

# **Infrastructure sector in Poland – planned investments and market overview**

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## Roads

The issue of funds for the implementation of the Programme for the Construction of National Roads for the years 2014-202 probably has been resolved. Upon the decision of the government, the limit of spending on its implementation has been increased by PLN 28 billion. In addition, the draft act envisaging a new road fee has been submitted to the Parliament. The tax added to the fuel price is supposed to contribute to the half of costs of the construction of national roads and to the half of the costs of the construction of local government roads.

The Programme for the Construction of National Roads for the years 2014-2023 with the perspective until 2025 assumes the construction of nearly 4,000 kilometres of fast highways and 57 bypass roads. The total value of these tasks is estimated at the level of nearly PLN 200 billion. The initial amount earmarked for its implementation is PLN 107 billion. Since the very beginning of the administration terms of the current government, it has been emphasised that these funds are not sufficient to meet the needs. At the same time, it was promised that the programme would be implemented and that none of the tasks included therein would be deleted.

The budget gap was supposed to be closed with so-called optimisation of investment implementation. It consisted in the development of such rules for the construction of roads that would allow for constructing them at the lowest possible costs, without compromising the quality.

As a result of joint efforts of the industry to seek relevant solutions, it was proposed, among others, apply a catalogue of typical structures for engineering facilities and serving environmental protection. However, the attention was also paid to appropriate distribution of risks in construction contracts. It was aimed to ensure that contractors, when calculating offers, do not add the costs of potential risks related to the implementation of tasks for the General Directorate for National Roads and Motorways (GDDKiA).

It was calculated that this kind of activities could bring savings at the level of about 10% of the value of contracts. However, it is not sufficient to close the gap at the level of about PLN 90 billion. This amount, however, should be increased by post-tender savings, i.e. the relation of the estimated price to the final price. Based on several big calls for tenders published and solved in the earlier period of time, it was estimated that they amount to 19% on average. For the time being, it is hard to tell how this would look like in the future calls for tenders - recently, there have not been many settlements, while among few of them there were calls for tenders where the chosen offer was below 50% of the planned budget, as e.g. in the case of a construction of the second expressway S1 Lotnisko - Podwarpie, but there were also calls for tenders that had to be cancelled for the reason of too expensive offers. The flagship example in this case was the tender proceedings connected with the construction of S14 road, so-called western ring-road of Łódź. In this case, the prices for three implementation sections exceeded the planned budget by the amount of PLN 149 million.

#### Government's contribution

The question about the fate of the road programme raised concerns in the industry, which expected not only new tender proceedings but also further stages of these tenders that, in large numbers, had been announced before the last parliamentary elections that took place in the autumn of 2015. In 2016, the total value of new road tenders was only PLN 3.4 billion. In this period of time, contracts for the value of PLN 10.5 billion were signed.

What is called "a deadlock" by the road industry was explained by the management of the ministry with the need for updating the road programme. As it was ensured, the ministry intends to implement any and all investment projects included in the road programme. However, due to financial limitations, the implementation of a portion of them will have to be postponed. The update was aimed at determining the proper hierarchy of tasks.

On the 20th of June 2017, the government took a rather unexpected decision. Instead of a list of investments that will be carried out first or next, the increase of a financial limit for the implementation of the Programme for the Construction of National Roads was announced. This limit has been increased from PLN 107 billion to PLN 135 billion.

Therefore, the implementation of the most important road tasks was enhanced with the amount of PLN 28 billion.

Together with an increase in the limit, it was announced that, by the end of the year, there would have been presented a list of tasks, which will be financed under a new budget framework. The government also imposed an obligation on the ministry to prepare a separate multi-annual programme indicating tasks for national roads that would ensure the adjustment of national roads to the load bearing capacity of 11.5 tonnes per axle. Together with the programme, there should be indicated any solutions that would secure its financing from the state budgetary funds.

### **Purposes of additional funding**

The need for ensuring additional funds resulted mainly from the need to implement investment projects in the territory of Eastern Poland, including mainly the Via Carpatia road. It is one of the top priorities of the current government, which perceives it as a future key trans-European transport corridor connecting the northern and southern parts of Europe. Via Carpatia is supposed to integrate transportation systems of Lithuania, Poland, Slovakia, Hungary, Romania, Bulgaria, and Greece.

As much as PLN 21 billion from the added financial envelope is earmarked for Via Carpatia. According to the announcements made by the Minister of Infrastructure and Construction, Andrzej Adamczyk, calls for tenders for the entire Polish section of Via Carpatia are to be published in 2019.

The remaining amount is to be distributed also, to a considerable extent, to investment projects in the eastern part of Poland, including the continuation of S17 expressway towards the border with Ukraine (the section between Warsaw and Lublin is currently under construction) and A1 highway towards Biała Podlaska.

“Besides, we are also directing all road investment projects for preparation”, said Andrzej Adamczyk in his interview with journalists. “We would like to ensure that all main road routes have documentation in place that would enable us to publish a call for tenders”, he added. The ring roads are also supposed to be constructed within the additional funds.

## **Where do the funds come from?**

Following the announcement of the decision on the higher financial limits for the construction of roads in the public space, the question arose: where would the additional PLN 28 billion come from? The answer did not have to be awaited too long.

On the 6th of July, 2017, a parliamentary draft act was submitted to the Parliament, which assumes the introduction of a new road fee. The new act bears the name "Funds of Local Government Roads". However, in practice, although local government roads will benefit from it, it will considerably contribute to the National Road Fund, from which the construction of roads in Poland is financed.

In accordance with the draft act submitted to the Parliament, the new road fee will amount to PLN 0.20 per one litre of petrol or diesel fuel and approx. PLN 0.37 for one kilogramme of gas. These funds will be divided in half between the National Road Fund and the newly established Fund of Local Government Roads, which is to act on the similar principles to the National Road Fund.

The government estimates that the new road fee would bring about PLN 4-5 billion a year. Although the funds are to be divided in half, the greater cash injection will be received, in fact, by national roads. Namely, together with the establishment of the fund, the Programme for the Development of Commune and County Road Infrastructure, which is now financed from the state budget, will be closed. In 2018, in accordance with earlier plans, the amount of PLN 1 billion was earmarked for this purpose. Following the entry into force of a new act, these funds would be "released" in the budget and contribute to national roads.

This will be possible upon the amendment to the Act on financing of land transport infrastructure, where the minimum amount of funds earmarked for the land transport infrastructure is to be increased from 18% to 25% of the planned revenues from the excise duty on motor fuels planned for a given year. As it follows from the statement of reasons of the new draft act, the predicted increase of funds for national roads in

connection with the proposed changes is to bring about PLN 5 billion for the General Directorate for National Roads and Motorways (GDDKiA). The funds will be earmarked for renovations, the technical adjustment of roads to the load bearing capacity of 11.5 tonnes per axle and the maintenance of national roads.

In terms of the reconstruction of national roads to adjust them to to the load bearing capacity of 11,5 tonnes per axle, this is our obligation under the proceedings pending before the European Commission concerning the implementation of the Council Directive 96/53/EC of 25 July 1996 laying down for certain road vehicles circulating within the Community the maximum authorized dimensions in national and international traffic and the maximum authorized weights in international traffic in terms of the movement of vehicles of the maximum permissible axle load of 11.5 tonnes on all roads in the territory of Poland. In the coming 10 years, we are supposed to spend as much as several tens of billion Polish zloty for the programme adjusting Polish roads to the above-described requirements.

### **Subjects of tender proceedings**

For the time being, the following road investments with the total value of more than PLN 50 billion are being carried out. As reported by Jerzy Szmit, Deputy Minister of Infrastructure and Construction, during the Polish Infrastructure Congress in Warsaw, the prospects for the road industry are good.

This year, the calls of tenders for the construction of roads of the total value of PLN 15.7 billion are to be published.

Among the most important calls of tenders for this year, there is a long-awaited tender for the construction of the last section of A1 motorway between Tuszyn and Częstochowa. Initially, this investment project was to be financed with private funds by a road special purpose company. However, due to the need for accelerated completion of one of the most important transportation routes in the country and in terms of viable future revenues from fees collected from drivers, the government has decided to construct it in a traditional manner with the use of funds from the National Road Fund. The call of tenders

was to be published last year. However, ultimately, the tender proceedings were initiated at the end of June 2017.. Its value is estimated at nearly PLN 4 billion.

At the same time, another call of tender for the construction of an expressway S14 was announced. Following the revocation of tender proceedings, in which tenders were too expensive in relation to the capabilities of an investor, another call of tenders has been published for a task of a slightly limited scope in relation to the original task. Among others, the number of planned road nodes is to be decreased.

At the beginning of June 2017, the tender proceedings for the selection of a contractor for the construction of an expressway S3 from Bolków to Lubawka was initiated. It is an important aspect due to the completion of a north-west transportation route, which constitutes, among others, connection between Czech Republic with Polish seaports at the Baltic Sea. The road is of significant economic importance. However, its construction is expensive - it is necessary to construct two tunnels, out of which one will be more than 2 kilometres long. The cost of this investment project is estimated at approximately PLN 2.5 billion.

This year, there were also tender proceedings announced for several sections of S61 road - Via Baltica - between Ostrowia Mazowiecka and Szczuczyn.

According to the announcements, this year, there should also be published calls of tenders for the S1 road for the construction of the bypass road of Węgierska Górka, as well as the bypass road of Łańcut within the transportation route DK-94. Any and all published calls of tenders are single-step proceedings.

### **Projects under construction**

For the time being, there are 87 road tasks being implemented by the General Directorate for National Roads and Motorways (GDDKiA). As many as 69 tasks are subject to tender proceedings.



By the end of 2017, according to the announcements made, there are to be concluded contracts for about 349 kilometres of roads. It means 34 agreements.

The contracts are supposed to concern the following:

- two sections of A2 motorway from the Lubelsko node (without the node) to the Konik node (with the node) and from the Konik node (without the node) to the ring road of Mińsk Mazowiecki.

The list of tenders that are to be decided also includes the sections of expressway S7.

These include:

- sections of S7 expressway: Olsztynek – Płońsk (Napierki – Mława, Mława – Strzegowo, Strzegowo – Pieńki and Pieńki – Płońsk).

The section of the expressway S7 from Warsaw to Grójec is also awaiting the conclusion of contracts. There are three sections of the road waiting for the contractors: Lotnisko node (without the node) - Lesznawola node (with the node), Lesznawola node (without the node) - Tarczyn Północ node (with the node), Tarczyn Północ node (without the node) - the beginning of the Grójec ring road.

The last section of the expressway S7 in the Świętokrzyskie voivodeship is also awaiting the selection of a contractor. It concerns the section from the border of Masovian and Świętokrzyskie Voivodeship to Skarżysko Kamienna.

Further sections awaiting contracts with contractors include:

- S17 – Lubelsko node and section from Zakręt node to Lubelsko node (without the node),
- S19 expressway in Lublin and Subcarpathian Voivodeships – Niedzwica Duża node – Kraśnik, Kraśnik ring road, Kraśnik – Janów Lubelski, Janów Lubelski ring road, Lasy Janowskie node (without the node) – Zdziary node (with the node), Zdziary node (without the node) – Rudnik nad Sanem node (without the node), Rudnik nad Sanem node (with the node) – Nisko Południe node (with the node),

- S1 - construction of the road Pyrzowice – Kosztowy – section Pyrzowice – Podwarpie (stage 3),
- A6 (2 investment projects) – extension of the Kijewo node, Kijewo node (without the node) – Dąbie – Rzęsnica node (without the node),
- S3 (2 sections) – ring road of Brzozów together with the section Brzozów – Miękowo, end of the ring road of Miękowo – Rzęsnica node (with the node),
- - S61 in the Podlasie Voivodeship (2 sections) – Kolno node – Stawiski, Stawiski – Szczuczyn,
- S10 - construction of the second roadway of the ring road of Kobylanka, Morzyczyn i Zieleniów,
- S11 - construction of the second stage of the Kępno ring road,
- DK-15 - construction of the ring road of Nowe Miasto Lubawskie,
- DK-61 - construction of a viaduct in Legionowo,
- DK-25 - construction of a connection of the ring road of Inowrocław.

## Railways

In March 2017, PKP Polskie Koleje Liniowe (PKP PLK) has announced the conclusion of contracts related to the implementation of the National Railway Programme, worth of PLN 10 billion, in the forthcoming months. This level has been achieved and even exceeded to PLN 11 billion in June 2017. Before this announcement, the national infrastructure manager had already concluded contracts with National Railway Programme for the value of PLN 7 billion, including PLN 2 billion since the beginning of 2017. By the end of 2017, PKP PLK intends to conclude contracts for the value of PLN 20 billion.

At the same time, the announcements made by the company refer to the implementation of investments at the level of PLN 8-10 billion annually over the years 2019-2019. As it follows from the information given by the infrastructure manager, 2016 was the year of calls for tenders, while 2017 is supposed to be the year of signing contract, and 2018 is expected to mark the commencement of any and all railway investment projects envisaged in the National Railway Programme. The reason for delays in the implementation of individual investment projects seems to be too slow spending of funds from the European Union financial framework for the years 2014-2020.

The National Railway Programme (until 2023) includes, in total, investment projects worth of PLN 66.5 billion, financed from the European Union funds (Connecting Europe Facility (CEF) and the following Operational Programmes: Infrastructure and Environment, Eastern Poland, Regional Programmes) and national funds (state budget and Railway Fund). Summing up the value of contracts concluded in 2015, 2016 and in the first half of 2017, as well as contracts to be concluded by the end of 2017, according to PKP PLK, the total spending amounts to approximately PLN 30 billion. This sum constitutes nearly half of the value of the investment plan until 2023. In line with the assumptions of the Ministry of Infrastructure and Construction, the activities constituting 75% of the National Railway Programme are expected to be covered with tender proceedings by the end of 2018.

PKP PLK praises a significant acceleration in the implementation of investment projects. The comparison is based on the first quarters of 2016 and 2017. As it follows from the data presented by the infrastructure manager, 61 calls for tenders for the net amount of PLN 523 million were published last year. In 2017, this amount as already reached the level of PLN 2.3 billion net. In terms of contracting, the net value of 50 contracts signed in 2016 (in the first quarter of 2016) was PLN 612 million. In the corresponding year of 2017, as many as 86 contracts for the net amount of PLN 2.3 billion were signed.

The most expensive contracts concluded in 2017 are the following:

- Works on the railway line no. 7 at the section Otwock - Lublin (lots A, B and C - sections: Otwock – Pilawa, Pilawa – Dęblin and Dęblin – Lublin) for the amount of PLN 2.1 billion,
- Works on the railway line no. 30 on the section Kraków Główny Towarowy - Rudzice for the amount of PLN 966 million,
- Works on the railway line no. E20 at the section Warsaw - Poznań: Local Control Centre (LCS) Konin (PLN 840 million), Local Control Centre (LCS) Kutno (PLN 560 million), Local Control Centre (LCS) Łowicz (PLN 428 million),
- Design and execution of construction works for the investment project entitled "Works on railway lines no. 68, 656, at the section Lublin - Stalowa Wola Rozwadów including their electrification" for the amount of PLN 300 million.

The results of the undertaken actions within the modernisation of railway infrastructure under the National Railway Programme are expected to be the following:

- the reconstruction of 9,000 kilometres of railway lines,
- the introduction of passenger train traffic with the speed exceeding 160 km/h on the 350 kilometres of railway lines,
- the building of 2,000 kilometres of railway lines under the ERTMS/ETCS system,
- the connection of 18 voivodeship centres with railway lines with the average speed of passenger trains at the level of 100 km/h.

Apart from the implementation of investment projects included in the National Railway Programme, PKP PLK also allows for implementing reserve undertakings. They are not included in the National Railway Programme but they could be commenced in case of any problems with the implementation of any investment project covered by the National Railway Programme. According to the information given by PKP PLK, feasibility studies of the total value of PLN 16 billion for tasks not included in the National Railway Programme were conducted in June 2017.

Despite optimistic announcements made by the national infrastructure manager, the industry experts, as well as some officials of the Ministry of Infrastructure and Construction, claim that the potential of PKP PLK itself and the Polish railway industry is too little to unlock investments for the amount of PLN 66 billion. The spending of about PLN 40 billion is expected, while the contractors assess their capabilities for approximately PLN 10 billion. In addition, the upcoming Brexit may be a problem. It is likely to shorten the current financial framework of the European Union.

However, it is also worth mentioning the restart of discussion over the construction of high speed rail in Poland, which is not only conducted in the railway industry but it also perceived, e.g. by the Ministry of Development, as a boost for economy in the forthcoming years (together with the investment project of so-called Central Communication Port).

## Seaports and airports

In the first half of 2017, we have observed further increases in the number of passengers on Polish airports, which is promising for the development of this infrastructure and investment plans. The airport in Wrocław has noted the best 6 months in its history. In the first half of 2017, as many as 1.3 million passengers were served by the airport in Wrocław. It is by 18.3% more than in the corresponding period of 2016. In June 2017, the airport in Modlin recorded a more than 3% increase in the passenger traffic. Between January 1, 2017, and June 30, 2017, there were 1.44 million incoming and outgoing passengers served by the Warsaw/Modlin Airport, in total. In this period of time, there were 8,883 commercial air transport movements carried out, including take-off and landing operations. Superior results were also achieved by the airport in Lublin. In June 2017, the airport in Lublin recorded nearly 40,000 served passengers. It is this year's best result. The current record of the airport since its foundation four and a half year ago has almost been broken. The airport in Kraków Balice is also praising its successes. In June 2017, the airport served 530,815 passengers. It is by 15% more (by over 70,000 passengers more) than in June 2016.

Obviously, there are also noted some declines (e.g. in Bydgoszcz) which, however, does not change the entire image of the industry, which is evolving dynamically. Therefore, one may assume that the currently planned investments in the expansion of airports are not at risk and new investment projects may be expected.

The most often discussed large infrastructural project in the aviation industry is the Central Communication Port. The decision on the implementation of the aforementioned investment project taken by the state authorities was positive. Mikołaj Wild has been appointed the Government Representative for the Central Communication Port. In his opinion, the decision on the location of this investment project should be taken in the coming several weeks. The development of the Central Communication Port will entail a number of other infrastructural investments, including investments in relevant railway and road connections.

In terms of seaport investments, an important event took place at the beginning of June 2017. The Centre for EU Transport Projects and PKP Polskie Linie Kolejowe S.A. concluded a contract for EU co-financing of the project named "Improved railway access to seaports in Szczecin and Świnoujście".

The investment project located in the Baltic-Adriatic core network corridor constitutes the final stage of the Global Project and is aimed at improving access and the handling capacity of seaports in Szczecin and Świnoujście - two key seaports in Poland. The total value of this investment project is approximately PLN 628.2 million, out of which the co-financing amount of about PLN 534 million will come from the Connecting Europe Facility (CEF).

The project includes the following actions:

- the modernisation of railway traffic management system in Szczecin and Świnoujście;
- the reconstruction of two railway viaducts on the railway line no. 990;
- the reconstruction of the railway bridge on the railway line no. 990;
- the modernisation of 32 kilometres of railway lines no. 273, 855, 990, 991, 992, 994, 996, 401, including the reconstruction or modernisation of 160 kilometres of railway tracks;
- the electrification of a railway line on the about 4-kilometre-long section of railway lines no. 990 and 996;
- the building of elements related to environmental protection, including noise barriers.

## Energy sector

In recent months, Polskie Sieci Elektroenergetyczne (PSE) has not announced any new tender proceedings despite the assumptions of the development plan for the transmission system in Poland until 2025, which is worth approximately PLN 13.2 billion.

At the end of the previous year, the top management of PSE admitted that the EU support from the Operational Programme Infrastructure and Environment for the period 2014-2010 would be necessary for the implementation of a portion of tasks planned by the company. The total value of investment projects, for which PSE intends to obtain co-financing, amounts to over PLN 5 billion, which includes 30 items. The investment projects will focus, above all, on the expansion of the national transmission networks in the northern and north-western region of Poland, as well as the construction of transmission lines enabling the evacuation of power from new generation plants, i.e. power plants in Koźienice and Opole.

In recent months, the Ostrołęka Power Station owned by the Energa corporation has announced the construction of a new power unit and the renovation of a bridge over Narwia river leading to the plant and one street in the city. The new power unit is supposed to increase the energy potential of Ostrołęka, while the renovation works are aimed at improving the efficiency of the power plant operation, which will be crucial particularly during the planned extension of the plant.