



Republic of Serbia  
GOVERNMENT OF THE REPUBLIC OF SERBIA  
ANTI-CORRUPTION COUNCIL  
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B e l g r a d e

PRESIDENT OF THE REPUBLIC OF SERBIA  
Attn: Mr. Boris Tadić

Dear Mr. President,

At the conference held on December 9 this year on the occasion of the International Anti-Corruption Day, you stated that foreign investors had never addressed you with complaints that corruption posed an obstacle for investments in Serbia. Following the agreement from this conference, we are sending you some information about cases pointed to the Anti-Corruption Council by foreign investors, indicating typical mechanisms of system corruption encountered by foreign companies trying to make investments in Serbia.

**Privatization of sugar factories**

By its Regulation from November 2000 the European Union opened its market for import of sugar produced in Serbia without restrictions or customs duties. However, the profit from the privileged export of sugar to the EU ended up in the pockets of traders and smugglers. The financial effect of the preferences did not contribute to the recovery or successful privatization of sugar factories in which the most significant European sugar producers were interested. Furthermore, three sugar factories were sold for a total amount of nine euros to the company *MK Commerce*, the biggest exporter of Serbian sugar to EU countries. It is clear that *MK Commerce* bought the sugar factories only to be able to issue certificates on domestic origin of sugar it exported under preferential conditions.

Two and half years later the EU suspended the privileged status of Serbia because of enormous export of sugar as its origin could not be confirmed to be from Serbia. The scope of illegal export of sugar in this period indicates clearly that it could not have been organized without the Government's knowledge and approval. The most serious consequence of this drastic case of the system corruption was certainly that such companies as *Agrana*, *S.F.I.R.*, *Sheffer* and some others withdrew from the privatization process of the Serbian sugar factories. In the explanation of its withdrawal from Serbia at the end of 2003 *Sheffer* stated: "We have withdrawn from the auction because the Government demanded the initial price of Eur 2.5 million for the Kovin Sugar Factory, which had not been

operating for three years and was in substantial debts, while it accepted a symbolic price of nine euros for three sugar factories which had never stopped their production.“ In 2002 the company *Agrana* addressed the Government with a letter stating that it was interested in investing in the sugar industry in Serbia, but it warned “that the local industry has no chance to survive if imports of sugar at unfair prices, which are lower than the production prices, are continued. *Agrana*, as a potential investor, kindly requests that you support the efforts for the introduction of a stable framework for the Yugoslav sugar market, so that the stabilization and reconstruction of the domestic sugar production could begin.“ Such warnings were not met with understanding of the Government representatives and therefore *Agrana* withdrew from Serbia as well. Similar thing happened with the Italian S.F.I.R, which withdrew from investing in the First Serbian Sugar Factory “*Dimitrije Tucovic 1898*“. The Sugar Factory in Kovin was sold in 2004 to a company related to Antun Stanaj for less than Euro 300 thousand, while the Belgrade Sugar Factory was never given a privatization chance. Today they are both in bankruptcy. Being no more able to make profit from illegal exports at preferential prices, *MK Commerce* sold the sugar factories bought at a price of three euros each, through the foundation of a joint venture SUNOKO, to the German company *Nordzucker*.

### **Privatization of the *Putnik***

At the meeting with the Prime Minister Mirko Cvetkovic on October 12 this year, the US Secretary of State Hillary Clinton described the problems with which the American company *Uniwold Holdings Ltd.* is facing while trying to collect claims from the Privatization Agency as “a major obstacle in the economic relations between the USA and Serbia“. Namely, in 2005 the Privatization Agency terminated the Contract for Privatization of the Tourist Agency *Putnik* concluded with the *Uniwold*, and held all the installments of the sales price that had been paid by the *Uniwold* so far, all the investments made in the *Putnik*, and collected the bank guarantee. Consequently the American company initiated a dispute before the International Court of Arbitration of the International Chamber of Commerce in Paris, which brought an award in favour of the *Uniwold* in May 2007. So far the Privatization Agency has persistently refused to observe the award of the International Court of Arbitration to pay to the American investor more than nine million US Dollars held unlawfully by the Privatization Agency after the termination of the Contract for Privatization of the *Putnik*. As an American company the *Uniwold* is a member of the OPIC, the Overseas Private Investment Corporation of the USA Government, which insured its investment in Serbia. When the Privatization Agency refused to act in accordance with the arbitration award, the OPIC paid, on the basis of insurance, to the *Uniwold* all the amounts it claimed from the Privatization Agency, so that Serbia now owes nine million US Dollars to the OPIC. Because of non-observing the international arbitration award, whose jurisdiction the Privatization Agency accepted by the Contract for Privatization of the *Putnik*, Serbia sustains immeasurable damage because the OPIC has ceased insuring and supporting American investments in Serbia, about which it informed a number of times all the portfolio ministers in Serbia and the Prime Minister Mirko Cvetkovic.

### **Takeover of *Knjaz Milos* shares**

The takeover of the company *Knjaz Milos* in 2004 is one of the best known examples of preventing foreign investors to invest in Serbia, because of the interest of domestic tycoons. The competitors in the takeover were the Investment Fund *FPP Balkan Limited*, owned by Milan Beko, and the French company *Danone*, which appeared with the company *Apurna*, and Vlade Divac. The Securities Commission allowed entirely irregular and chaotic takeover of the shares, in which both buyers violated fair competition by their aggressive appearances in the media. Instead of introducing order in the procedure the Commission disqualified the *Apurna's* offer.

Recently Vlade Divac reminded of these facts which have been known to the public for years, saying for the daily paper *Kurir* that Milan Beko threatened him during the procedure of the takeover of *Knjaz Milos* shares.

### **Takeover of *C-Market* shares**

For decades, the Slovenian *Mercator* has been known in Serbia both for the quality of its services and as a fair employer. Nevertheless, when it submitted its bid for the takeover of the retail trade chain *C-Market*, this company was exposed to a negative campaign in which no means were spared. One of the messages to the *C-Market* shareholders in the campaign against *Mercator* was: “Dead soldiers are watching you“. Behind this campaign was not only Slobodan Radulovic and the *C-Market* management, but also the then Prime Minister Miroljub Labus, and the Serbian Chamber of Commerce, whose president at the time was Slobodan Milosavljevic, now the minister of trade, as well as the so-called “Consortium of *C-Market* Suppliers“, lead by the company *Delta* owned by Miroslav Miskovic, which is today the owner of *C-Market*. *Mercator* did not withdraw under this pressure, obviously believing that its good reputation created over decades would withstand the Government and big businesses manipulations. Nevertheless, the following year *Mercator* withdrew from the competition to take over *C-Market*, after Radulovic, Miskovic and Milan Beko, following the initiative of the Prime Minister Kostunica, in the organization of Danko Djunic, had concluded a cartel agreement for the takeover of this company and for the market division. In the explanation of its withdrawal, the *Mercator* management stated that “besides the official stock exchange, there is a private stock exchange operating in Serbia, where *C-Market* shares are traded, which does not provide satisfactory legal security“.

### **Thwarting foreign investments because of the interests of the *Luka Beograd* owners**

- In an auction in 2004 the Luxemburg Investment Fund BRIF was awarded the lease of 15 hectares of land located on the stretch from the Pancevo bridge to Ada Huja. On this location BRIF is planning to make an investment of Eur 85 million. However, after the takeover of the *Luka Beograd* shares in 2005, the BRIF's plans conflicted with the interests of the new owners of *Luka Beograd*, Miroslav Miskovic and Milan Beko, who are having a dispute with the City of Belgrade over the land leased to BRIF. BRIF cannot realize its investment because of the opposition of the *Luka Beograd* co-owner Milan Beko, who is trying to drive them

away from this location through his contacts with the political structures. Besides other pressures, the BRIF owners, and their representatives were exposed to threats. Thus, during the talks held between the BRIF director Goran Pavlovic and Milan Beko at the premises of *Luka Beograd*, in the presence of the LDP president, Cedomir Jovanovic, Beko said that he would “destroy Goran Pavlovic“. Because of all the above stated, in December 2009 BRIF filed a complaint to the Prosecutor's Office for Organized Crime against a number of persons because of the suspicion that they had caused damage to the company BRIF, as an organized criminal group, by the abuse of their office and failure to do their official duty, and all this in order to obtain benefit to the private company *Luka Beograd* co-owned by Milan Beko. The Complaint was submitted against Milan Vukovic, the City secretary for urban planning, Natalija Stojanovic, assistant secretary for urban planning, Nebojsa Novakovic, head of the Administrative-Legal Affairs Section for issuance of certificates for the receipt of technical documentation and use licences at the Secretariat for Urban Planning and Construction, Dragan Djilas, the mayor of the City of Belgrade, Milan Perovic, Chairman of the Management Board of the Directorate for Building Land and Construction of Belgrade, Maja Lajevac, head of the Property Affairs Section at the Municipality of Palilula and Milan Beko, a businessman from Belgrade.

- In December 2003 the Privatization Agency sold 52% of the capital of the company *Tehnohemija* to the investor Rista Gojkovic from Great Britain. In the procedure of controlling the execution of the contractual obligations on 13 April 2005 the Privatization Agency found out that the Buyer made investments in the company in accordance with the Contract and returned to the bank the guarantee for the execution of this obligation. However, same as the land leased by the Investment Fund BRIF, *Tehnohemija* is located in the vicinity of *Luka Beograd*, on the location covered by the plans for construction of the “City on Water“. This circumstance is the only explanation why, after the takeover of the *Luka Beograd* shares, the Privatization Agency fully changed its attitude towards the owner of *Tehnohemija*. Namely, three years after it had established that the Buyer made investments according to the Contract, from May 2008 the Privatization Agency suddenly started imposing new investment obligations on Gojkovic, and in November of the same year it terminated the Contract for the sale of 52% of the capital of *Tehnohemija* with an explanation that the Buyer had not fulfilled his investment obligation. Until then the Buyer had paid five and a half of the total six installments of the sales price and invested Dinars 60 million in *Tehnohemija*, two times more than foreseen by the Contract. The background of this behaviour of the Privatization Agency is obviously the interest of the present owners of *Luka Beograd* which did not exist at the time when Mr. Gojkovic bought *Tehnohemija* and when the Privatization Agency controlled the execution of the contracted investment. In May this year Mr. Gojkovic filed a complaint against the former director of the Privatization Agency, Vesna Dzinic and the employees of the Privatization Agency Control Centre.

### **Takeover of *Novosti* shares**

One of the executives of the German WAZ, Mr. Peter Lange, announced the withdrawal of this Company from Serbia after ten years of its business operation in Serbia because of the negative campaign conducted against it among the domestic public. In 2006 this campaign was the reason why WAZ agreed to buy the *Novosti* through an intermediary, under the pressure of the Government, which allegedly wanted to avoid, in the eve of the election, the negative publicity because of the sale of a national newspaper company to a German company. Milan Beko appeared again as the intermediary in the purchase of the *Novosti*. Owing to the influence he has on the government authorities, Milan Beko prevented WAZ to take over the *Novosti* shares he had purchased as the intermediary with their money. During this year Beko publicly admitted that he is the owner of the off-shore companies which own the majority package of the *Novosti* shares, whereby he acknowledged at the same time that he had breached the Law on Takeover of Joint Stock Companies according to which he was obliged to submit a bid for the takeover if he was buying more than 25% of the shares. In spite of this fact, no proceedings have been initiated against Milan Beko so far because of the violation of the Law on Takeovers, and the company WAZ has announced irrevocable withdrawal from Serbia because of the problems it had with the takeover of the *Novosti*.

### **Privatization and bankruptcy of *Sinvoz***

The company for production and overhaul of railway vehicles *Sinvoz* from Zrenjanin was sold in 2004 to Nebojsa Ivkovic. At the end of 2007 the Company went bankrupt because of debts to companies related to Mr. Ivkovic. At the beginning of the following year the Privatization Agency terminated the Contract for Privatization of *Sinvoz* under the pressure of the protests of workers and small shareholders. As the protests were organized a few days before the first round of the presidential elections in Serbia, the Minister of Economy and Regional Development, Mladjan Dinkic, promised the workers before TV cameras not only the termination of the Contract, but also that he would initiate police investigation on the circumstances that had led to the bankruptcy of the Factory. The Contract was terminated between the two rounds of the elections, but after the termination, the *Shares Fund* refused to appoint a representative for the state-owned capital in the Company, claiming that this office would be in conflict with the office of the Receiver. If the *Shares Fund* had appointed a representative for the state-owned capital in *Sinvoz*, it would have been able to propose, among other things, a program for the reorganization of the Company.

Soon after the termination of the Contract for Privatization of *Sinvoz*, in 2008 the well-known French producer of railway vehicles *Lohr* sent a letter to the Ministry of Economy expressing its interest in the purchase of the assets of the Factory of Zrenjanin promising to employ its former workers, who had lost their job because of the bankruptcy. *Lohr* has tried several times to establish cooperation with the Ministry of Economy regarding this business, but the investment was prevented because of the fact that Nebojsa Ivkovic as the majority creditor of *Sinvoz* had full control over the bankruptcy procedure. The announced investigation against him was never initiated so that at the end of 2008 his program of reorganization of *Sinvoz* was passed and he took over *Sinvoz* as its sole owner.

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We have presented here only the most characteristic problems out of the numerous ones encountered by foreign investors in Serbia. We would like to have a meeting with you, whenever you can make it with regard to your duties, in order to acquaint you about the details of these cases and documents supporting the statements made by the investors.

Yours faithfully,

COUNCIL PRESIDENT

Verica Barac