

THE ANTI –CORRUPTION COUNCIL OF SERBIA

SUGAR EXPORT REPORT

PART II

On 20 November 2003, the Anti - Corruption Council forwarded the Sugar Export Report to the Government of the Republic of Serbia, proposing measures aimed at curbing problems emerged in the export of sugar and creating condition conducive for the annulment of sanctions imposed by the European Union.

The Government accepted the Report with skepticism and hostility. The information introduced by the Council, that over 100.000 tons of sugar entered the country illegally, has been accepted with disapproval and allegations that neither smuggle nor sugar repacking took place, also, that it was not the reason for the imposing of sanctions, for according to Minister Mr. Pitic, similar records did not appear in reports of the European Union. The Anti - Corruption Council initiated measures to determine the accountability and to resolve violations of export procedures, however, they never reached the agenda, because the Government considered them unnecessary, for it was up to the Government to take steps for lifting of sanctions.

The Report of the Council has been supported by the Government's Vice-President Mr. Covic and Mr. Isakov, as well as the former Custom's Chief Executive Mr. Vladan Begovic, who confirmed that, according to his records, the quantity of legal sugar trade has been exceeded by 100.000 tons of exported or consumed sugar.

Minister's Pitic, President of the Government's Commission for the Sugar Production and Trade Monitoring, reaction to the Anti - Corruption Council's Report was as follows: "So, they (the European Commission, Verica Barac's remark) never made a report, at least I was not in a position to read one, nor did they mention that the suspension was imposed due to the existence of an actual re-export, but due to a reasonable doubt about incompetence of customs service

to determine the origin of goods. No one mentions figures like 4.000 or 12.000 trucks, because those in business know that figures quoted in the Anti - Corruption Council's Report are absurd: 12.000 trucks passing the border, without being noticed. Mr. Pitic also warned that faulty calculations of consumption, production and export data from the a/m Report, only contributed to the "significance of the case".

By the decision of the European Commission, in February 2004, sanctions on the sugar export on preferential terms were extended for further six months, and thus the suspension on the sugar export entered its second year. This decision, unfortunately, matched the sugar beet planting season, therefore, the land under the beet has been drastically reduced. Our major and most productive sugar refineries lost potential European buyers, and had no funds to finance planting and were, furthermore, falling into bankruptcy and liquidation. In 2002 private sugar refineries produced around 150.000 tons of sugar. This indicates that Serbia may again become a sugar importer.

The Anti - Corruption Council continued the investigation. The present Report represents its result, and was forwarded to the Government.

The EU Decree on the preferential sugar export has been suspended for the period of three months by the decision of the European Commission, with possibility of extension if necessary, and this information was stated in the letter Mr. Chris Paten sent on 22 May, 2003 to Mr. Jovanovic, the Vice-President of the Government of the Republic of Serbia and Ministers Mr. Pitic and Mr. Veselinov. The letter quotes that suspension has been introduced due to abuses in the export of sugar, and states as follows: "The fact that commercial concessions, meant to benefit your economy and society, were exposed to a risk of abuse did not favor your situation." The decision on the suspension of export was extended on 23 July, 2003, for the period of six months, and on 7 February 2004 prolonged for further six months. Beta Agency reports as follows: *The European Commission extended the temporary suspension on the commercial preferential for the sugar imported to the European Union from Serbia and Montenegro for the additional six months starting from 8 February*, as it has been officially stated

by the Delegation of the European Commission in Serbia and Montenegro. As quoted in the statement given to Beta Agency such a decision was reached because the prevailing system in Serbia and Montenegro, *although currently improved, is in no condition to implement the rules of the commercial preferential status adequately and guarantee that the sugar exported to the European Union originates from Serbia and Montenegro. The European Commission hopes, nevertheless, that further improvements will be introduced in the next six months,* according to the statement of the Delegation of the European Commission in Belgrade.

We quote, hereby, the complete Report of Beta Agency of 2 February, 2004, Brussels:

The European Anti Fraud Office (OLAF) and Serbian Ministry of the Interior have, in the course of four mutual investigations, determined that sugar refineries in Pecinci, Kovacici, Sremskoj Mitrovici have been used for repacking of the imported sugar.

As stated in the Memo of the accord between the OLAF investigation team and Serbian Ministry of Interior, i.e. the Office for Combating Organized Crime (UBPOK), signed in October last year in Belgrade, *after repacking sugar has been , with false certificates of origin, exported from Serbia and Montenegro to the European Union (EU).* The same document, reviewed by Beta Agency, quotes that *it was hard to establish the connection between the final export trade and actual operations of the sugar repacking with fraudulent purpose.*

The mutual estimation of the OLAF and the Office for Combating Organized Crime, is *that it is very hard to determine the flow of sugar trade in the Serbian territory due to the existence of shell companies network, which issue false certificates, with the purpose of covering up the actual perpetrators.*

According to the European Commission, which suspended sugar export from Serbia to European Union on preferential terms, sugar imported from the European Union to Serbia and Montenegro at subvention prices, its repacking under fake declarations and re-exports to the European Union at the preferential

duty-free tariff facilitated a double illegal profit.

The Memo of the accord between OLAF and Serbian Ministry of Interior specifies that *police services now have to finish and coordinate their information and investigation on the basis of the firm political support and rigid will of the Serbian Government*, with remark that the **absence of the transparent cooperation does not encourage a successful battle against the organized crime, entangled within these cases.**

One of the companies against which charges have been raised was "Vocar Lutka" from Prijepolje. The Montenegrin company "Adriatic", as well as some others, are under suspicion that they have been issuing false documentation, together with the company "Vocar Lutka".

Records show an interconnection between these two companies and other shell companies they have founded in Prepolje and Podgorica, and a non existing company "USTRADE", and "one of the most important buyer, the company "ISD" in Belgrade.

According to investigation findings, "Adriatic" has been importing sugar from the EU and other European countries, through customs services in Sabac, Subotica and Pancevo. Customs clearance was, as it was determined, obtained through "Trgosped" in Sabac and "Pervan" in Subotica. The imported sugar was then delivered to sugar refineries in Sremska Mitrovica and Zabalj. According to the investigation teams of OLAF and the Office for Combating Organized Crime, *the significant importer has been, everything points to that, company "MK Komerc" as well.* According to the same source trucks with sugar for the account of "MK Komerc" have been arriving to Pancevo, transported to Kovacica, and then transferred to various sugar companies, for "different purposes". Also, various "operators" have been importing large quantities of sugar as well. Sugar was then transported to sugar refineries and simultaneously sold to exporters. "The same company manages import and export activities, and the sale of sugar is handled inside", according to the mutual document of OLAF and the Office for Combating Organize Crime. *Inspection of Belgrade company ISD import and export has lead to the investigation of the sugar refinery in Pecinci, belonging to*

the "MK Komerc" group, and its books (accounts) have shown that there were no evidence that the sugar was sold on 23 and 24 July, 2002 from the sugar refinery in Pecinci. Sugar refinery warehouse was, at that moment,, according to the official records, empty. Therefore, the legal procedure against ISD company has been initiated due to the issue of false certificates, according to the findings of OLAF and the Office for Combating Organize Crime, who, also, quote a testimony which indicates numerous implications of the sugar refinery in Pecinci in sugar repacking and re-export to the EU before June 2003. The sugar imported from Slovacka has been involved, furthermore, sugar refineries in Senta and Vrbas have imported around two tons of sugar from the EU, and, simultaneously exported the same quantity of this product to the EU market. According to the document, OLAF was informed about the fraud and the entanglement of the company "INTERFRIGO", which has exported 896 tons of European and Serbian sugar, between December 2002 and April 2003. The interconnection between the two companies "Adriatik" and "Oria intenational", whose owner resides in Montenegro has been noted as well.

The conclusion of the Memo of the accord between OLAF and the Office for Combating Organized Crime, indicates that *the absence of specific laws on prevention of financial crime, corruption and money laundry, as well as lack of cooperation in the international investigation operations with other respective countries (Montenegro), does not facilitate the enforcement of the anti-fraud instruments.*

The Joint report of OLAF and the Office for Combating Organized Crime reveal, in fact, reasons for the imposing of sanctions, derived from the first Report of OLAF in November 2002, and subsequent warnings Serbian officials received from EU. Mr. Pitic, discarded this Report as well and gave the following statement for the newsmagazine "Economist"

"I am pleased with the work of the Commission in charge for inspection of sugar trade. I am not in a position to evaluate the work of the Serbian Ministry of Interior, but the fact remains that the EU has been critical towards a dynamics of the investigation. If this evaluation proves to be substantial, I will be displeased

because it means that things needed speeding up. I believe we should have closer connection to OLAF, and that Memo of the accord failed to contribute to the solution of the problem. The Memo, moreover, shifted the EU attention to abuse in sugar trade. Personally, I believe that the a/m document has been made rather clumsy, especially because it contains certain political qualifications, groundless data, and mistranslation. Some parts are rather imprecise, and contradictory to the later findings of the police.”

Discrepancies in the Government data

The reports of the Government Commission for the Sugar Production and Trade Monitoring reveal serious discrepancies. According to the Ministry of Economy, total production, stock and sugar import in Serbia in 2001, 2002, and till May 2003, amounted to 652,184 tons, and total export for the same period 331, 024 tons. The difference, which refers to consumption (Ministry offers no data on consumption), was 321,160 tons. According to the evaluation on which the Government authorities agree, the lowest sugar consumption in Serbia is app. 220,000 tons annually, which means that total sugar consumption for the given period was app. 520, 000 tons. Thus, the very data of the Government Commission shows a “surplus” of 198,840 tons of sugar, that was neither produced, or existing among stocked sugar, nor was it legally imported, consumed or legally exported.

During the elaboration of the previous Sugar Export Report of the Council, we have noticed discrepancies in the quantities of the imported and customs cleared sugar, and those with certificates proving they were suitable for the domestic market traffic. This means that, either the balance between the customs cleared and certified sugar has been put into traffic without necessary inspections, usually rigid ones because they refer to food, or that it was not intended for the domestic market, but imported to receive the preferential Serbian origin, and re-

exported to EU. Minister Mr. Pitic responded as follows:

“Further to your letter number 72/116 of 9 October, 2003, forwarded by the Ministry of Economy, and on behalf of the Commission for Sugar Production and Trade Monitoring, we point out as follows:

- during the import of food qualified labs always perform sample analysis. Afterwards the Market Inspectorate issues a certificate of quality for the export-oriented goods. This declaration confirms that goods whose sample has been tested equals the quality stipulated by the prevailing Regulation;
- besides quality control, fitosanitary and vet control are being performed, upon which the inspectors issue the Certificate of fulfillment of the fitosanitary and vet conditions. On the basis of the issued certificates the customs officers carry out the customs clearance of the imported goods;
- inspectorates of the Federal State have been issuing the a/m certificates during 2001 and 2002. By enactment of the Law on Ministries in May 2003 (Official Gazette of the Republic of Serbia, number 47/03), food quality control, as well as fitosanitary and vet check up, has been transferred to the Ministry of Agriculture of the Republic of Serbia.

You requested data on *Decisions on trafficking of the imported sugar*. Having in mind the a/m, we inform you, that prevailing regulations do not stipulate the issue of such decisions. Please revise your request more precisely, in order to receive an adequate response.

Kind regards,
Minister
Mr. Goran Pitic

Minister did not respond to the second request of the Council of 17 November, 2003. Obviously the problem has not been the inaccuracy of the request, but the requested data.

We, hereby, quote our letter of 17 November, 2003:

With respect to your letter of 22 October, 2003 and further to our request, please provide data whether market inspector issued the Certificate of the quality of the export – oriented goods for the imported sugar in 2001 and 2002, according to the mentioned list:

Year 2001

| | Customs cleared (in tons) | Certified with STI (in tons) |
|------------------------------|-------------------------------------|---|
| 1. MK COMMERCE, Novi Sad | 22.000 | 0 |
| 2. Beograd, Zemun | 4.998 | 0 |
| 3. Voćarlutka, V. Župa | 5.920 | 275 |
| 4. Međ.dist.šeć.isd, Beograd | 5.042 | 4.350 |
| 5. Swisslion, Novi Sad | 3.997 | 0 |
| 6. Tehnotron, Valjevo | 2.419 | 200 |
| 7. SI&SI comp. Subotica | 1.995 | 0 |
| 8. Pistolato, Valjevo | 1.750 | 0 |
| 9. Jugošećer, Beograd | 1.597 | 2.000 |
| 10. Agraxtraiding, Beograd | 1.314 | 724 |
| 11. Furta, Osečina | 1.400 | 0 |
| 12. Banat, Vršac | 1.400 | 0 |
| 13. BIP, Beograd | 1.150 | 0 |
| 14. Šećerana, S. Mitrovica | 1.000 | 0 |
| 15. Stork, Kula | 1.000 | 0 |
| 16. Delišes, V. Han | 1.160 | 0 |
| 17. Starproduct, Čačak | 1.030 | 0 |
| 18. Mediteraninv, Pirot | 968 | 0 |

| | | |
|------------------------------|-----|-----|
| 19. Subotičanka, Subotica | 810 | 0 |
| 20. Stevanović CO, Novi Sad | 858 | 0 |
| 21. Suvoće, Subotica | 750 | 0 |
| 22. Nectar, B. Palanka | 800 | 0 |
| 23. PNAGROEKONOMIK, Beograd | 596 | 0 |
| 24. Kogokom. Zemun | 534 | 0 |
| 25. Foodline, Vršac | 650 | 0 |
| 26. Ravanica, Čuprija | 550 | 0 |
| 27. Jenex, Beograd | 500 | 750 |
| 28. Takovo, Gornji Milanovac | 522 | 0 |
| 29. Zaječarka, Beograd | 500 | 0 |
| 30. Jobson, Beograd | 600 | 800 |
| 31. Vitaminkaprod. Niš | 547 | 0 |
| 32. PKBVOĆ. Plant. Boleč | 500 | 0 |
| 33. Pivara, Niš | 500 | 0 |
| 34. Monteprom, Valjevo | 400 | 0 |
| 35. Banini, Kikinda | 407 | 0 |
| 36. Paraćinka, Paraćin | 400 | 0 |
| 37. Coloseum, Kraljevo | 480 | 0 |
| 38. Interflex, Čačak | 300 | 100 |
| 39. Polimark, Beograd | 300 | 50 |
| 40. Šebex, Čačak | 320 | 230 |
| 41. Interdil, Nova Varoš | 292 | 0 |
| 42. Beofruto, Beograd | 261 | 0 |
| 43. Centroproizvod, Beograd | 250 | 0 |
| 44. Kondivik, Vršac | 300 | 0 |
| 45. Jaffa, Crvenka | 200 | 0 |
| 46. Euroagent, Vrbas | 241 | 0 |
| 47. Kvele, Novi Pazar | 280 | 0 |
| 48. Miloduh, Kragujevac | 200 | 0 |
| 49. Voćar, Koceljeva | 174 | 0 |

| | | |
|----------------------------|-----|-------|
| 50. Clascom. Čepure | 195 | 0 |
| 51. Acikokom. Kraljevo | 192 | 0 |
| 52. Mladostpro, Grocka | 176 | 0 |
| 53. Gakprom, Futog | 200 | 0 |
| 54. Milleniumtrade, Zemun | 100 | 0 |
| 55. Fabrika šećera, Kovin | 145 | 0 |
| 56. Atanasijavić, B. Jarak | 128 | 0 |
| 57. Oriontrade, Novi Sad | 117 | 0 |
| 58. Novasloga, Trstenik | 100 | 0 |
| 59. ITH, Novi Beograd | 1 | 2.650 |
| 60. IBP Beograd | 0 | 1.000 |
| 61. NB Aplex | 0 | 100 |
| 62. Nova pet | 0 | 200 |

Year 2002

| | Customs cleared (in tons) | Certified with STI (in tons) |
|------------------------------|-------------------------------------|---|
| 1. MK COMMERCE, Novi Sad | 22.255 | 19.516 |
| 2. Voćar lutka, V. Župa | 9.067 | 0 |
| 3. Beograd, Zemun | 8.000 | 0 |
| 4. Swisslion, Novi Sad | 3.133 | 0 |
| 5. Banini, Kikinda | 472 | 0 |
| 6. Bolvesani, Novi Beograd | 1.134 | 1.605 |
| 7. Medela, Vrbas | 1.000 | 500 |
| 8. Oztrade, Novi Sad | 1.255 | 0 |
| 9. Jobson, Beograd | 800 | 1.502 |
| 10. Žitokomerc, Bobište | 678 | 4.946 |
| 11. SI&SI comp. Subotica | 548 | 1.639 |
| 12. Ind. hra. Dunja, Beograd | 460 | 115 |
| 13. Jaffa, Crvenka | 398 | 199 |

| | | |
|-------------------------------|-----|-------|
| 14. Fruta, Osečina | 500 | 800 |
| 15. Koran, Priboj | 442 | 0 |
| 16. Wunder, Niš | 240 | 0 |
| 17. Polimark, Beograd | 226 | 66 |
| 18. International CG, Beograd | 216 | 48 |
| 19. Selekcija, Aleksinac | 137 | 0 |
| 20. Brazdacoop, Inđija | 212 | 0 |
| 21. Pionir, Subotica | 99 | 1.045 |
| 22. DELYUG, Novi Beograd | 49 | 200 |
| 23. Adriaticcorporation | 0 | 112 |
| 24. Centrožitarice | 0 | 137 |
| 25. IBP Beograd | 0 | 6.000 |
| 26. IPB | 0 | 1.000 |
| 27. Subotičanka | 0 | 450 |
| 28. Yucom | 0 | 229 |

The Report of the European Commission, upon which in February 2004 sancitons on the sugar export to Serbia were extended, quote this problem as well:« Records show that the sugar imported and customs cleared during 2001 and 2002 has not been registered in the Ministry of Finance, and Commercial Inspection, which proved that the end buyer did not report the significant quantites of the sugar imported to Serbia.«

Crucial facts

The EU's Decree, number 2007/00 of 18 September, 2000, and RC addendum 2563/00 of 20 November, 2000 opened the market for the import of sugar produced in Yugoslavia and other Western Balkan countres, without restrictive measures or levies.

Significant sugar export to the EU countries began on 1 August, 2001, upon awarding of the first quotes for the sugar export. Until the imposition of sanctions on 22 May, 2003, the quantity of 352,063 tons of sugar, at average price of 600 euros/ton, were exported to the EU countries.

Serbia gained the possibility for the preferential sugar export in 2000 year, when, in fact, it was an actual sugar importer, because the production in that year amounted to 119, 178 tons, which was less than the annual domestic market consumption, starting from 220,000 tons (Government's official data) to 280,000 tons (according to the analogue sugar refineries data, company "Jugosecer«, and the former Minister Mr. Veselinov). Vojvodina represents the most favourable region of the Central Europe for the production of sugar cane, namely, only 7 % of the arable land covers the production of 750, 000 tons of sugar, and existing processing capacities, i.e. 15 sugar refineries.

The EU's decision represents a gesture of good will to help our country and the Government in overcoming economic difficulties from the past period, and contribution to the economic rehabilitation of our country. The goal was to direct the positive financial outcome from the export to the protected European market to the sugar refineries, i.e. their financial comeback, better production of sugar cane, i.e. creating conditions for the sugar production we used to have in the nineties, when our industry was equal to the production of the Western countries. In 1990, the production amounted to 600,000 tons.

Sanctions were imposed due to the enormous export increase which did not originate from the domestic production. In 2002, when serious warnings from the EU have started, 159,617 tons were exported, and in the first five months in 2003 another 115,260 tons, which totals 274,877 tons of sugar exported from the processing campaign in 2002. The total campaign in 2002, moreover, amounted to 270, 517 tons, which means that we have exported more than the actual total sugar production in that year. Let's review the facts again:

| | |
|--------------------|--------------|
| Production in 2000 | 119.178 tons |
| Production in 2001 | 211.873 tons |

| | |
|-----------------------------|--------------|
| Production in 2002 | 270.517 tons |
| Import in 2001 | 76.663 tons |
| Import in 2002 | 63.956 tons |
| Import in 2003 (till 7. 5.) | 40.884 tons |
| Export in 2001 | 77.184 tons |
| Export in 2002 | 159.617 tons |
| Export in 2003 (till 7. 5.) | 115.260 tons |

Trough a very simple procedure, of suming up total production and import in a respective year, and then subtracting total consumption and export, indisputable smuggled quantities apperar, which can not be discredeted. Taking into consideration the period from preferential status to its suspension, we see that the total production in this period amounts to 601,568 tons, total import 181,504 tons, which means that the total available sugar quantity amounted to 783, 072 tons and total consumption and export for that period were 862, 061 tons, meaning that, within the annual domestic market consumption of 220, 000 tons, accepted by the Government's officials (and probably less then the actual consumption), the produced and legaly imported sugar quantities were exceeded by more then 109,990 tons of exported or consumed sugar.

Once the stocks, on 15 May, 2003 - 86.330 tons, are added, and subtracted from the available sugar quantity, the amount of 196, 320 tons of sugar, exported from Serbia during 2001, 2002, till May 2003, without being produced in Serbia or legaly imported, appear.

The proof that the Ministry for International Economic Relations and Ministry of Economy knew that large quantities of sugar were being smuggled, is that they had tried to conceal those quantites in their reports, by covering data of the annual sugar consumption in Serbia, which enabled them to quote the rest of the information correctly (production, import, and export), thus blurring the smuggle issue.

We have already stated that the sugar export suspension was extended for six months in February, which has opened a way to choke this industry in Serbia. Sugar export analysis is not complete without, at least, a partial analysis of the sugar refineries privatization.

Financial impact of the preferential sugar export did not contribute to a welfare of sugar refineries and their preparation for privatization procedures. The most obvious consequences of the sanctions are visible in the sugar refineries fiasco, and withdrawal of the producers like AGRANA, SFIR, ST. LOUISE SUCRE, SHAFFER AND ASSOCIATES, from the participation in the privatization process.

Analysis of the Privatization Agency's Report on the Privatization of Sugar Refineries

The Agency's Report quotes that sugar refineries »Backa« in Vrbas, »Zrenjanin« in Zrenjanin, and »TE-TO« in Senta were privatized in compliance with the previous Law; while sugar refineries in Bac, Kovacica, Crvenka, Pecinci, and Zabalj were privatized according to the new one, i.e. at public tenders; that sugar refineries in Kovin and Sremska Mitrovica are in the process of privatization at public auction, and sugar plants in Cuprija, Belgrade and Sabac are in the process of reconstruction. It also quotes that the sugar refineries in Pozarevac and Srpska Crnja can not be privatized, because they went bankrupt.

Agency's review of the sugar refineries privatized in compliance with the new Law and at tenders, offers only a schematic insight in the privatization procedure, underlining that the emphasis was to ensure necessary investments for reconstruction of the outdated production capacities, and improvement of the functioning of the sugar refineries.

It states that privatization ensures significant funds for the investment and social programs of these enterprises. According to the analysis that was the main reason for the sale of the three sugar plants to "MK Komerc" at the price of 183 dinars,

but without any data on how the mentioned contracts were performed, taking into account that they were signed in October 2002.

Important data on investments made so far are missing.

Sugar refineries in Sremska Mitrovica and Kovin were said to be the two least attractive sugar refineries, which led to public auctions, actually four unsuccessful attempts in last 14 months, to be more precise. These two sugar plants have not been operative for some years, and the Agency's starting price was 86 to 152 millions dinars, and total bid value from 238 to 194 millions of dinars. These sugar refineries have not been given the opportunity to privatize themselves at tenders for, let's say, a price of 183 dinars, where future investments and social programs would represent the main value of the bid.

Major American sugar producer SHAFFER AND ASSOCIATES in Louisiana, expressed considerable interest in the sugar plant in Kovin, considering it very attractive, both from a technological aspect as from its strategic position (close to the river Danube), but wasn't willing to purchase it for the starting price of EUR 2.500, 000, with obligation of accrued debts settlement and equipment investments. SHAFFER AND ASSOCIATES' representative said that his firm suggested the sugar plants should undergo a tender privatization, because it was not a custom to sell large factories at auctions, but their suggestion was rejected, and SHAFFER AND ASSOCIATES withdrew.

Regarding the three sugar plants already in a process of restructurization, only scarce data have been given, and, hereby, we quote, basic data for the oldest sugar plant in Serbia, "Dimitrije Tucovic" in Belgrade:

Our oldest sugar plant has been established in 1898 and the founder was a joint-stock company from Regenzburg and Kingdom of Serbia. Today it is a socially-owned company with 105 years of tradition in sugar production. Sugar plant in Padinska Skela represent a newly constructed sugar plant with operating capacity of 10,000 tons of sugar cane per day (border capacity in EU). It is situated within the limits of Belgrade market, and represents one of the most cost-effective economic subject in Belgrade, and in the conditions of full operational capacity it employs around 30, 000 workers. The plant has not been

working since 1998, therefore, due to the insufficiency of the working capital and on the basis of the public advertisement Italian company SFIR was chosen to be the most favourable bidder for the lease of the plant. During the negotiations with this company, the investment for the production revitalization and debts return of 36,500,000 DM was agreed upon, but foreign partner asked for certain warranties from the Ministry of Economy and preferential status, i.e. priority in purchase process during the process of privatization. On suggestion of the Ministry of Economy this potential business cooperation was stopped. In September 2002 the Privatization Agency decided to initiate process of sugar plant restructuring. The procedure has been ended in October 2003, by submitting the proposal of the sugar plant restructuring to the Privatization Agency. The plant, however, was not privatized, the Agency did not undertake any other steps, the company is still out of work; 182 workers out of 359 volunteered as redundant staff, and 177 of them, scheduled to continue the production, are still out of work and receive no remuneration. These workers have protested in front of the Government's offices, and their only concern was a potential bankruptcy, for they hoped that privatization would compensate for, at least, part of their lost earnings. Agency's Report does not reveal why the partnership between the Italian SFIR with the sugar plant in Padinska Skela was not accepted, considering that they accepted to pay out the debts and restore plant production in 2002. Instead the procedure for debt decrease restructuring were introduced, and after its completion no strategic partner was found, nor was any sale attempt made. The sugar plant in Zrenjanin was privatized in compliance with the previous law, and this year it ceased its production for the first time since 1911. On 12 February the Government of Serbia reached the conclusion by which Programme of revitalization of the production of the sugar plant AD«Zrenjanin» was adopted, advising Ministry of Economy to grant the use of the subvention funds to the sugar plant, amounting to 20 millions dinars in order to animate the production of this company. The a/m Report of the Privatization Agency quote that this sugar plant, and others privatized in compliance with previous law, are no longer in the responsibility of the Agency. We have, however, asked for the Report from the

relevant Ministry expecting it would contain as follows:

- What did the Government do for the revitalization of this sugar plant since the implementation of the governmental measures in June 2003?
- Why wasn't the procedure for the damage indemnity initiated, since the Report forwarded to the Government states that the damage was more than 100,000 dinars?
- If and when did the sale of 60% of shares transferred to Share fund take place?

Press reveal other sugar plants data which do not occur in the Report of the Ministry. The article in the daily newspaper »Politika« of 26 January, 2004 quote, that after the tender sale of three sugar plants to "MK Komerc" at the price of 3 euros, the American company Sheford turned to the Republic Government suggesting the purchase of six sugar plants, currently closed, at 10 USD, but with obligation to pay out their debts and re-invest in their production, but were turned down.

The Ministry's Report on sugar plant privatization does not show the conceptual approach to the sugar plant privatization, nor a privatization plan, though elaboration of the rehabilitation study was pending. Capital value data are not precise, because they do not contain many additional data, stocks, goods and material for the reproduction, unfinished production, ownership over other objects not connected to the sugar production, and whose sale could facilitate debt payment, or at least part of them (hotels, stadiums, special warehouses, old sugar plant in Cukarica, etc.). Moreover, a respective analogue analysis of the tender and auction conditions is missing, indicating that tenders are far more favourable. Furthermore, auctions start with mindless sums of money, followed by big debts and productionless for long number of years, aiming to decrease the interest, and thus becoming a lesser threat for the already sold sugar plants. The question is, why auctions were not swapped with tenders, when they gave expected results and when interested buyers insisted on them.

Tender privatization have been performed in five sugar plants which did not stop

its production and which, in the autumn when they were sold, produced 156,472.6 tons of sugar, sold at 600 euros/ton. Three sugar plants bought by "MK Komerc " for 549 dinars, produced in that autumn 62,057.1 tons of sugar.

Recommendations to the Government

Sugar export to the EU analysis and privatization of the sugar plants offer a complete insight of devastating power of the corruption in this country. Even such transparent data of sugar smuggle, which led to the sanctions two months after the admission to the Council of Europe, did not provoke the reaction of the state institutions in charge. Ministry for International Economic Relations, in cooperation with other bodies of the executive authorities, enforced the action of covering up and concealing the actual cause. It was the case of an obvious corruption, where public interest was completely annulled, and the authorities acted in the interest of a very narrow group of people.

Our suggestions to the Government of Serbia, are as follows:

- to determine a set of measures aimed to discover the faults which led to sanctions on sugar export, and ruin of almost entire sugar industry;
- to establish, according to the list of importers and exporters, the exact flow of the exported sugar, and financial impact of the export at preferential

prices, as well as potential profiteers;

- to authorize an independent auditing agency, which has not participated in privatization proces so far, to perform a complete analisys of the present sugar plant privatization, especially of the existing sugar stocks of the privatized sugar plants exported at the preferential regime, and if and in what way did it affect the sugar plant sale and functioning;

- to pay a particular interest in determining the assets of the sugar plants, together with the ones not connected with the production, the potential impact from their sale on the market independently from the sugar plant sale, for instance, how would the sale of the old sugar plant in Cukarica affect the reduction of the financial loss of the oldest sugar plant.

According to Mr. Radovanovic from the Institute for Crime Investigation, police may, in the course of two months, determine the path of the smuggle, and the responsible ones, but until now no political will has been expressed. We believe that the sugar smuggle, EU's sancitons, and destruction of sugar plants, may be a strong foundation to acumulate and express a political will, reassuring this country's citizens that the hidden power centres can not invalidate the public interest by corruption, and that the state institutions in charge are willing and able to protect them.

The Anti-Corruption Council
President
Ms Verica Barac

Belgrade
9 March 2004