortium of the companies (Sinohydro, Beijing and Azvirt, Azerbaijan) in 2016 to monitor the completion of the remaining portions.

Financing: WB, EIB, IPA (EU’s instrument for Pre-Accession Assistance), EBRD, budget of the Republic of Serbia, and additional financing is sought.

CORRIDOR XI

Highway E 763 is a new highway project with a planned length of 270 km. The main goal of the project is to connect the City of Belgrade with the border of Montenegro as it will provide better connection with the Port of Bar, the most significant harbor in the region. Consequently, it is expected to integrate the Republic of Serbia with the market of overseas container shipping and additionally attract international flows of people and goods.

The project is divided in 3 sections:

- **Sector I:** Belgrade - Ljig (80 km);
- **Sector II:** Ljig - Požega (71 km);
- **Sector III:** Požega - Boljare (border with Montenegro) (107 km).

Implementation period: Highway E 763 has only been partially completed. A MoU was signed between the Government of Serbia and China Communication Construction Company in May 2017, by which the parties agreed

to adopt an action program of cooperation to speed up the preparation activities and enable commencement of works in the first half of the year 2018.

Financing: China EXIM bank loan, budget of the Republic of Serbia, the Republic of Azerbaijan loan, and additional financing is sought.

OTHER ROAD PROJECTS

Apart from Corridor X and Corridor XI, Serbia is planning to build other corridors (including a number of bridges) for which financing is needed. Currently, plans for the following have been recognized as priorities: 1.) Moravski Corridor (110 km), 2.) Fruška Gora Corridor (27 km), 3.) Road connecting Zrenjanin-Centa-Belgrade (56 km), 4.) Highway connecting Niš-Merdare/Priština (77 km), and 5.) Highway connecting Belgrade-Vršac-Vatin/border with Romania (91 km). In addition, other projects will involve the rehabilitation of damaged sections of existing roads.

Railway

CORRIDOR X

The most significant rail network through Serbia is the international Corridor X.

However, only a small part of this Corridor is a two-track railway, the electrical equipment is technologically obsolete, and the Niš – Dimitrovgrad line is not even electrified. The current commercial speed is about 50 km per hour. Large investments are needed to upgrade the railroad network to the standards required by modern rail infrastructure.

The total length of the railway lines along Corridor X is 799 km. Reconstruction of the railway lines along Corridor X is only partially completed. Certain sections are currently under construction and more investments are yet to come. Among the largest projects is the reconstruction and modernization of Belgrade – Budapest Railway. The goals of this project include the construction, modernization and reconstruction of the existing railway and construction of the new

track to provide a double-track railway for passenger and freight traffic for speeds up to 200 km per hour. The length of this railway line is 188 km. One section will be reconstructed with the financing provided by the Russian Federation (as a loan), and reconstruction of the remaining part of the railway line is to be performed based on several agreements between the Republic of Serbia, Hungary, and People's Republic of China.

Implementation period: Due to the nature of such large-scale works, the period cannot be precisely determined.

Financing: Includes EIB, EBRD, Russian Federation loan, China EXIM Bank, and budget of the Republic of Serbia. Additional financing is also sought.

CORRIDOR XI

The second most significant rail network in Serbia is the international Corridor XI which includes two railway lines. The railway line from Belgrade to the border of Montenegro, E-79, is a single-track electrified line with a total length of 287.4 km.

The railway line Belgrade – Vršac – Romania border, E-66, has a total length of 104 km.

Reconstruction and modernization of the Corridor XI railway line from Resnik (Belgrade) to Vreoci, 35 km in length, was completed in July 2017. The completion of the entire Resnik (Belgrade) to Valjevo section (77 km) is expected by the end of 2017.

Implementation period: The remaining part of the Corridor XI railroad is also designed for modernization in the next few years. A deadline for this project has not yet been determined.

NEW RAILWAY BELGRADE CENTRE STATION (PROKOP)

The first phase of construction for the new railway Belgrade Centre station (Prokop) was completed in January 2016. The remaining phases include construction of all access roads and the main station building including all required commercial facilities.

Once this project enters its final phase, the old railway from the Sava Amphitheatre (the Belgrade Main Railway Station) can be

relocated, which will create a new space for the Belgrade Waterfront. The timeframe envisioned for the relocation of the Belgrade Main Railway Station is the end of 2018.

The Government is looking for investors and financing.

Water Traffic

International and interstate waterways in the Republic of Serbia include the Danube River, the Sava River, and the Tisza River.

The Danube is the longest river in the European Union and the second longest river in Europe after the Volga River. The Danube flows through ten countries, more than any other river in the world. Originating in Germany, the Danube River flows southeast for 2,860 km, passing through or touching the borders of Austria, Slovakia, Hungary, Croatia, Serbia, Romania, Bulgaria, Moldova, and Ukraine before merging into the Black Sea. The Rhine-Danube Corridor is one of the nine European corridors in the TEN-T network that passes through Serbia

for a length of 588 km – from Bezdán to Timok.

The Sava River, tributary of the Danube, is the third longest and the largest by flow. The Sava River is 990 km long. It flows through four countries (Slovenia, Croatia, Bosnia and Herzegovina and Serbia) connecting three of these countries' capital cities (Ljubljana, Zagreb and Belgrade).

The Tisza River is the largest of the Danube's western tributaries. Starting in the Ukraine, the Tisza River passes through Hungary, Romania, Slovakia and Serbia. The Tisza River joins the Danube at Old Slankamen (*Stari Slankamen*) and is 1,358 km long.

CONSTRUCTION OF THE NEW PORT IN BELGRADE WITH A FREE ZONE

A MoU on cooperation was signed between the Government of Serbia and China Environmental Energy Holdings Co. regarding the construction of the new port in Belgrade in the vicinity of Pupin Bridge on the Danube.

The negotiation with the Chinese for financing the construction of the access and port infrastructure is in progress. Once an agreement on financing is reached, the procedure of the port concession awarding will start. Simultaneously, the private partner should initiate the procedure of the preparation of technical documentation.

Implementation period: Phase I – ongoing until 2025.

Project value: Phase I – EUR 343 million.

Financing: BOT concession.

EXPANSION OF SMEDEREVO NEW PORT

Along with the new railway construction project in Smederevo, the expansion of Smederevo New Port is also ongoing.

Approval for performing of port activities has been issued to Hesteel Serbia, and appropriate contracts have been signed. Upon the submission of the feasibility study by the Chinese, a detailed regulation plan for the Smederevo New Port will be prepared.

Implementation period: Railway to be in service by the end of December 2017 and expansion of Smederevo New Port will follow.

Financing: Republic of Serbia.

HYDRO-TECHNICAL AND DREDGING WORKS

Total project value for hydro-technical and dredging works at critical sectors of the Sava and Danube Rivers, including both ongoing and planned projects on both rivers, is more than EUR 50 million.

Financing: Republic of Serbia, IPA funds requested (EU's instrument for Pre-Accession Assistance).

Implementation period: 3 – 6 years.

FULL REVITALIZATION OF THE NAVIGATION LOCK DJERDAP 1

Project value for full revitalization of the navigation lock Djerdap 1 is EUR 35 million (estimates for revitalization of the lock).

Funding: application for IPA 2017 funding.

Implementation period: 4 years.

Air Traffic

Serbian airports are in the center of the Balkans, and located at the crossroads of important corridors within Central and Eastern Europe.

The Serbian airport network comprises of:

- 2 international airports (Nikola Tesla Airport and Airport Nis),
- 21 small airports (mainly for domestic airfares, and personal transportation), and
- 9 airports for non-commercial air traffic.

NIKOLA TESLA AIRPORT, BELGRADE

Nikola Tesla Airport is approaching the limit of available capacities when it comes to the admission of passengers. The current capacity is 5 million passengers per year. Thus, the Government of the Republic of Serbia is in the process of selecting a strategic partner for the airport's further development.

An invitation to potential bidders was published in February 2017

seeking a 25-year concession for the airport. The concession will allow the holder to finance and expand the airport through new construction and reconstruction projects, to maintain and run the airport infrastructure, and to act as its operator. The concession fee should range between EUR 350 and 400 million. Five companies have been selected to submit their binding offers within the second phase, and the deadline for submission has been extended until 23 October 2017.

Air Serbia – Since it was established, Air Serbia has doubled its income due in part to both continental, intercontinental, and transatlantic routes such as a direct Belgrade – New York flight.

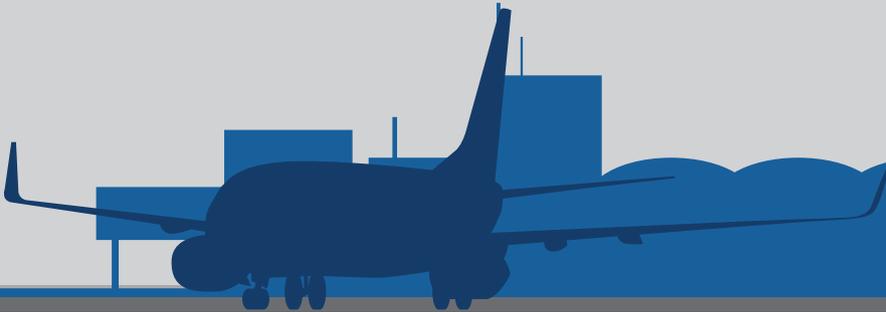
AIRPORT NIS

Planned investments in the forthcoming period are about EUR 16 million for the taxiway, system of instrument approach, lighting system, expansion of terminal buildings, equipment, and a new tower.

AIRPORT MORAVA KRALJEVO

Military airport, Morava Kraljevo, is currently in the process of converting to the military-civil or mixed airport.

Further development, worth EUR 12.8 million, is being planned for 2016-2019 and will include a runway, taxiway, system of instrument approach, lighting system, and equipment for the terminal building.



Other Projects

VINČA | BELGRADE RENOVATION | BELGRADE WATERFRONT

VINČA

One of the most important projects currently underway is the Vinča landfill project, a PPP which will rehabilitate the Vinča landfill and commission a waste management facility for the generation of heat and power. The facility will convert waste into electricity and heat which will be fed into the district electricity and heating system.

A binding offer was submitted from the French-Japanese consortium, Suez-Itochu, to the city of Belgrade within the procedure of the selection of the private partner. The tender commission accepted the consortium's offer in late August 2017.

The plan is to obtain all building permits by the end of 2017 in order to complete the project and start utilizing the station by the end of 2019. The estimated project value is EUR 250 million.

BELGRADE RENOVATION

One third of all construction projects in Serbia are currently located in Belgrade. Consequently, the city represents the driving force behind the country's construction industry. There are several projects planned to renovate the capital, including: 1.) the restoration of the city's main symbol, the Belgrade fortress, 2.) the construction of a new principal bus station, 3.) the construction of new public garages, 4.) the renewal of residential facades, 5.) the extension of bicycle paths throughout the entire city making bicycles a new form of urban public transportation, and 6.) other developments within major public areas.



BELGRADE WATERFRONT

The largest real estate project in Serbia at the moment is the Belgrade Waterfront, with an estimated worth of EUR 3.5 billion, is headed by the Serbian government with the support of UAE investors. The Belgrade Waterfront is an urban renewal development project aimed at improving Belgrade's cityscape and economy by revitalizing the Sava Amphitheatre. The project includes office and luxury apartment buildings, Belgrade Park, Sava Promenada, five-star hotels, Belgrade Mall, and Belgrade Tower which will be the home to Serbia's first St Regis Hotel & St Regis Residences. Standing at 168 meters, this iconic building was designed by the world-renowned architectural firm, Skidmore, Owings & Merrill.

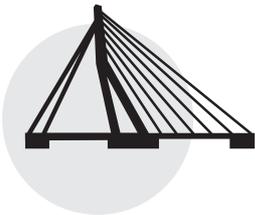
Legislation Relevant for Infrastructural Development

WHAT YOU NEED TO KNOW



Planning and Construction Law

Recent changes to the Serbian Planning and Construction Law have made the procedures for acquiring building permits much faster and more efficient. The introduction of an electronic system for issuing building permits was recently introduced and represents one of the most important reform challenges Serbia addressed. A new “integrated procedure” has been established and has effectively enabled real estate investors to electronically obtain all necessary documentation for construction on a “one stop shop” basis.



Law on Public-Private Partnership and Concessions

The purpose of this Law is to create a favorable framework for promoting and facilitating the implementation of privately financed concession/PPP projects enhancing transparency, fairness, efficiency, and long-term sustainability in the development of infrastructure and public service projects in the Republic of Serbia.

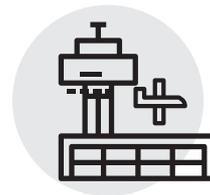
This Law sets forth the conditions under which local and foreign legal or natural persons may be awarded a concession or a PPP contract in all the sectors that are under the jurisdiction of Serbia, pursuant to the Constitution and the laws of Serbia as well as the relevant EU rules.

After more than four years of implementation of the Law on Public-Private Partnership and Concessions, further alignment with other Serbian legislation and with the EU acquis has occurred.

Law on Airport Management

At the end of 2016, the National Assembly of the Republic of Serbia adopted the Law on Airport Management, which creates the conditions for granting airports in concession as one way to provide funds for the development and commercialization of airports in Serbia.

This law defines airport management as an activity of general interest.





Expropriation Law

Real estate can be expropriated or ownership can be limited only in the public interest as established by the law and with compensation that cannot be less than the market value. Public interest for expropriation of real estate is determined by the law or by decision of the Government.

Complete expropriation means that expropriated real estate shall change its owner, whereas incomplete expropriation provides for the establishment of an easement right or land lease for a specified period of time.



Energy Law

The Energy Law, in effect since 2014, has signified a major step forward in improving the compliance with EU acquis at that time.

However, in June 2017 amendments to the Energy Law that the Energy Community proposed to Serbia further aligned its legal framework with EU acquis for renewables and includes certain fundamental changes such as introduction of tendering or auctioning process to determine the beneficiaries of the support scheme, elimination of the temporary privileged power producer status, balancing responsibility, and introduction of renewable energy operator.

*“Bojović & Partners has longstanding
expertise advising foreign investors on
their interests in Serbia”*

Legal 500 2017, Real Estate and Construction

Our Infrastructure Practice

WHAT WE DO

Infrastructure projects have direct and positive impact on economic and social prosperity.

Bojovic & Partners provides clients in the infrastructure sector with both industry insight and imaginative, pragmatic legal advice that helps them achieve their goals.

Our approach provides legal solutions for any infrastructure investment. Our legal services cover the full asset of the life cycle, from creation of idea to realization and implementation.

Our clients value our straightforward and pragmatic advice, especially when it comes to a public private partnership (PPP) projects.

BOJOVIĆ & PARTNERS AND “BELT AND ROAD” INITIATIVE

MWE China Law Offices and Bojović & Partners have signed a Memorandum to strengthen the legal service cooperation and communication for supporting the “Belt and Road” initiative and to strengthen the pragmatic legal services cooperation among the two groups. The ceremony to launch the “Legal Environment Report of the ‘Belt and Road’ Countries” was held in Beijing, China, in June 2017.

China’s “Belt and Road” initiative is an economic framework developed to increase connectivity between China and over 100 countries and international organizations, based on the ancient Silk Road land and maritime routes. The “Belt and Road” initiative aims to link different regions through infrastructure construction of transport and economic corridors, and by bridging China physically, financially, digitally, and socially with the rest of the world.

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