



INTERNATIONALE VERWALTUNGS- UND
ASSET-MANAGEMENT AG & CO KG

Federal Republic of Yugoslavia
Deputy Prime Minister Miroljub Labus

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Vienna, 27. June 2002

Dear Mr. Deputy Prime Minister Labus

We thank you that on the occasion of your lecture on 12. June 2002 in Vienna we could define our position concerning the general conditions of the Yugoslavian sugar market.

We want to introduce ourselves: AGRANA is one of the most important sugar- and starch producers in Central Europe. AGRANA possesses 16 plants in Austria, Hungary, Czech Republic, Slovakia and Romania with more than 4.450 employees. The total sugar production in 2001 was 827.000 tons. The turnover was 842,8 m Euro.

AGRANA belongs to an consortium under the leadership of the Raiffeisen-bank group as well as the German Südzucker, which is the largest sugar producer in the European Union with a stable market share of 22,3 %.

As already indicated during our last meeting, we are interested in investing in the Yugoslavian market. We can guarantee and transfer our know-how of sugar beet growing, about logistics, processing, selling and marketing of sugar on the European level, in case we participate in the Yugoslavian sugar industry. We feel confident, that on the one hand a consistent realisation of the know-how mentioned above is necessary, but on the other hand the political will and support of the local government in favour of a running sugar beet production and domestic sugar production must be available and visible.

AGRICULTURAL FUNDAMENTALS:

Sugar beet growing and the sugar industry have a long tradition in Yugoslavia. Currently there are 9 working sugar factories that process sugar beet in the northern part of Yugoslavia. The Vojvodina is a favourable region for agricultural crops in Eastern Europe. There are 1,6 m ha acreage with good conditions for sugar beet growing.

Sugar beet production contributes to the agricultural income directly and part of its contributions are an integral part of arable rotation. Sugar beet production is usually managed by contract, which serves as a safeguard for both parties: sugar beet growers and the processing industry.

The key objectives of sugar beet production are:

- to meet domestic sugar consumption requirements: in terms of quantity, quality and at an acceptable retail price;
- to guarantee a stable income to the growers and preserving a sustainable rural farming environment;
- to optimise the capacity of the domestic sugar processing technology;
- to keep the Yugoslavian sugar market in balance by regulating supply and demand.

Additionally, sugar beet growing has significant importance for animal production. Beet leaves are used for green fodder or for silage, beet-slices for fodder or for silage and molasses for animal feed. Moreover, the prevailing payment mostly in exchange for crystal sugar to the farmer guarantees the protection of sugar demand in a developing rural community.

The sugar industry and the sugar beet farmers in the EU have together developed their beet sugar production in the last three decades by implementing a stringent framework to protect their domestic sugar beet production. This framework enables the above mentioned key objectives of sugar beet growing and allows the competitiveness of beet sugar production against cane sugar production.

SUGAR MARKET REGIME OF THE EUROPEAN UNION:

In the last years the EU agriculture support schemes have been maintained under the auspices of worldwide trade regulations, and constant restructuring of the sugar industry designed to improve its competitive position. Similarly, sugar regulations in CEFTA countries have been developed in accordance with world-wide trade regulations such as GATT / WTO. The main pillars and advantages of the European sugar market regime are:

1. Guaranteed prices for sugar beet
2. Production quotas for the sugar producing companies
3. Intervention prices for white sugar
4. Close links between beet price and sugar price (i.e: beet price is derived from sugar price)
5. Efficient border protection
6. Self financing system by introducing production levies, no costs for the EU - budget
7. Inter trade agreements set out all beet delivery details
8. Safeguarding the interests of consumers
9. Export subsidies for white sugar

CURRENT SITUATION IN YUGOSLAVIA:

Today, Yugoslavia is one of the few European countries, which has not installed a strict framework to protect its beet production and the domestic sugar industry. The ongoing privatisation - process can serve as the best opportunity to implement all those measures that are necessary to keep the local sugar beet and sugar production alive.

The domestic sugar consumption is around 380.000 tons. But only about 250.000 tons of the Yugoslavian sugar consumption will be supplied by domestic beet sugar. 30.000 tons of domestic sugar is used for exports to the European Union, due to the higher export prices out of the West-Balkan-agreement. Due to this agreement the West Balkan states are enabled to export sugar duty free into the European Union. The big gap between the sugar prices in the European Union and the prices on the world market encourages the sugar companies to export parts of their production without considering the lack of supply in the local market. For this reason 160.000 tons of sugar must be imported from the European Union or from the other sugar producing countries (e. g. Brasil).

At the moment the following import tariffs are applied:

- the tariff of white sugar is 20,5 % plus 8 YUM/kg additional duty, that means approx. 68,5 % of the import price
- the tariff of raw sugar is 20,5 % plus 4 YUM/kg additional duty, that means approx. 45 % of the import price.

Exemplified costs of production/to white sugar	500 EUR
Domestic sales price/to white sugar	430 – 570 EUR
Export price/to white sugar	570 – 600 EUR
Import price/to white sugar *)	470 EUR

*) Price of white sugar London + transport costs + import duty

Compared to the applied tariffs in the European Union (Basis rate: 419€/t + variable additional duty) it is evident that the current level of import tariffs is not sufficient to protect the local growers and the local sugar industry.

Although the import tariff of white sugar is 68,5 %, at the moment the import price is lower than the production costs of white sugar out of sugar beet. Due to the West-Balkan-agreement it is more interesting to export the white sugar to a higher price level than sell it to the domestic market.

OUTLOOK:

According to the sustainability a high-performance domestic production of sugar beet should be promoted against short-term profits. At the moment sales to the European Union in connection with the West-Balkan-agreement are a profitable business, but a running domestic market is important in a long-term view. **Under the current conditions (higher export price than domestic price) it is not possible to produce white sugar for the domestic market economically.**

Considering the accession to the European Union a functional sugar beet production is necessary because as soon as Yugoslavia enters the EU, it has to implement the legal framework of the so called "acquis communautaire". The sugar market regime is also part of this legal framework and the basis for the allocation of quotas will be a certain reference period of sugar production. So it is of utmost importance to set a various number of measures to secure and stabilize the domestic production of sugar beet. We assume that you aspire to an accession in year 2008 till 2010. The calculation for the quotas usually starts 5 years earlier (2003 – 2005).

It is important to set value on sustainability and support of the existing production with an effective border protection and sugar market regulation system. The example of Romania shows that without efficient border protection the sugar beet production cannot survive. In Romania 2002 the acreage of sugar beet is 37.000 hectares. In 1989 the sugar beet acreage still was 256.000 hectares and in 1997 125.000 hectares. Unfortunately in Bulgaria the development of sugar beet acreage is very similar. The reasons of this reduction of the sugar beet acreage in the last years were insufficient tariffs and consequential lower domestic sales prices. As the sugar beet price is calculated out of the domestic sales price the gross margin for sugar beet was low and the farmers compensated sugar beet with other crops.

Increasing the tariffs as part of a consistent sugar industry policy would be the easiest to implement and defend.

What is further needed is a consistent sugar industry policy that addresses the interests of the farmers, but also of the sugar producers and consumers.

Yugoslavia can keep beet farming and its beet sugar industry from disappearing completely by adopting a coherent tariff regime like most of its West and East European neighbours.

We further propose to implement production quotas according to the demand of the domestic market and also a linkage between the sugar beet price and the sugar price. Our investments in our neighbouring countries always had the aim to have close and harmonious relations with our farmers as a basis for successful and satisfying production.

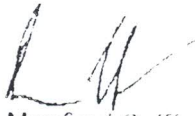
But without a working basis, all the efforts that are made will be worthless.

The sugar sector can potentially provide income and employment for thousands of beet farmers and their families and for more than 5.000 employees, which work directly at the factories, and their families.

But regarding the current situation, we face the fear that the local industry has no chance of survival, if the unfair below cost of production import flows persist.

AGRANA, as potential investor, would ask you kindly to support the efforts to introduce a stable framework for the Yugoslavian sugar market in order to start the stabilisation and restructuring of a domestic beet sugar production in Yugoslavia.

Best regards



Dr. Manfred Reiff

Member of the board of management

Enclosure: Annual report 2001/02 in german and english