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Top story



Construction of Moscow-St Pete toll road to start October

bne

Anatoly Chabunin, head of state-owned highway operator Rosavtodor, says that construction of the first part of the Moscow-St. Petersburg toll road between the 15th and 58th kilometers is expected to start in October, reports Prime-Tass.

The news agency quoted Chabunin as saying that construction of this part of the road is expected to take three years. ●

Import duties for the majority of aircraft to be cancelled

VTB Capital

News: According to Vedomosti, the Commission of the Customs Union of Russia, Belarus and Kazakhstan has decided to cancel the 20% import duty for planes with 112-159 and 220-299 seats. For those planes contracted before 2014, zero import duties will be effective until the end of 2018.

Our View: This long-awaited decision is absolutely logical since the target segments for Russian aircraft producers will be protected by duties, while airlines will get more freedom in upgrading their fleets. We note that the import duties for planes with less than 50 and over 300 seats were cancelled earlier.

The news is positive for Aeroflot since the company is expanding its fleet by leasing new foreign planes (primarily Airbuses). It

will be able to save when importing the medium-haul A-319 (116 seats) and A-320 (140 seats) planes, the main workhorses of its fleet. The A-330, which has 302 seats, already enjoys zero duties. Thus, Aeroflot will only continue paying duties for the A-321 (171 seats). We note that customs duties are paid in several instalments over three years, so the positive effect from this measure (which we calculate as several hundred million US dollars) on Aeroflot's financials is likely to be seen for a decade.

The news is supportive for the overall development of the Russian airline industry. Modifications of the B-737 will also enjoy zero duties, meaning that it will be cheaper for industry players to upgrade their fleets with foreign aircraft. This is also likely to improve flight safety. ●

Subsidies for state road builder

bne

Prime Minister Vladimir Putin has signed a ruling which will see the state provide RUB 17bn (\$568m) in subsidies to state-owned road-management company Avtodor to the end of the year, reports Prime Tass.

The cash is to help power the design and construction of new roads as well as reconstruction of the country's road network. ●



Russia infrastrcuture news

Government to spend RUB14bn on shipbuilding in 2010

bne

Russian Prime Minister Vladimir Putin has said that the Russian government is to spend RUB14.3bn on shipbuilding in 2010, reports Prime-Tass.

The news agency quoted Putin as saying that in return for spending these funds, the government expects growth in output from shipbuilding companies.

Pulkovo Airport plans mixed mode use of runways to up capacity

bne

St. Petersburg's Pulkovo Airport plans to start using its two runways in mixed mode, which could potentially increase its annual capacity to 60 million passengers, reports Prime-Tass.

Citing a statement issued by the press office of Northern Capital Gateway, the airport's management company, the news agency says that the runways are currently being tested in both mixed and independent mode, and the switch to mixed mode is planned after the completion of testing.

Regional airports to steal Moscow's hub role?

bne

Regional airports could be set to see increased transit traffic at the cost of the airports in the capital, reports Prime Tass.

The Russian Transportation Ministry is seeking to reduce transit passenger traffic via Moscow's airports by using the larger regional airports as hubs, the ministry said on Monday following a meeting held by Transportation Minister Igor Levitin.

At the meeting, Levitin expressed concern over the planned reconstruction of runways at Moscow's Domodedovo and Vnukovo airports in 2011, which is expected to reduce throughput capacity. The minister asked the Federal Air Transport Agency and the Federal Tourism Agency to consider the proposal.

Russia infrastructure finance & statistics

Mostootryad 19 releases 1H10 RAS figures

Renaissance Capital

Event: Yesterday (11 Aug), Mostootryad 19 (MSOT), the St Petersburg-based infrastructure construction company, published 1H10 results under Russian Accounting Standards (RAS). The company's revenues increased 206% to RUB2,822mn (\$94mn) in 1H10, from RUB923mn (\$28mn) in 1H09, due to a higher volume of construction work. The cost of sales rose 218% YoY to RUB2,802bn (\$93mn) in 1H10. MSOT's gross profit decreased 51% YoY to RUB20mn in 1H10, while operating income was RUB20mn in 1H10, vs RUB2mn in 1H09. The company's total debt was RUB1,450mn (\$47mn) at the end of June 2010.

Action: The results are positive for the company in terms of revenue, in our view.

Rationale: In May and Feb 2010, MSOT won two tenders for construction of the Western Highway Diameter in St Petersburg, worth more than RUB18bn. These orders have substantially improved the order book and positively affected the revenue results in 1H10. MSOT is continuing to work on projects in St Petersburg, Moscow and Tver. In the future, the company intends to increase its order book by pursuing additional orders for constructing a ring road in St Petersburg.

Russian Railways spends RUB111bn on development in January-June

bne

Russian Railways invested RUB111.2bn in development in January-June, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that the company financed rail projects in the Leningrad, Volgograd, Rostov, Krasnodar, and Zabaikalsky regions, as well as purchasing locomotives and rolling stock.

Russia roads

Antitrust Service says road to Sheremetyevo narrowed legally

RIA Novosti

The Federal Antitrust Service (FAS) found no violations in the traffic restrictions imposed by the Moscow government on the main road to Moscow's largest international airport in June, the service reported Monday.

The Leningradskoye Highway was narrowed to one lane in each direction after repairs to a bridge began on June 26. It led to severe road congestion in the area, causing pilots and passengers to miss their flights after spending six hours in traffic jams trying to reach the airport.

The situation improved on July 2, when two additional lanes were opened following an order by Prime Minister Vladimir Putin.

"The FAS concluded that the restriction of traffic on the 24 km Leningradskoye Highway... due to repairs, does not counter the norms of antitrust legislation," the service said.

In late June, Sheremetyevo head Mikhail Vasilenko filed a complaint to the FAS accusing the Moscow authorities of deliberately jeopardizing trips by passengers who had chosen his airport over the newly remodeled Vnukovo terminals, which were set to open on July 3. Vnukovo belongs to the Moscow government, while Sheremetyevo is owned by the federal authorities.

"However, the FAS notes that the system of informing citizens of the planned repairs was insufficient. Due to the lack of due notification, thousands of Muscovites spent several hours in traffic jams and many missed their flights," the service said.

Russia trains

Railroad giant asks ministry to settle cargo unloading at ports

bne

State-owned railroad monopoly Russian Railways has asked the Transportation Ministry to take measures to solve the problem of poor unloading of freight rail cars at Russian ports, reports Prime-Tass.

Citing a statement issued by the company, the news agency says that Russian Railways complained ports are failing to cope with unloading cargo. None of the Russian ports has fulfilled unloading norms during the first seven months of this year.

Railways Cargo Turnover: Slowed in Extreme Heat

VTB Capital

Russia's hottest July on record melted Russian Railways' cargo turnover growth to 5% YoY (4% MoM), from 7% YoY in June, and the YTD rise in cargo turnover slowed to 12%, from 14% in 5mo10. The transportation sector, and the Russian economy as a whole, continues to follow the recovery track, but at a slower speed. We see two main reasons for the slowdown: i) the receding low base effect (railway cargo turnover started its gradual recovery from April 2009) and ii) the heat wave negatively affecting industrial activity and the transportation of several cargoes (volumes only saw a moderate seasonal rebound).

Summer electricity consumption is seasonally lower than during the winter, so utilities companies try to minimise the load of expensive coal generation: as a result, volumes transported

were up just 3% MoM (-1% YoY), despite the heat wave. The metallurgical industry has also postponed its restocking after the June drop in demand on expectations of a further price correction and in anticipation of a weak August due to the holiday season. So, despite the 9% MoM (7% YoY) improvement in ferrous metals volumes, coke and ores rose just several bp MoM staying flat YoY, with scrap dropping for the second month in row (down 5% MoM and 13% YoY). The 4% MoM (9% YoY) rebound in oil & oil products transportation was driven by the demand for fuel increasing as farmers needed to gather those crops that have survived (the drought has affected 27 Russian regions).

Only consumer-related cargoes showed stable positive dynamics. Container traffic continued its stable growth, up 7% MoM (20% YoY), supported by strong customer demand for imports (primarily coolers and air conditioning). The construction sector's belated recovery led to increases of 3% MoM (9% YoY) and 6% MoM (17% YoY) in the volumes of cement and building materials transported (a key return cargo). In 7mo10, the transportation of major return cargoes for universal railcar operators was 13.3mn tonnes higher than in 7mo09, which is double the increase in metals. This is likely to boost the major profitability driver of railway operators: the empty runs ratio.

Russian Railways raises growth forecast for cargo loading in 2010

Renaissance Capital, Russia

Event: According to a report by Interfax yesterday (2 Aug), Russian Railways has increased its forecast of cargo loading growth for 2010 to 7.4% YoY, from about 4% YoY. In 2009, cargo loading was down 15% YoY to 1.2bn tonne-km. In 1H10, cargo loading was up 11.3% YoY.

Action: Positive for Globaltrans's stock, in our view.

Rationale: Globaltrans outperformed the railway market in 2009 on the back of its favourable fleet composition, superior management execution and good customer relations, in our view. Globaltrans operates a fleet consisting of two types of railway cars - oiltanks and open gondolas - of which the former has shown stable volumes over the years and latter is a universal railway car. As such, Globaltrans is showing a recovery slightly behind that of the industry as a whole, which has many types of cars - including cement hoppers and container platforms - for which demand in 2009 dropped substantially, but is growing most rapidly in 2010. Given the increased industry growth forecast, we think Globaltrans's plan to purchase an additional 3,000 gondola cars will very likely materialise.

Ivan Kim

Russian Railways' cargo turnover increased 5% YoY in July

VTB Capital

News: Yesterday, Russian Railways reported the highlights of its July operating statistics. Cargo turnover for the month was up 5% YoY, to 169 bn tonne-km.

Our View: The numbers confirm that the transportation sector (and the Russian economy overall) continues to follow the recovery track, although at a slower rate. However, this does not come as a surprise. In our view, the key reason behind the decrease in the growth rates is the deteriorating low base effect (railway cargo turnover started its gradual recovery from April 2009), while the extremely hot weather also played an important role. The latter resulted in a weaker than usual seasonal rebound in volumes (they were up 2.3% MoM vs. the 4% MoM historical average) primarily due to coal consumption dropping 3% MoM (-1% YoY) and demand from industrial companies weakening as they suspended production over the holiday period.

We note that volumes were supported by the expansion of cargoes related to private consumption: containers (primarily imported goods) were up 7% MoM and 20% YoY, while building materials (+6% MoM and 17% YoY) and cement (+3% MoM and 9% YoY) showed a solid improvement for the third month in a row (reflecting the belated recovery of the construction sector).

Elena Sakhnova, CFA

Russia planes

Aeroflot – Benefiting from the Cancellation of Duties

VTB Capital

Yesterday was an important milestone for the Russian aviation industry. After nearly two decades of airlines pleading for the 20% import duty on new foreign-made aircraft to be cancelled, the government has finally done so. As of 19 August 2010, there will be no import duty on aircraft with 112-159 seats (B737, A320) and 220-299 seats (B-757), in addition to those categories which are already exempt from tax (less than 50 seats (ERJ-140, CRJ-200) and more than 300 (B747, B777, A330)). The final push came from Belarus and Kazakhstan: with no aircraft industry of their own, they insisted on this measure when the Customs Union was established.

The planes which will no longer be subject to duties are among the most popular and represent some 60% of all the foreign-made aircraft belonging to Russian airlines. The decision will not only financially help low margin airlines, but will also spur fleet renovation (and an improvement in safety) and trigger further industry consolidation (small airlines will still not be able to upgrade their fleets).

Does this mean that the Russian aircraft industry has been allowed to die? No. As can be seen in Figure 1, recently created Russian aircraft (or those still under development) are protected: the 50-111 seat SSJ- 100 and An-148, as well as the 160-219 seat MC-21. Moreover, the new regime is only in place for planes contracted before 2014 i.e. if by then the Russian aircraft industry is able to offer new developments in other seat segments, those will be returned to the heavy duty regime.

Aeroflot will be the major beneficiary of the decision. It focuses on medium-haul destinations (75% of traffic in 2009), which are serviced by the A-320 family of planes. The already large fleet of 63 A-320 series (half of the group's total fleet), will be expanded by another 30- 35 aircraft in the next five years, allowing a saving of USD 450-500mn. We continue to rate Aeroflot, which is also enjoying a 30+% traffic increase this year, a Buy with 31% upside potential to our 12-month Target Price of USD 2.80.

Russia must improve aircraft efficiency in poor weather conditions – Transport Ministry

RIA Novosti

Russia must improve navigation equipment and pilot training

to allow its airports to work more efficiently in poor weather conditions, transport Minister Igor Levitin said on Monday.

He said the recent disruption in air traffic at Moscow's airports due to smoke from severe peat and wild fires across Central Russia were caused by the absence of the necessary navigation systems.

"All aircraft should have navigation equipment, allowing them to fly in poor weather conditions," Levitin said.

An increase in smog on August 6 caused many Moscow-borne flights to be redirected to other Russian cities, such as St. Petersburg, Kazan and Nizhny Novgorod.

Delays at Moscow's airports peaked on Saturday and early Sunday. The situation was brought under control by Sunday evening when 104,044 passengers left the city, the highest number ever to leave the capital on a single day all year.

Russian Federal Air Transport Agency Rosaviatsia said there were 879 arrivals and 845 departures to and from Moscow's airports on Sunday.

Earlier this year, the vast majority of Russian and European companies suspended flights for several weeks due to the eruption of Iceland's Eyjafjallajökull volcano. Airlines are estimated to have lost \$1.7 billion over the disruption to air traffic, according to a report by the International Air Transport Association (IATA).

Russian commission allows Fraport to manage Pulkovo Airport

bne

Igor Artemyev, head of the Federal Antimonopoly Service (FAS), says that the Russian government's commission for foreign investments has allowed Germany's Fraport to participate in managing St. Petersburg's Pulkovo Airport, reports Prime-Tass.

The news agency quoted Artemyev as saying that under the deal, Fraport is expected to be a co-investor in the airport and one of the companies managing the airport.

Smog leads to record number of airline departures from Moscow in one day

RIA Novosti

A record number of passengers since the beginning of 2010 departed Moscow on August 8 amid heavy smog in the city, a spokesman for the Russian Federal Air Transport Agency, Rosaviatsia, said on Monday.

Moscow's airports faced their first problems on August 4, when several planes had to land in alternative airports amid fires and smog across Central Russia.

On Sunday, 104,044 passengers left Moscow's three major international airports for other cities within Russia and abroad after a backlog of flights from delays over the weekend.

The peak in the delay of air flights came on Saturday and the beginning of Sunday. However, the situation slightly normalized by Sunday evening. According to the Rosaviatsia spokesman, 879 planes came to Moscow on Sunday, and 845 planes left the city.

The smog severely enveloped the Russian capital on August 6, when many flights were redirected to the cities of Kazan, Nizhny Novgorod, St. Petersburg and others.

Peat bog and forest fires raging outside the capital pushed pollution levels to new 2010 highs on Saturday, with carbon monoxide 6.5 times the maximum allowable concentration.

Despite the fact that fires and acrid smog across Russia have left passengers stranded in airports for many hours, airlines said they will not suffer heavy losses, the Vedomosti daily said on Monday.

There have been no cancellations of flights in Russia yet, that's why companies will not have to pay indemnities to passengers, Yelena Sakhanova from the VTB Capital financial group told the paper.

All of Moscow's airports are equipped to accommodate airplanes even in zero visibility, head of Rosaviatsia Sergei Izvolsky said. However, only the most experienced pilots can land in such conditions, he added.

Most of the spokesmen for airliners operating in Russia told the paper that their companies are operating normally.

Earlier this year, the vast majority of Russian and European companies suspended flights for several weeks due to the eruption of Iceland's Eyjafjallajökull volcano. Airlines are estimated to have lost \$1.7 billion over the disruption to air traffic, according to a report by the International Air Transport Association (IATA).

Russia ships

Novorossiysk sea port may lose \$40 mln over grain export ban

RIA Novosti

London-listed Novorossiysk commercial sea port on the Black Sea may lose up to \$40 million over a ban on grain exports imposed by the Russian government from August 15 to December 31 in response to the country's worst drought in decades, business paper Kommersant reported on Wednesday.

Analysts polled by Kommersant said grain shipments from Kazakhstan could cushion the blow but these deliveries would not be sufficient for Russian grain-handling sea ports to compensate for their potential losses from the ban, the paper said.

VTB Capital analyst Yelena Sakhanova told the newspaper that the Novorossiysk sea port's losses could hit about \$40 million in revenue and about \$30 million in EBITDA. After the ban is lifted in early 2011, however, grain exports will rise sharply and allow the company to make up for its losses, similar to the situation in 2008 when the government imposed and later scrapped a grain export duty, she said.

Morgan Stanley analysts, who published a forecast on how Russia's grain export ban will affect the port's business, believe that the company's 2010 revenues from grain shipments will remain unchanged from the 2009 levels, if the sea port operates at full capacity, the paper said.

Seeking to compensate for potential losses from the grain export ban, Russian exporters have been striving to expedite the shipment of grain since the beginning of August. Russia's railway

monopoly Russian Railways, however, imposed restrictions on the Novorossiysk sea port on August 6, a day before the grain export ban was officially imposed, the paper said.

Russian Railways also lodged a complaint against the Novorossiysk sea port to the Russian Grain Union, asking its head Arkady Zlochevsky to take measures to unload export grain rail cars heading for the port, the paper said.

Zlochevsky confirmed to the newspaper on Tuesday that there were about 1,900 unloaded rail cars with grain in Novorossiysk and 750 in the port of Tuapse. Overall, 360,000 tons of grain were stuck at railway stations near ports due to the grain ban, the paper said.

Analysts told the paper that other Russian sea ports handling grain shipments, including the ports in Rostov-on-Don, Tuapse and Yeisk, might also sustain losses.

Infranews agency analyst Alexei Bezborodov told the paper that Rusagrotrans, a subsidiary of Russian Railways specializing in grain shipments by rail, might also sustain losses but the company said the losses would be insignificant as 90% of the company's rolling stock was engaged in freight operations inside the country.

Russia can afford export of only 2-4.5 mln tons of grain this year says ministry

RIA Novosti

Russia can afford to export no more than 4.5 million tons of grain this agricultural year due to the severe drought that has hit the country, the Agriculture Ministry said on Thursday.

If the grain harvest reaches 65 million tons, exports could amount to no more than 4.5 million. But if the harvest amounts to only 60 million tons, this would mean exports are limited to just two million tons of grain, the ministry said. The Russian government must protect local grain producers and exporters, who may face legal action over broken contracts due to the grain export ban, President Dmitry Medvedev said on Thursday.

"We have put our producers and those engaged in exports into a difficult situation and we did this deliberately," Medvedev said. "But if we did it, we must stand behind them to protect them, create the necessary legal evidence to show that it was a force majeure... and that they were unable to supply their customers." The government imposed a ban on the export of grain from August 15 to December 31, after abnormally hot and dry weather destroyed the grain harvest on almost 11 million hectares.

CIS infrastructure

Cabinet to mull providing state guarantees on credit for construction of railway to Boryspil Airport

bne

The Cabinet of Ministers of Ukraine has instructed the Economy Ministry, the Finance Ministry and the Transport and Communications Ministry to consider the possibility of providing Boryspil International Airport with state guarantees on credits for the construction of a railway line between Kyiv and the capital's international airport, reports Interfax.

The news agency says that according to cabinet resolution No. 1567-r of July 28 Kyiv Regional State Administration, the transport ministry, the land resources committee and Boryspil International Airport are obliged to resolve issues linked to land allocation for the railway line's construction.

Chinese company could build railway from Kyiv to Boryspil Airport

bne

Ukrainian First Deputy Prime Minister Andriy Kliuyev, says that China wants to participate in the construction of a railway line from the Darnytsia railway station in Kyiv to Boryspil Airport, reports Interfax.

The news agency quoted Kliuyev as saying that under a government decision, the designing of the railway line has started... During [Ukrainian President] Viktor Yanukovich's visit to China, we'll sign either a contract or a memorandum on the financing and construction of the railway.

City of Kyiv to buy 50 subway cars

Concorde Capital

The city of Kyiv plans to buy 50 subway cars, Interfax reported yesterday, citing a press release from the Kyiv City Administration. The cars will be purchased from both Ukrainian and Russian manufacturers.

Yegor Samusenko: Kryukiv Wagon (UX: KVBZ UK), the only producer of subway cars in Ukraine, started production only year ago, thus it is logical that the city will not give the entire order to the Ukrainian manufacturer. We assume the order will be distributed 50/50 between Kryukiv and Russian producers, implying ~USD 25 mln to Kryukiv Wagon in revenue over 2010-11. Though we see this segment as capable of taking up to 20% of Kryukiv Wagon's capacity in the long-term, this order is only about 5% of 2010E sales. We see the news as neutral for the stock

Domestic grain traders ask Ukraine to ban exports

Concorde Capital

Domestic grain traders requested the government ban grain exports from Ukraine, which would allow them to breach contractual agreements based on force majeure and avoid paying

damage claims due to late shipments, Kommersant reported this morning, citing the Ukrainian Grain Association. According to market participants, six ships loaded with grain, chartered by Alfred C. Toepfer, Serna and publicly traded Kernel (WSE: KER PW) are being held in Ukrainian ports.

Ruslan Patlavskyy: In our view, it is unlikely Ukraine will officially restrict grain exports in any way due to its WTO liabilities, while the forecasted grain harvest should fully support domestic consumption and allow for 15-16 mln mt of grain exports this season (including last year's stocks). This said, given the 22-30% rise in the wheat price over the last month in Ukraine to USD 180/mt for grade 2 wheat and to USD 165/mt for grade 5 wheat (both EXW), we do not rule out that traders will be unable to fulfill their June contracts, which were concluded at prices below prices below the current market.

EBRD mulls EUR 450mn loan for Ukraine road projects

BG Capital

The EBRD is considering a EUR 450mn sovereign loan to Ukraine's state road service Ukravtodor to co-finance a EUR 1,150mn project that includes the rehabilitation and upgrading of international roads and key national highways approaching the capital Kyiv, and for road maintenance contracts for the M-06 highway. The loan project passed its last review and is awaiting final approval, with a board meeting scheduled for September 28.

Kiev Euro 2012 preparations progressing

bne

Kiev is hoping to impress UEFA officials who arrived to inspect preparations for the Euro 2012 football championships, reports Interfax.

Officials from European football's governing body arrived in Ukraine on Wednesday for a two-day visit to inspect facilities in Lviv, Donetsk, Kharkiv and Kiev. The authority has regularly voiced concern over the speed of Ukraine's preparations for the tournament, which it will co-host with Poland, even going as far as to suggest that the country could lose the right to host the championships should the situation not improve. The new government has faced an uphill battle in implementing the huge infrastructure requirements in the midst of tricky negotiations with the IMF concerning loans to shore up the budget.

Acting Head of Kyiv City State Administration Oleksandr Popov on a pre-inspection of Kiev's preparations claimed: "We can state with certainty that the city is preparing for Euro 2012 speedily and at a very high level. And this is an objective analysis of the situation, although there is still much work to do." During the trip, Popov examined the infrastructure of the Opera and Intercontinental hotels, inspected the construction and the state of readiness of the Fairmont and Staro hotels, and was shown the plans for UEFA's official fan zone.

"Today we were examining hotel facilities, from the point of view of the possible assistance Kyiv's authorities may provide in terms of the organization or improvement of adjacent land" I can say that their level is very high, that the tourists who come to Kyiv will be satisfied with the quality of their services," he said.

"On Thursday we will show our plan of preparations for the Euro 2012 to the UEFA inspectors and present the entire set of issues to be resolved before the tournament. I am confident that Kyiv will be presented at the proper level and we'll get a relevant assessment from the UEFA inspectors."

Luhanskteplovoy increases 7M10 output by 33% y-o-y

Dragon Capital

Luhanskteplovoy, the monopoly producer of main-line locomotives in the CIS, reported an increase in 7M10 output of 33% y-o-y, to \$49m, producing 30 diesel locomotive sections during this period. (Interfax) After it remained almost idle for most of 1H10, now the company expectedly continues to accelerate output growth rates following its recent privatization in mid-June. As a result, July's output of \$13m accounted for 27% of total 7M10 production. We therefore expect Luhanskteplovoy to report much stronger results in 2H10 and maintain our full-year net revenue estimate of \$130m (+100% y-o-y but just slightly more than half of its 2008 revenues). We keep our Buy recommendation on the stock.

Taisiya Shepetko

Stakhanov Train Car Building Plant increases output 9.5 times in 1H2010

Sokrat

During January-June 2010, the Stakhanov Train Car Building Plant [SVGZ UZ] increased its output 9.5 times YoY to 3.6 thsd train cars. Company sales reached USD 162 mln, increasing 11.5 times YoY. Gondola cars remain the company's best seller with a production share of 92% of the total units. Hopper cars make up the remaining 8%.

Ukrainian ports closed for grain export traders?

Concorde Capital

Despite the absence of an official ban on grain exports from Ukraine, three large unnamed traders claim that the State Customs Service blocked their vessels from leaving port on Friday, which has already caused nearly USD 1 mln in losses since late last month, Kommersant reported this morning. The State Customs Service denied the reports.

Ruslan Patlavskyy: The said actions are preventing domestic grain traders from fulfilling contractual obligations, and in particular publicly-listed Kernel (WSE: KER PW), responsible for nearly 10% of the annual domestic grain exports.† Given the absence of an official export ban and the forecasted grain harvest, which is sufficient to cover domestic consumption, we see this dispute as temporary, though it is likely to have a material effect on Kernel's financials in fiscal 1Q11.

Eurasia infrastructure

Azerbaijan: Turkey begins research for construction of Kars-Nakhchivan railway

APA-Economics

Kars-Nakhchivan railway construction research began in the territory of Turkey, said Turkish minister of transport Binali Yildirim, APA-Economics reports.

Yildirim said the project would be discussed with Azerbaijan after finishing the research work and relevant decision about the railway construction would be made.

This project is important for Azerbaijan. We are looking forward to begin work on this project following the Baku-Tbilisi-Kars railway.

Baku-Tbilisi-Kars railway construction is expected to be finished by the end of 2011 and to put into exploration at least in mid-2012.

Construction of Western Europe-Western China highway begins in Zhambyl oblast

bne

Kazakhdorstroy has started construction of the Kazakh section of the Western Europe-Western China highway in the southern Zhambyl oblast.

Concrete road will be laid down on the sections of the highway expected to be used most intensely, KazTag reports.

These include a 60 kilometre bypass around the city of Taras, and the 76 kilometres running from Kaynar to the border town of Kordai as well as from Kordai to the Kyrgyz border.

8,058 people have been employed to carry out construction work, including 4,460 local residents, according to the Ministry of Transport and Communications.

Infrastructure construction for Atyrau tech park to start in 2012

bne

Construction of infrastructure for the planned petrochemical technology park in Kazakhstan's Atyrau region is due to start in 2012, according to an Oil and Gas Ministry official.

"If the feasibility study is devised at the end of the year, then we will work on the project and budget documentation next year so that we can start the construction of the technology park's infrastructure facilities in 2012," Interfax Kazakhstan quotes the head of the Ministry's investment projects department, Aliya Kunakova, as saying.

Construction of the park is due to cost a total of 10 billion tenge.

Japan to lend \$70m for Zhambyl section of Europe-China highway

bne

Japan has agreed to allocate \$70m for construction of a transport corridor through Kazakhstan's Zhambyl oblast that forms part of the Western Europe-Western China highway.

An intergovernmental agreement was signed between Kazakhstan's Deputy Foreign Minister Nurlan Ermekbayev and Japan's ambassador to Kazakhstan Shigeo Natsui, KazTAG reports.

The loan will have a 25 year repayment term with a 7 year privilege period.

Meeting of Trilateral Coordination Council on Baku-Tbilisi-Kars railway project takes place in Azerbaijan's capital

APA-Economics

The second meeting of the Trilateral Coordination Council on Baku-Tbilisi-Kars railway project has started in Baku today, APA-Economics reports.

Turkish Minister of Transport Binali Yildirim said the first meeting of the council was held in Bodrum, Turkey.

According to Binali Yildirim, in the initial stage it is planned to carry 1 million passengers, 6 million cargo by Baku-Tbilisi-Kars railway within a year. Turkish Minister said the work on the Turkish and Georgian parts of the road continue in accordance with the plan.

Azerbaijan's Minister of Transport Ziya Mammadov and Georgian Minister of Regional Development and Infrastructure of Ramaz Nikolaishvili gave information about the activities carried out basing on the project.

The construction on Kars-Akhalkalaki, projection of tunnel and construction on Turkey-Georgia border, usage of SNIP standards in the construction of Akhalkalaki-Turkey border (Kartsakhi) railroad will be discussed at the meeting of the Coordination Council.

The 9th meeting of the Coordination Council of Baku-Tbilisi-Kars project was held in Baku yesterday.

Socar opens new gas stations in Georgia

bne

Socar Energy Georgia has opened two new gas stations in Tbilisi and Senaki, Trend reports. The company now has a total of 45 gas stations in Georgia and plans to increase the number to 60 by the end of this year.

Tajikistan to complete power line to Afghanistan by September

bne

Tajikistan is to complete the construction of a power line from the Sangtuda-1 hydropower plant to the Afghan border by early September, Asia Plus reports, quoting a source at state energy company Barqi Tojik.

Tajikistan originally planned to complete the line by May 2010, but work was held up by delays in importing materials from Uzbekistan. It is now due to be finished by Tajikistan's independence day, September 9.

Construction of a power line and related infrastructure on the Afghan side of the border is expected to be finished by the end of this year.

The project is costing a total of \$56.5m, and is financed by the Asian Development Bank, the OPEC Fund for International Development, the Islamic Development Bank and the Afghanistan Reconstruction Trust Fund, in addition to the Tajik and Afghan governments.

Uzbekistan: New cargo terminal opens at Navoi airport

bne

The new cargo terminal being built by Uzbekistan Havo Yullari and Korean Air at Navoi airport has opened.

The terminal is part of a major investment project to create an international intermodal logistics centre at Navoi airport, Uzreport writes.

Korean Air has already started operating Boeing-747 freight flights between Incheon and Milan via Navoi.

Uzbekistan Havo Yullari has been operating flights to destinations including Delhi, Mumbai and Bangkok from Navoi.

CE infrastructure

EBRD finances first road concession in Slovak Republic

bne

The EBRD is bringing private finance to the modernisation of the transport system in the Slovak Republic with a loan for the construction of the R1 motorway, part of the east-west national corridor.

R1 is an important transport link in the south-west of the Slovak Republic and the first project in the country to be implemented under a Public Private Partnership (PPP) scheme.

The project launches the Slovak government's PPP programme to upgrade the road network in Slovakia in order to stimulate the economy and improve regional links.

The EBRD is providing a €200 million loan to Granvia, a special purpose vehicle created to finance the construction of the R1 motorway, and owned by Vinci Concessions and Meridiam Infrastructure Fund.

Following its successful participation in the tendering process, the Slovak Ministry of Transport, Post and Telecommunications has awarded Granvia a 30-year concession to build, finance, operate and maintain four sections of R1.

The project includes construction of a total of 52 km of highway, including the sections between Nitra and Selenec, Selenec-Beladice, Beladice-Tekovske Nemce, as well as the Banska Bystrica northern bypass.

The total cost of the project is approximately €1.3 billion. The EBRD loan will cover 20 per cent of the total debt required. The rest of the debt funding will be co-financed by a group of commercial banks, which will provide €780 million.

"This project is an important step for modernisation of the Slovak transport infrastructure with the participation of the private sector. The successful closing of the transaction in the current economic downturn and liquidity crisis provides a strong market signal that well structured PPP projects remain a viable alternative for developing public infrastructure even under adverse market conditions", said EBRD First-Vice President Varel Freeman.

"We consider the financial closing of the R1 to be a success for the Slovak Republic, as well as for all partners who took part in this transaction. Despite the current adverse conditions on the international financial markets, we have achieved a common objective that will set an example for other PPP projects in Slovakia," said Slovak Transport Minister Ľubomír Vážny.

The EBRD is a key investor in infrastructure projects from central Europe to central Asia. To date the Bank has invested over €6.5 billion in around 170 transport infrastructure projects.

Lithuania is planning to build its own LNG terminal

OSW

The Lithuanian government on 21 July decided to build an LNG terminal, which will probably be located near Klaipeda. This project is an element of the Lithuanian government's strategy for developing the national gas sector so as to lessen Lithuania's dependence on Russian gas supplies (which is currently 100%) and to put an end to Gazprom's price dictate (Lithuania is buying gas at a price significantly higher than West European countries).

According to initial estimates, the terminal's annual regasification capacity will be up to 3Gm3/year, which is equal to Lithuania's annual demand for gas. The entities in charge of building the terminal will be the state-controlled company Klaipedos nafta (which manages the oil terminal in Klaipeda) and the Energy Ministry. The plans also include building a Klaipeda-Jurbarkas gas interconnector, which will close the ring of gas pipelines in Lithuania, and launching a gas exchange in Lithuania (operating on a similar basis to the currently existing electric power exchange).

For the terminal to become a true alternative gas supply route, the Lithuanian authorities must regain control over the network of gas mains owned by the company Lietuvos dujos, one of whose key shareholders is Gazprom (holding a 37.1% stake, another significant shareholder is E.ON Ruhrgas, with a 38.9% stake, while the Lithuanian state holds a 17.7% stake in the company). Gazprom is not interested in investments aimed at ending its domination on the Lithuanian gas market. However, the procedure for the implementation of the EU Third Energy Package offers an opportunity for the Lithuanian government to regain such control. The package provides for a separation of ownership in gas sector companies through a division of their functions, namely gas transmission and distribution. Lietuvos dujos performs both functions in Lithuania. Despite protests from Gazprom and E.ON Ruhrgas, the Lithuanian state is planning to split Lietuvos dujos into two companies and to take over a majority stake in the company which will control the transmission network. All major investments in the gas sector, which could have been blocked by Gazprom so far, will depend on the success of this operation.

Skanska will build section of Slovakia's R4 Kosice-Milhost for EUR78mn

bne

In two and a half years, the company Skanska SK, a.s. Bratislava will build the over 14 kilometers section of dual carriageway R4 Kosice - Milhost to the border with Hungary, SITA reported.

Construction works should cost EUR77.6mn excluding VAT, according to the contract price, and will be co-financed through European funds. Representatives of the highway network operator Narodna Dialnicna Spolocnost, a.s. (NDS) and Skanska signed the contract in the presence of Transport Minister Jan Figel at the Ministry of Transport on Thursday.

Construction works on the dual carriageway could begin by the end of August, approximately two weeks after receipt of the site, according to the General Director of Skanska SK Tibor Kocvara. On the schedule for the beginning of the construction, Kocvara told SITA,

"I see it very realistic." The motorists could start using the dual carriageway around the end of 2012. For the offered price, NDS expects quality and the observance of schedules, the vice-chairman of the Board of Directors and the operating director Ludovit Machacek said at the subsequent press conference.

On the section R4 under the town of Kosice, there will be 14 bridges, and the noise walls will reach a length of 1,974 meters. Transport Minister Jan Figel expressed his belief that the R4 construction will help the development and improvement of the road connection in eastern Slovakia.

"The fairest and cheapest offer won, this has not always been the rule," Figel said. He considers it important that Slovakia's neighbors in Hungary build a subsequent dual carriageway, which would allow the connection of our R4 with Miskolc. The head of Skanska also considers the construction of the R4 necessary for the region in the area of the town Kosice. "First, we will use our own capacity, but also local companies and craftsmen," Kocvara said.

With the construction of the road, a considerable amount of work is related. Skanska intends to use about 200 of its own workers at the beginning of the construction and 300 at the end. Skanska employs about 900 workers in Slovakia, but hundreds more should find job in subsequent activities.

„According to the contract, we have to begin the real work on the construction within 14 days from receipt of the site. Now it is up to the NDS when it will challenge us to take over the site. We would prefer if it was sooner than later because the nervousness on the construction market is quite large," Kocvara told SITA.

The labor is spent, the capacity is accumulated, and they can be used immediately, Kocvara continued. Moreover, since the opening of the tender, five and a half months have passed. In the first half of July, the NDS adopted the lowest offer from Skanska in the tender for the construction of section R4 Kosice - Milhost.

This happened after the Public Procurement Office ordered the NDS to return the excluded second cheapest group of companies Strabag, s.r.o. Bratislava and Vahostav - SK, a.s. Zilina to the competition, at the end of June. The offers had to be re-evaluated. The estimated value of construction works of the section R4 in tender represented EUR 116.82 million excluding VAT.

The cost for the construction of the dual carriageway represents EUR 129.79 million excluding VAT from the price level of 2009, according to the national expertise. The NDS originally planned to begin the construction of R4 in February of this year and be completed in February 2013, but the beginning of construction was postponed to June of this year with a completion day of June 2013.

Skanska SK a.s. has operated under this name since April 1 of this year after a merger of six companies. Registered in the Business Register since August 3, 1994, its predecessor company names were Skanska BS a.s., Prievizda, from January 2005 to the end of March this year, and Banske stavby a.s. Prievizda from August 1994 to January 2005. Skanska Sk has share capital of EUR 1.66 million and arches over eight plants.

SE infrastructure

A rail block in the Balkans

bne

When the construction of a railroad connecting the capitals of Macedonia and Bulgaria began almost 15 years ago, no one expected that a century-old idea would take more than a couple of years to be realized. Nine years after the project was suspended due to a lack of finance, no one today believes Skopje when it promises that it will be finished sometime soon.

"I hope that in 2011 we can secure the necessary finance," was the latest pronouncement from the Macedonian transport

minister, Mile Janakieski, in early August following a meeting with his Bulgarian counterpart, Aleksandar Tsvetkov, in Sofia. Janakieski said he expects construction of the unfinished railroad to Bulgaria to start at the end of 2011 or the beginning of 2012.

In practice, though, it's this kind of empty promise as well as bouts of political point scoring that have been the only two things added to the project over the past decade since it stalled in 2001. That construction was initiated by the current largest opposition party, SDSM, when it was in power in the period 1994-1998 has been used by the ruling VMRO-DPMNE as an excuse to prolong the project. The head of SDSM, Branko Cervenkovski, who was prime minister at that time, is often blamed by VMRO-DPMNE for the failed attempt to build the railroad and his administration's

lack of proper plans on how to carry the project through which have cost the country both time and money.

Half-baked

The problem remains firmly on the Macedonian side of the border. Bulgaria has only 2.5 kilometres to build to the Macedonian border, but only one-third of Macedonia's 89-km section has been built at a cost of more than €100m. Worse, it's unclear if and how much of those constructed segments can still be used. For that purpose, Janakieski has announced that a new feasibility study will be done in September, which should cost around €500,000.

Most depressing is that this has actually been designated a high-priority project for Macedonia. The planned railway running between Skopje to Sofia is part of Corridor VIII, one of the 10 Pan-European transport corridors identified by the EU as crucial transcontinental links needing substantial investment to enhance Europe's transportation infrastructure.

Macedonia's National Programme for Railroad Infrastructure (2008-2012) lists two basic priorities to improve the condition of the rail system: investments in improving the existing infrastructure that will enable trains to move at speeds in excess of 120 km/hour and building the railroad infrastructure that's part of Corridor VIII - an east-west route across the Balkans from Constanta on Romania's Black Sea coast to Durres on the Adriatic in Albania.

Figures in this National Programme show what a tall order this will be. The last major investments in Macedonia's railroad infrastructure were done almost 40 years ago. In fact, the majority of the existing infrastructure was constructed between the late 19th century and first half of the 20th century. For example, the sections from the border with Serbia to the Greek border, which are now part of Corridor X, were built between 1873 and 1888.

Three countries of the former Yugoslavia - Croatia, Serbia and Slovenia - recently signed a declaration to form a joint railway company, whose main goal will be to secure faster movement of people and goods through Corridor X. Given Macedonia's decrepit infrastructure and the fact there's been no serious investment in the past 20 years, those trains will face a major "rail block" when they enter Macedonia.

Bulgarian PM promises extension to Struma Highway

bne

Bulgarian PM Boyko Borisov believes that extending the planned Struma Highway is crucial for both Bulgaria and Greece as it will link Sofia with the Mediterranean coast.

"Infrastructure, highways, railways mean viability for every nation. It is strategically expedient for Bulgaria to have access to the Aegean with the Struma Highway. I wonder why this highway

hasn't been planned so far," Borisov told a Bulgarian National Television Friday morning.

Borisov claimed he would have "flooded the country with asphalt" if had been PM a few years ago when Bulgaria had budget surpluses.

EBRD proves a port in a storm for Croatia

bne

The European Bank for Reconstruction and Development (EBRD) is proving an important partner for Croatia in the Balkan country's drive to improve its tourist infrastructure and boost its flagging economic fortunes.

In its latest such transaction, the EBRD has coughed up €8m to finance the reconstruction of a new quay at the port of Dubrovnik, arguably Croatia's top tourist attraction and a major cruise destination, accounting for roughly 7% of the country's tourist traffic. The proceeds of the loan will be used to extend the berth area of Dubrovnik port, which will result in increased space for cruise ship docking and additional land area for dockside development. The project will provide much needed physical space for future construction of passenger terminal facilities, which will be funded under a public-private partnership agreement.

The latest loan complements an earlier €26.5m credit facility from the EBRD that was granted in 2005 to finance the expansion of the port's wharf to enable it to increase capacity and accommodate larger ships. "The modernisation of Dubrovnik port is an important project for the Croatian tourism industry. This project will improve the port's capacity and will enable the city of Dubrovnik to build on the commercial benefits resulting from increasing cruise volumes," says Sue Barrett, director for transport at the EBRD.

The EBRD loan is the second for a Croatian port in as many months, with the London-based supranational having earlier provided a €12m loan to finance the expansion of the port at Sibenik, located 80 kilometres north of Croatia's second city of Split on the Dalmatian coast. The expansion project will increase the port's capacity, helping to ease the congestion that plagues the port during the summer months as a result of increased traffic and also allowing for the entry of larger-sized cruise ships into the port area. "The improved infrastructure will help raise the visibility of Sibenik, its surroundings and nearby islands as holiday destinations," says Thomas Maier, managing director for infrastructure at the EBRD.

Mario Babic, state secretary in the Ministry of Sea, Tourism and Infrastructure, says that expanding ports like Sibenik forms part of the Croatian government's EU pre-accession maritime

strategy, under which it committed to expand its tourist sector by promoting lesser-known destinations.

Transport to the future

Since the beginning of its operations in Croatia, the EBRD has committed close to €400m for the modernisation of the country's transport infrastructure, much of its geared to helping to boost revenues from tourism, which is one of the most important sectors of the Croatian economy, accounting for 22% of the country's GDP and almost 40% of its foreign-currency earnings.

Croatia saw a sharp drop in GDP last year of 6%, with the contribution of construction and consumption, the drivers of the 4-5% growth in the pre-crisis period, both falling 20% or so. In the meantime, debt/GDP is set to pass the 100% mark this year, putting Croatia into the highly-indebted-country class, while unemployment has soared past the 300,000 mark and now affects more than 10% of the population. Foreign investment, meanwhile, dropped by 55% in 2009 to €1.8bn, from €4.1bn in 2008.

Against that backdrop, the country has struggled to attract funds outside of that from international financial institutions like the EBRD. It did, however, have reason to cheer in May when a new international terminal at Dubrovnik airport was opened, financed by a €19m loan from Austria's Erste Group Bank. Commenting on its financing of the airport terminal at Dubrovnik, Werner Weihs-Raabl, head of the infrastructure finance and public sector team at Erste says: "Tourism in Croatia accounts for roughly one-fifth of its GDP, which makes investing in it a key priority for us. Dubrovnik is especially important, as it is Croatia's holiday hot spot and particularly attractive for foreign tourists."

"As Croatia is best reached by air and tourists come from all over Europe, it is vital that the airport's size and capacity can match its international demand. By helping double the airport size, we have now achieved this," he says.

Roko Tolic, director of Dubrovnik airport, which supplied the balance of the funds for the €23.5m project, says that the new terminal is vital if Dubrovnik is to fully exploit the opportunities for increased passenger numbers that will come with Croatia's EU accession. "Although Dubrovnik airport has been praised by leading European airlines in recent years, it was evident that the high intensity of traffic in the summer months had become very difficult to serve given the airport's existing infrastructure." He adds that Dubrovnik airport is looking to further improve its infrastructure and is hoping to secure EU infrastructure funding for the next phase of construction which is forecast to cost €40m.

Meanwhile, Zagreb airport is hoping to secure funds for a new terminal by year-end. According to director Tonci Peovic, Zagreb is seeking €150m to build the first phase of new 40,000-square-metre facility by 2015. A further two-phase expansion costing €116m will then follow.

European Investment Bank approves 32 construction projects in Serbia

bne

The European Investment Bank (EIB) has approved another 32 infrastructure projects in Serbia, according to Tanjug.

Under a program called "Let's Build Together" 150 million euro invested into the local and regional infrastructure in Serbia over the next two years.

Montenegrin railroad company raises volume 43 percent in H1

bne

Montenegro's Railway transportation company Montecargo has increased the volume of transported cargo by 43 percent in H1 to a total of 569,972 tonnes, according to a government report.

The company also managed to increase its revenues by 57 percent y/y to EUR 4.4 million in Jan-Jun, according to the previously released preliminary report from the operator.

Serbia's Tadic says key projects should be completed within next 8 years

bne

Serbian President Boris Tadic said Wednesday that it is of vital importance to Serbia to complete all its key infrastructure projects within the next eight years, Tanjug reported.

During the inspection tour of works on the Interceptor - a waste water collector system that is being built on the banks of the Danube near Belgrade, Tadic said that the deadline he mentioned includes completion of works on the road and railway Corridor 10, as well as on the bridges on the Danube and Sava rivers, emphasizing that Serbia is today the first in Europe when it comes to number of bridges being built.

The Serbian president also announced that the route of Corridor 10 in the north to Hungary should be completed soon, adding that he believes that the route to Bulgaria will be completed by 2012 and the one to Macedonia by 2013. He also noted that works have begun on the highway between Belgrade and Montenegro's Adriatic Port of Bar.

„It is important that everything is completed within the next eight years,” Tadic said, stressing that these works are huge infrastructure projects that require big investments. The Serbian president, who is also chairman of the National council for infrastructure, underscored that all construction works have to be completed without exceeding the limit of public indebtedness.

Commenting on the works on the wastewater collector Interceptor, a capital project of the Belgrade Municipal Infrastructure, with emphasis on the Visnjica tunnel, its seven kilometers long section, Tadic said that the construction of this system will solve the problem of the Danube protection.

„By enabling the Danube River to serve not only as a waterway, but also as a great tourist and environmental resource, Serbia as a country that takes part in the Danube Convention in this way fulfills its obligations with regard to the European integration process,” the president said. Belgrade Mayor Dragan Djilas said that the sewage system construction will be a priority in the next two years. „When Belgrade is being developed, all of Serbia is being developed too,” Djilas said, adding that capital infrastructure projects, such as the one in Belgrade, will be realized in the whole of Serbia as well.

Day and night, a total of 220 people are working on the construction of the Interceptor (collector and separator of harmful, dangerous and unwanted ingredients), and the works have been intensified since December 2009. The overall length of the Interceptor is close to 13 kilometers. The Interceptor will solve the problem of the collection and removal of waste water of the central city sewage drain.

Serbian, Croatian, Slovenian rail JV to facilitate goods transport on Corridor 10

bne

Serbian Minister of Infrastructure Milutin Mrkonjic, Slovenian Minister of Transportation Patrick Vlacic and Croatian State Secretary of the Sea, Transport and Infrastructure Danijel Mileta signed a Declaration, envisaging the formation of a joint railway company with the aim of speeding up goods transport on Corridor 10, Newbalkan.com reported.

Following the signing Mrkonjic announced that the document will be implemented as of 1 September, noting that it implies

cooperation between the three countries in railway projects. The Minister declared that the document binds the three countries to simplify and accelerate procedures at border crossings in terms of customs, phytosanitary and veterinary control.

He also said they agreed that the joint company's main office should be located in Slovenia and a Slovenian national appointed director, since this country is an EU member. However, the company management will comprise representatives from Serbia and Croatia, as well. The three national railway companies have 5% of the total number of railway carriages on European railways, he observed, noting that around 700 trains operate on railway Corridor 10, from Ljubljana, via Zagreb, Belgrade and Dimitrovgrad, to Istanbul.

As for Corridor 4, which goes through Hungary and is much longer than Corridor 10, around 7,000 trains are used to transport goods and people there. If we manage to attract a portion of these trains to our railways, and we will succeed in that if we shorten the travel time from 60 to 35-40 hours, the three states will gain €50 million a year, Mrkonjic explained. Vlacic noted that the document is of extreme importance, adding that railway transport is a mode of transport of the future, and it implies huge business opportunities for the three countries.

Sofia airport sees 12 percent passenger increase

bne

Sofia International Airport saw a 12 percent increase in passengers in July.

327,100 people came passed through the airport last month. The number exceeds July 2008 data by ten percent.

The number of flights also increased. In July, the airport registered a total of 4353 flights, a 5 percent increase from July 2009.