PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Rijeka Gateway II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
<td>EUROPE AND CENTRAL ASIA</td>
</tr>
<tr>
<td>Sector</td>
<td>Ports, waterways and shipping (60%); Roads and highways (20%); General transportation sector (10%); Other domestic and international trade (10%)</td>
</tr>
<tr>
<td>Project ID</td>
<td>P102365</td>
</tr>
<tr>
<td>Borrower(s)</td>
<td>PORT OF RIJEKA AUTHORITY</td>
</tr>
</tbody>
</table>
| Implementing Agency  | Port of Rijeka Authority  
                       | Riva 1  
                       | Rijeka  
                       | Croatia  
                       | Tel: (385-5) 135 11 70  
                       | bojanhlaca.ri@portauthority.hr |
| Environment Category | [X] A  [ ] B  [ ] C  [ ] FI  [ ] TBD (to be determined) |
| Date PID Prepared    | September 3, 2007 |
| Estimated Date of Appraisal Authorization | March 17, 2008 |
| Estimated Date of Board Approval | May 15, 2008 |

1. Key development issues and rationale for Bank involvement

The strategic objective of the Croatian government is to join the European Union (EU) as a dynamic and competitive economy able to rapidly achieve convergence to EU living standards. The process gained momentum following the October 2005 decision of the European Union to officially start membership negotiations. Croatia also aims to position itself as a leader in Southeast Europe for sustainable economic development, regional cooperation and ethnic reconciliation.

The Pan-European transport Corridors X, Vb and Vc that cross Croatia carry the vast majority of trade, transit and tourist traffic between the EU and the Southeast European region, and within the region. Among these corridors, the Pan-European Corridor Vb and X connect Hungary and Serbia to the Adriatic Sea via the gateway of Corridor Vb, the Port of Rijeka. These corridors are central to the program of transport infrastructure modernization of the Croatian Government, which includes investments in Croatian railways, in its international ports of Rijeka and Ploce, and in a comprehensive network of roads and motorways. Beyond infrastructure investments, Croatia signed a regional Memorandum of Understanding on the development of the South East
Europe Core Regional Transport Network in June 2004, fostering regional cooperation to improve transport infrastructure, services and procedures related to corridors.

**Strategic location.** Rijeka is strategically located both as a port and as a destination for business and tourism. The Port of Rijeka is the largest international seaport in Croatia with 5 million tons of dry cargo handled in 2006. It offers the only port container terminal in Croatia and the basis for the many SMEs active in transportation service in Rijeka. The Port offers the shortest land transport distance to access either Belgrade in Serbia or Budapest in Hungary. The Greater City of Rijeka with its 235,000 inhabitants (third largest Croatian city in 2001) is located less than 25 kilometers away from the EU border and is located in an area which generates about 28 percent of tourism nights in Croatia. The port and city development have been closely related historically with an early wave of urban expansion taking place in the late 19th century when the port became connected by rail to Austria and Hungary.

**Balancing Port and City Development.** As most other port-cities, Rijeka faces the complex challenge of balancing the demand for additional space for both port and city activities. Free space in Rijeka is scarce, as the city is bordered by a mountain range and the sea. The present layout of the port provides insufficient space for modern cargo operation. High urban density and very limited sea access still confer an industrial image on Rijeka. This reduces its attractiveness as a tourist and business destination.

**Impact of the Rijeka Gateway Project.** Over the past four years, the Rijeka Gateway project has generated new momentum in port development, city life quality and connectivity to major corridors. The port has reestablished its relevance in container transportation, exceeding in 2006 the traffic level expected in 2020 at the time of Appraisal and improving as a consequence its financial standing. A first phase of private investment in port operations is also foreseen in the coming year building on amendments to the Law on Seaport\(^1\) that took place in December 2006. In terms of physical infrastructure, the construction of a major new container terminal, the Zagrebacko berth, is underway and is expected to be completed by 2010. On the urban side, the Port of Rijeka Authority (PRA), in close cooperation with the City, established draft detailed design guidelines for the redevelopment of 13 hectares of port land for urban purposes. This “Delta/Port of Baross” area will be developed in accordance with the revised General Urbanistic Plan approved in February 2007. City connections to major transport corridors were enhanced by widening a section of the Rijeka bypass, and will be further improved with the opening of the east connecting road, D404, connecting the container terminal and main city streets with the bypass.

**Issue 1: Responding Sustainably to new Traffic Demand**

The port faces new opportunities and challenges that have been reviewed in a comprehensive update of its 20-year port development masterplan\(^2\) (June 2007), presently in a draft final form.

---

\(^{1}\) The Maritime Domain and Seaport Act, enacted on September 25, 2003, with amendments in December 2006, regulates the maritime domain, its management, protection and use, the classification of seaports, the establishment of the port authorities, port activities and their performance, building and use of port superstructure and infrastructure, including new concession arrangements.

\(^{2}\) Most figures presented in the PCN are derived from the Draft Final Masterplan Update.
Container throughput potential through Rijeka is expected to reach 355,000 TEU\(^3\) in 2015 and 637,000 TEU by 2020, in a medium traffic scenario, compared to a current installed capacity of 150,000 TEU. Short of new investments, the Port will be unable to capitalize on this market momentum. While required investments are significant, private operators indicated their willingness to fund part of these and enter into concessions. Preliminary estimated financial and economic rates of returns point to the feasibility of the priorities.

**Masterplan Update.** PRA launched a comprehensive update of its port development masterplan in early 2007, in response to traffic change. This update identifies priority investments, based on a detailed traffic analysis and proposes a phasing of commercially viable investments. The update also analyzes traffic origination resulting from the recommended port expansion and defines needed corridor improvements to ensure the sustainable integration of these new traffic flows with its surroundings. This includes a western port access road, a proposed new rail marshalling yard, and intelligent transport systems enhancement. As part of project preparation, the masterplan update will be reviewed and finalized through close interactions between the Port Authority, the Government, the City, Croatian Roads, Croatian Motorways, Croatian Railways and other stakeholders to ensure all elements are duly integrated.

**Shift in Container Market.** Two major trends are redefining the nature of the container market in the Northern Adriatic. These include sustained global growth in container traffic (8 percent annually) and a progressive and partial shift in traffic from East Asia to Central Europe via the ports of the Northern Adriatic instead of the ports of Northern Europe due to savings in both ship travel time and land transport costs. Northern Adriatic ports handled a total of 534,200 containers (TEUs) in 2006 representing an annual growth of 17.6 percent compared to the previous year. Overall market capacity utilization was approximately estimated at 57 percent amongst the three main ports of Trieste, Koper, and Rijeka. By 2010, capacity utilization is forecast to exceed 90 percent, while effects of congestion begin at 70 percent utilization.

**Growing market share of Rijeka.** The Port of Rijeka is well positioned to benefit from these major trends as demonstrated by sharp growth in container cargo traffic over the past seven years (from 7,000 TEU in 1999 to 94,400 TEU in 2006). In 2006, the port of Rijeka posted an increase of 24 percent in container traffic reaching a market share of 18 percent in the Northern Adriatic. Its traditional clients include the domestic Croatian market, Serbia and the northern parts of Bosnia-Herzegovina. Due to delays in crossing EU borders, Rijeka has not yet been able to compete fully with Koper and Trieste for the Central Eastern European markets, but this impediment will disappear when Croatia joins the EU. With its depth of minus 18 meters, the port will be able to handle large container vessels and to increasingly compete for those markets, particularly as hinterland road and rail infrastructure are being developed, through parallel government programs (Rijeka-Zagreb lowland railway connection and motorway). The development of direct container block trains as proposed by container shipping lines, from Rijeka to Hungary and Slovakia, will further contribute to Rijeka’s competitiveness.

**Economic Impact of Containerized Cargo.** In 2006, container traffic generated an estimated 7 million in terms of direct revenue to the Port and its operator. With the additional capacity coming from the Zagrebbacko terminal and the proposed extension of the existing container

---

\(^3\) Twenty foot equivalent unit container.
terminal, Brajdica II, it is preliminarily estimated that PRA and the port operators would secure about 26 million in annual revenues from container traffic by 2015. Looking more broadly at the corridor, the Port Authority estimates the economic activity generated per container at about 660, which would the equivalent of 30 million in revenues generated annually for the various transport participants. It also provides opportunity to the 163 hectare port Free Zone to expand its activities and develop further value-adding services.

**Insufficient Port Capacity.** The layout of the port limits its ability to respond to modern port handling requirement: port storage capacity is scarce, large trucks faces height restrictions preventing them from operating between the western and central part of the port, and rail tracks occupy a large amount of valuable port operation space. The port can be characterized as having excess handling berths coupled with insufficient storage space, and excessive storage time for specific commodities like wood (three-month storage on average). Port container handling capacity is presently limited to about 150,000 TEU or about a third of its competitors (Koper and Trieste). Even with the new Zagrebacko terminal, the port capacity will be limited to about 300,000 TEU, a level insufficient to accommodate the 2015 low case traffic scenario. Other cargo types are also experiencing sustained growth and will require additional storage space before relocation of activities from the Delta area.

**Significant Private Interest to Support Port Expansion.** Major container shipping lines show confidence in continued growth and future demand in the Northern Adriatic market as well as the ability over the medium term for the market to sustain modest increases in port handling costs that would allow cost recovery for new terminals. Shipping lines increased the number of direct service calls of mother vessels (up to 4,000 TEU) from Asia to Rijeka. This contrasts with the situation in 2003, when Rijeka was only used as a feeder port, served by small vessels. A couple of these operators indicated their willingness to invest in equipment if the port authority provides infrastructure in line with the December 2006 changes in the Law on Seaport.

**Financial/Economic Feasibility.** The masterplan update also analyzes the financial feasibility of a comprehensive program covering all terminals in the port. It indicates that a careful balance will be required to ensure that PRA remains financially sustainable by focusing on priority investments, such as the Brajdica II container terminal expansion and the Prasko Quay. Both of these investments would have financial rates of return above their weighted average cost of capital and economic rates of return significantly above a 12 percent threshold. Wherever feasible, private sector involvement will be sought to invest in equipment and take on commercial risk through fixed and variable concession fees.

**Issue 2: Enhancing Quality of Life in Rijeka through Delta/Port of Baross Redevelopment**

Over the past 15 years, the City of Rijeka has increasingly focused on the development of its competitiveness, as a city-port. Once a typical heavy industry city, Rijeka has evolved towards the service sector. SMEs now generate 50 percent of total income. The main economic pillars are trade, sea transport, shipbuilding, oil processing and tourism. The city experiences a fairly high level of unemployment at 11 percent.

Despite progress, Rijeka still carries an industrial image, which it endeavors to move away from by improving its livability and by becoming a strong urban growth center in Croatia. This
process entails rethinking its spatial organization together with the port, creating new destinations within the city to its citizens and visitors and reopening its waterfront. A vast array of projects, supported by public private partnerships, aim at building on the rich historical, natural and industrial heritage of the city.

A major project in this urban development program is the relocation and modernization of selected port facilities, the Delta/Port of Baross, and their conversion through private developers into urban space. Presently the area, closed to the public, is used for wood and stone storage and handling. This process of urban revival, experienced in many port-cities like Baltimore, Barcelona or Rotterdam, aims at gradually converting older port terminals into urban destinations, while transferring cargo handling to other locations. In Rijeka, the highly restricted sea access for citizens makes this development a core priority supported by the masterplan.

PRA and the City of Rijeka initiated this process under the Rijeka Gateway Project focusing on enhanced integration of traffic flows (east access road), development of a new passenger terminal to serve the 200,000 passengers coming through Rijeka annually, and preparatory steps for the conversion of the Delta/Port of Baross area. This area of 13 hectares offers a prime location on the water-front within walking distance from the city center, direct access to the upcoming east access road and proximity to the new passenger terminal. The conversion would entail the creation of a mixed-use urban space, including a marina, public attractions, squares, a pedestrian network, dwellings, offices and hotels, in line with a set of Detailed Design Guidelines prepared under the project.

Opportunity. Support to the urban revival of Rijeka is central to the competitiveness of this city-port. As an example of highly relevant project, the conversion of the Delta/Port of Baross would create a new destination within the city, well connected to outside transport networks, with significant business development and job opportunities. This project would triple the sea access for Rijeka citizens. Feasibility and technical studies indicated that about 2000 to 3000 jobs would be created by transforming the entire area. The firm Gehl Architect/COWI made a preliminary estimate that the first phase of development, including the marina and the western part of the Delta, would require private investment in the order of €65 million and would generate about €30 million of net annual operating revenue.

Progress to Date. Over the past two years, PRA has undertaken many steps, in cooperation with the City, to prepare for this conversion. The area has been identified in the recently approved General Urbanistic Plan as a port area for urban redevelopment. A set of Detailed Design Guidelines for the Delta/Port of Baross, balancing public areas, real estate development, and meeting in part the General Urbanistic Plan requirements, has been prepared by an international firm and is under active review between the City and PRA. This will be followed by consultation of the general public and the preparation of tender documents for private developers. Several obsolete warehouses in the Delta area have been demolished.

Challenges. The process of conversion faces challenges resulting from constraints and from different interests among the three main stakeholders (PRA, the City, the existing concessionaire). A detailed constraints memorandum has been developed to identify and work systematically on these issues, which include: (i) the need to provide alternative space for port operations to the concessionaire prior to proceeding with redevelopment; (ii) restrictions
imposed by the General Urbanistic Plan; (iii) duration of the new concession period; (iv) legal ownership of the area; (v) presence of a municipality-owned waste water treatment plant in the Delta area; and (vi) financing of general infrastructure and municipal fees. An additional challenge is the need to strengthen the institutional capacity to manage this new area.

Alternative space for port operations. The original design of Rijeka Gateway included the demolition of warehouses in the western part of the port to provide an alternative space for port operations taking place in the Delta. However, after further review, the Ministry of Culture decided in July 2005 to introduce protective measures to preserve those warehouses. This eliminated the alternative space. Understanding the need to provide the port with sufficient space, the Government of Croatia adopted a decision on April 13, 2006, according to which warehouses previously designated for demolition under the Rijeka Gateway project, and then declared protected as a cultural heritage would remain protected, while the Ministry of the Sea, Tourism, Transport and Development would, together with the World Bank, initiate the process of preparation of a project for further modernization of the Rijeka port including development of the new port berth, the Prasko Berth, enabling the relocation of these activities.

Financing Costs. The redevelopment of the Delta/Baros area will require substantial financing for the construction of general infrastructure with no direct source of revenues. It would include a road to the passenger terminal, site clearance, landfill on Delta Southern coastline, internal roads, utilities, and waterfront. Experience from other port-cities indicates that contribution from the public sector or the port authority is common for such infrastructure development while commercial real estate development is handled by the private sector.

Institutional Arrangements. The past three years of cooperation between the city and the port authority on this component have highlighted the need for a strengthened institutional mechanism between the city and the port, with increased citizen consultation. Implementation will require following up on a broad range of time-consuming technical issues, which only a dedicated team with a solid mandate can achieve. The management of the concession(s) for urban redevelopment will also require new legal and marketing skills. Rijeka will draw from the experience of the International Association of City-Ports to that end.

Integrated Approach for High Impact

The city and the port stand to gain greatly by integrating port development, corridor connections, and port city enhancement. The construction of tunnels as part of corridor extensions (D403) would provide some of the materials required to build the new port terminals, resulting in significant cost savings. The construction of new terminals, while attractive from an operational point of view would also enable the release the Delta/Baross area for urban development, resulting in enhanced quality of life for citizen and significant revenue generation. It is foreseen that the views from various stakeholders will be harmonized through the finalization of the Masterplan update and preparation of a Detailed Urbanistic plan for the Delta area.

Rationale for Bank involvement. The Bank is sought both as an advisor and a financier building on the solid cooperation established to date, in the port and corridor development sector under the Rijeka Gateway Project, the Rijeka Gateway Additional Financing, the Trade and Transport Integration project, and the Trade and Transport Facilitation project; and in the urban
sector under the Coastal Cities Pollution Control project. The Bank will also draw on its urban competitiveness development skills from its Sustainable Development unit and on its global experience in port-city development. The Bank will focus on the following integration aspects: masterplan finalization including the identification of required corridor development, public-private partnership arrangements, and port-city interface. All of these aspects demand active consultation and cooperation, for which the task team, based in part in Zagreb, is well positioned considering its involvement across the transport and port sector in Croatia.

Relationship with CAS. The proposed Rijeka Gateway II project is identified in the CAS Progress report FY05-FY08 (N0. 39641-HR), with high strategic reward and medium implementation risks. It includes, in the base case scenario, a loan of US$100 million and in the high case scenario, a loan of US$150 million. A number of triggers for the base and high case scenario, such as the implementation of the PAL II reforms, are indicated in the Progress Report.

2. Proposed objective(s)

The overall objective is to increase Rijeka’s competitiveness as a city-port, by responding sustainably to renewed demand for container flows through the port of Rijeka, while facilitating an urban renewal of selected parts of the port, through public-private partnerships. Specific objectives include: (i) to develop the Rijeka Port into a major, financially self-sustained, regional container port; and (ii) to contribute to the urban revival of Rijeka through redevelopment of about thirteen hectares of port land for urban purposes. The project will build on the partnerships and achievements of the first Rijeka Gateway Project, engaging a broad spectrum of stakeholders. It will also follow up on existing parallel projects that seek to ensure that rail, road and logistical corridor connections are upgraded to match the port increased capacity.

3. Preliminary description

The total proposed Project cost is tentatively estimated at 111 million, without financing costs, supported by a loan of 74 million (US$100 million equivalent). It would cover a Port Development component with PRA and a Port-City Interface Component with PRA, in cooperation with the City of Rijeka. The financing could be arranged through the following sources of funds: proposed World Bank loan to the Port of Rijeka Authority, with a Government guarantee, Port of Rijeka Authority budget, Central Government budget, or through other sources. Private sector investment would be sought for equipment, superstructure and real estate development and is not included in the estimate below.

Component 1: (preliminary cost – about 97 million). The Port Development component would support the highest priorities identified in the final Masterplan update, supported by PRA and the Government: (i) construction of new port terminals; (ii) design, technical studies and supervision services required for the construction of new terminals; (iii) transaction advisory services for concession arrangements; (iii) internal road within the port area; (iv) information flow integration; (v) technical studies required for coordination of road and rail corridor development; (v) project implementation and supervision cost.
**Component 2:** (preliminary cost – about 14 million). *The City-Port Interface* component would tentatively include the following subcomponents for PRA: (i) technical assistance to PRA and the City of Rijeka to set up a proper institutional mechanism to manage effectively the concession for the Delta and Port of Baross; (ii) technical assistance to attract private investment in the real estate development; (iii) consultation of citizens on proposed development; (iv) construction of a road to the passenger terminal; and (v) financing for infrastructure costs (roads, waterfront, utilities, additional landfill along Southern Delta coastline, site clearance) within the Delta and Port of Baross areas and for port-city competitiveness, including design, technical studies and supervision services required for the construction.

4. **Safeguard policies that might apply**

The project entails development of new terminals and construction of new infrastructure within the maritime domain. As such the project is classified as a Category A Project for environment assessment purpose under World Bank’s safeguard policy. This implies a double public consultation: (i) to present the TORs of the Environmental Impact Assessment (EIA) to the public; and (ii) the content of the project as well as the mitigation measures included in the project Environmental Management Plan (EMP). Both the EIA and the EMP will have to be published locally and at the World Bank Infoshop at least three month before Board presentation. The team will review in details the adequacy of the process and disclosures compared to Bank guidelines. In addition, during project preparation applicability of the Physical Cultural resource and of involuntary resettlement of business activity will be reviewed. No resettlement of dwellings or persons is expected.

5. **Tentative financing**

<table>
<thead>
<tr>
<th>Source</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>50</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>150</td>
</tr>
</tbody>
</table>

6. **Contact point**

Contact: Gerald Ollivier  
Title: Sr. Infrastructure Specialist, Task Team Leader  
Tel: +385 1 2357 215  
Email: Gollivier@worldbank.org