

# INFRASTRUCTURE

## TRANSPORT

### CURRENT SITUATION

There are major deficiencies as well as opportunities in the transport sector in Serbia. Unsustainable tariff and financial policies and inadequate use of existing funds have resulted in a significant de-capitalization of the sector and lower the quality of infrastructure and equipment. The capability of institutions has also much weakened, as systems and procedures for planning, monitoring, and managing transport activities have been neglected or even misused.

Over past few years, institutions have had to focus on coping with emergencies, leaving little room for developing and implementing long-term plans. This has resulted in inefficiencies and bottlenecks which are bound to slow down economic recovery if not addressed soon.

Current economic crisis in particular hit the construction sector, including the construction of major infrastructure. The Government is facing budget deficit higher than expected hence the budget funding of infrastructure works will not be (completely) feasible in 2009.

### POSITIVE DEVELOPMENTS

The Government of Serbia envisaged a comprehensive national plan for road and railway infrastructure reform. That plan includes 4 major projects planned for completion between 2008 and 2015. The value of these infrastructures works amounts to more than EUR 4 billion to be provided from the donors and international creditors as well from the budget.

In early 2009, the Government of Serbia finally equalized toll-roads for domestic and foreign vehicles which were discriminatory for foreign vehicles (80% higher than for domestic ones).

### REMAINING ISSUES

Even so the Government appropriated significant funds for repair of existing and building of new infrastructure, the lack of funding for comprehensive infrastructure reform is still the burning problem. Due to insufficient budgetary revenues in 2009, it is likely that most of envisaged projects will not be performed.

That raises another issue of insufficient participation of private sector (PPP projects) in development and realization of infrastructure projects. The concession given to Alpine-Poor consortium for construction of Horgoš-Pozega highway was terminated due to lack of funding and that was the first PPP project in Serbia. The absence of more investors of who would engage in these kinds of projects may be explained in deficient legal and regulatory framework, among other reasons. Another reason is very high charges for toll-roads which repelled freight transport from Serbian routes. Although toll-roads are now equal for domestic and foreign vehicles, they are still significantly higher than in neighboring countries and that resulted in decrease of incomes from transit tourism since bulk of the (primarily) freight transport moved to Romania and Bulgaria where toll-roads are lower. The investors who would participate in PPP projects have to count on steady revenues from the toll-road for repayment of their investment.

### FIC RECOMMENDATIONS

- Increase funding of maintenance and rehabilitation of major roads in order to stop the long term deterioration of the road network;
- Institutional reform and institution building;
- Reinstate the quality of the republican road administration;

- Private sector development and participation;
- Increase efforts to minimize public costs of the reforms by charging users wherever reasonable and through increased private sector participation wherever there is a sufficient scope for competition;
- Set up an efficient system of toll-road user charges in Serbia and decrease toll-roads in order to return transit tourists (passenger and cargo vehicles) to Serbian roads.

## ENERGY SECTOR

### CURRENT SITUATION

The new Law on Energy adopted in 2004 is almost fully harmonized with the respective EU regulations. In line with the European practice, the Energy Agency, an independent regulatory body has been established in 2005.

The Law introduces facilitated legal regime for so-called privileged energy producers. The term incorporates energy producers using renewable resources or waste for energy production and producers from small power plants. The Law provides for various tax, customs and other benefits for privileged energy producers. However, the general provisions from the Law are not followed with adequate by-laws which would enable implementation of this privileged legal regime.

### POSITIVE DEVELOPMENTS

In 2006, Serbia ratified the Energy Treaty which establishes unified legal framework for trading in energy and natural gas in South East Europe and EU. Ratification of this Treaty requires adequate amendments of the Energy Law which will introduce provisions on internal energy market and on access to electric transmission network for cross-border exchange of electric power. There is also a need for incorporation of rules for promotion of the energy produced by the privileged producers at the internal energy market; conditions for access to natural gas transportation networks; measures for securing continued supply of natural gas and

measures for securing supply of electric energy and investments in infrastructure. In that regard, the Ministry for Energy and Mining prepared amendments of the Energy Law incorporating all above changes.

In 2009, Serbia signed the agreement on construction of the pipeline so-called "Juzni tok" with Russian company Gasprom and established a joint venture company with Gasprom to run the construction and operation of the pipeline and storage facility for the natural gas. It is expected that this gas arrangement will improve gas supply at the Serbian market and increase generation capacity, albeit the problems with the gas heating are expected to continue for years to come.

The Government envisaged numerous other projects for improvement of energy supply at the territory of Serbia. Among other, the construction of pan European oil pipeline is planned in the agreement whose signatory is Serbia. The Government plans organization of investors' conference devoted to construction of this pipeline.

Also, in 2009 the Government of Serbia called for a tender for construction of thermal power plant so-called Kolubara B for which some of the leading companies in the energy area expressed their interest.

### REMAINING ISSUES

The major problems in the energy area are insufficient generation capacity for electric power and energy import dependency. Also, insufficient generation capacity for natural gas used in households for heating and industry is burn-

ing issue every winter. The Government recognizes these problems and it's investing significant efforts to override them. The numerous projects some of which are explained above are envisaged to improve energy supply at the Serbian market. However, low price of electricity and present monopoly of Oil Industry of Serbia (now majority owned by

Gasprom) disables further investments and improvements in the energy sector which are desperately needed. The energy sector is not benefiting from current financial situation either due to freeze of the credit market which is, normally, the major source of financing of energy projects.

### FIC RECOMMENDATIONS

- Prepare and offer defined and refurbished locations to foreign investors including the entire necessary infrastructure;
- Amend the Energy Law incorporating requirements from the Energy Treaty and implement provisions which provide facilitations for privileged energy producers;
- Increasing public awareness about efficient usage of electricity and need for price increase;
- Terminate the monopoly of Oil Industry of Serbia as early as possible in order to attract potential investors.

## TELECOMMUNICATIONS

### CURRENT SITUATION

Telecommunication operators are still dealing with inadequate regulation covering their business. By-laws still do not exist for many relevant areas of the telecom sector. Relevant by-laws addressing competition and liberalization of various types of services (fixed telephony, data transmission, wireless broadband, digital TV, infrastructure, market analyses etc) are lacking. The great majority of existing by-laws are still dealing with the procedures and manner of technical controls of equipment, networks, and systems, by-laws regulating the procedures of collecting the charges for certificates, permits, and approval in a way lacking clarity and are subject to interpretations.

Three market players are in the Serbian mobile market-place, while Telekom Serbia, the state-owned fixed and mobile operator, with 20% of OTE - Greece ownership, still has a monopoly in landline network for telecom services.

Announcement for potential public tender for offering two additional fixed voice licenses has been declared, and the prospective sale of Telekom Srbija has been delayed few times so far.

Negative development in mobile telephony was made by measure introducing new 10% tax on mobile communication services which was implemented as of June 1<sup>st</sup>. This measure hardly hit predictability of the telecommunication business and investments with omission of state authorities to consult and inform mobile operators about implementation of the above mentioned tax on mobile communication services. The implementation of tax on mobile phone services mostly affects the users with lower incomes, as well as users in rural areas without fixed lines. The Serbian Government has not clearly defined the period of validity of 10% tax on mobile communication service.

The lack of telecommunications infrastructure is still an essential obstacle for further development of the telecom sector and more efficient business operations. The poor quality of connections, monopoly over telecommunication infrastructure and insufficient speed of internet access are

the key elements for low utilization of modern services, and high speed broadband services.

In addition, diverse interpretations and requirements of local authorities for the same procedures, especially for building base stations, represent an additional problem. This must be prevented by ensuring respecting the regulations which should be applied equally by local authorities, in all parts of Serbia.

It is, therefore, necessary to simplify complete base stations construction and technical control procedures, as well as

other procedures surrounding telecommunication business, introduce general authorization for business operation where possible, and bring all the necessary regulation which will enable full competition and predictable business.

According to the Cullen International Report (June 1, 2009) "Supply of services in monitoring regulatory and market developments for electronic communications and information society services in Enlargement Countries", Serbia stands behind countries from the region with the implementation of bellow listed competitive safeguards.

	HR	MK	TR	AL	BA	ME	RS	XK
Carrier selection (CS)	●	●	●	●	●	●	●	●
Carrier pre-selection (CPS)	●	●	●	●	●	●	●	●
Number portability - fixed	●	●	●	●	●	●	●	●
Number portability - mobile	●	●	●	●	●	●	●	●
RIO Fixed	●	●	●	●	●	●	●	●
RIO Mobile	●	●	●	●	●	●	●	●
RUO	●	●	●	●	●	●	●	●
Wholesale broadband access (WBA)	●	□	●	●	●	●	□	●
Wholesale line rental (WLR)	●	●	●	●	●	●	●	●
MVNO	●	●	●	●	●	●	●	□
National roaming	●	□	●	●	●	●	□	●
Regulatory cost accounting - fixed	●	●	●	●	●	●	●	●
Regulatory cost accounting - mobile	●	●	●	●	●	●	●	●

Legend: ● implemented - ● not implemented - □ commercial offer

The main policy document of this sector is the Strategy for Telecommunications Development for the period of 2006-2010 that was formally adopted by the Serbian Government in October 2006. Only in January 2009, Serbian Government adopted the clear timeline for realization of Strategy for Telecommunications Development.

Based on the Action Plan for the implementation of Strategy for Telecommunications Development, from 2006 to 2010, drafting of the new Law on Electronic Commu-

nications is planned for the Q4 2009, and its adoption is planned for Q1 of 2010. It is anticipated that the new law should be in accordance with the regulatory framework of EU from 2002 and 2007. Understanding the importance of the coming Law, which should be a modern, EU Law regulating this field, we would like to emphasize the necessity for the new law to be harmonized with EU regulation, but also to be swiftly and fully applied in practice, by the independent regulatory bodies.

## POSITIVE DEVELOPMENTS

The Government of Serbia adopted the following strategies: Strategy for Regulatory Reform from 2008 to 2011, envisaging regulatory cut till the end of year 2009 by eliminating redundant regulation and changing deficient one. Telecommunication field is also to be revised. On the proposal of Ministry for Telecommunications and Information society, after series of public consultation, Government adopted Strategy for Digital Switch-Over which should improve technological progress in the country by digital switch over, starting with April 2012. By doing that, part of the spectrum currently used by broadcasters will be freed up for engaging in other technologies offering high speed services, and improving the efficiency in the spectrum use.

Strategy for Development of Broadband and Strategy on Development of E-Government have been drafted and to be adopted in early autumn 2009.

Telekom Srbija and Media Works acquired licenses for fixed wireless access (FWA) for public telecommunication network and services in the range of 411,875 – 418,125 / 421,875 – 428,125 MHz for the territory of Serbia.

Tariff rebalancing introducing 100% increase in prices for landline telephony and introducing same prices in residential and business segments, based on cost principle, was postponed at the end of 2008 by measure of Government due to the financial crises.

Internet liberalization began with the issuing of several by-laws allowing interconnection with the network of foreign country, VoIP regulation and liberalization of wholesale in this domain.

Although RATEL issued By-law on application of Cost Accounting Method, Separate Accounts and reporting by the SMP operators, its implementation shown to be slow in practice.

Market analyses as the main part of EU regulation in electronic communication aiming at ensuring full competition on the market of electronic communication, is at the very

beginning and underdeveloped in practice of the market. By the word of Action Plan, market analyses are set for the Q3 of 2009.

Universal Services regulation is on the way, as well as regulation of E-Government which should improve and speed up relation of the state and the citizens. According to accepted practices, technology neutrality should be the basis for offering universal services and all interested operators should be able to offer the universal services.

Telecom operators took part in the process of Regulatory Reform Strategy in the Republic of Serbia, whose main aim is putting out of force redundant regulations and changing inefficient regulations in all areas of economy including the telecommunication industry.

## REMAINING ISSUES

- The by-laws interpreting the Law on Telecommunications, especially those sections related to competition and implementation of all competitive safeguards have to be issued and adequately implemented;
- Emphasize the full implementation of the existing legal framework in the Republic of Serbia. Namely, before the new Law on Electronic Communication is brought by the Parliament, there are still many provisions provided in the current Law relevant for competition in telecommunications, but not yet applied in the practice;
- All existing alternative infrastructure (i.e. optical cable used for utilities purposes, broadcasting or other) should be opened for all kinds of telecom services;
- IPO of Telekom Serbia, expected in mid 2009, was delayed. It is necessary to introduce more fixed players, before sale to ensure full competition;
- Ensure cooperation of RATEL and Commission for Competition Protection;
- Clear responsibility for the sector development to be determined.

## FIC RECOMMENDATIONS

- It is necessary to have regulatory body capable of implementing new Law on Electronic Telecommunications and undertake proper market analyses;
- Issuing missing by-laws and adjusting the existing in compliance with the EU regulatory standards, requirements and procedures;
- End the bureaucratic procedure surrounding telecommunication business (certificates for equipment, compliance certificates, technical controls to be simplified) ;
- Stimulating broadband services;
- Encourage the development of alternative infrastructure needs;
- Liberalize internal infrastructure and open up for use alternative infrastructure for all kinds of electronic services;
- Introduce provisions and guidelines for eliminating cross-subsidization in telecom sector;
- Continue efforts for restructuring or privatization of state owned telecom companies;
- Rebalance telecommunications tariffs on a cost-based price structure.