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CONTRACT FARMING ASSESSMENT FOR KOSOVO

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



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CONTRACT FARMING ASSESSMENT FOR KOSOVO

Kosovo Cluster and Business Support project "Contract Farming assessment for Kosovo"
Contract No. AFP-I-00-03-00030-00, TO #800

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PURPOSE OF ASSIGNMENT

This assignment is designed to assist producer groups to create growing agreements with processors, retailers, and wholesalers. Farmers groups currently engage in ad hoc forward purchase contracts with processors, retailers, and wholesalers. The purpose of this assignment is to bring together these groups and assist formalizing their growing arrangements. Banks may serve as intermediaries in these transactions. KCBS may also serve as an intermediary given USAID consent.

BACKGROUND

Growers groups and associations in Kosovo are poorly integrated with processors and retailer/wholesalers. There is a lack of trust between the different groups and the informal growing agreements that currently dominate Kosovo do little to foster transparency or sustainable relationships.

In this context, a framework of possible formal arrangements for contract growing is missing. Farmers generally create informal deals with multiple parties and have little control over the final price that they receive for their product. Processors who do create formal arrangements often receive product that is of inferior quality.

The creation of formal contract farming arrangements is an important step towards reestablishing trust and creating and creating positive conditions for increased access to credit for both producers, processors and retail/wholesalers.

Current production possibilities include: Potatoes; Tomatoes; Blueberries; Peppers; Cucumbers; Watermelon; Juniper berries; Strawberries; and Apples.

EXECUTIVE SUMMARY

There is still much to do in structuring good and sound businesses that will insure a profit to both growers and processors. Having a contract between suppliers and buyers, as indicated, should not be viewed as the final objective, but as an instrument that permits all parties involved to implement their best actions i.e. improving yields, lowering costs, access to cheaper financing, timely production process and logistic aspects.

It is very important to transmit to both parties involved in a contract that besides the direct commercial benefits of having a contract, the fact that the contract also helps to facilitate access to credit and might improve terms already given by commercial banks.

The process of changing the way day-to-day business is conducted requires hard work to achieve positive results. This is usually achieved over a period of time during which experience is being built. KCBS must be a strong communicator to both growers and processors the importance and benefits of changing the "business as usual" attitude existing in Kosovo.

In summary, KCBS should create a number of formal forward purchase contract alternatives that may be used to facilitate purchase agreements between producers, processing companies and retail/wholesalers for products identified while in the field. They should also conduct meetings between producers and interested parties to effect contract growing arrangements.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

Structuring contracts for a business has quite specific terms and conditions depending on the particular business, yet can be used as a template for other business and modify annexes like product specifications, prices and delivery terms.

It was agreed to focus on the following business:

- 1) Client : Pestova – Fresh potato processor
- 2) Client: Abi & Elif 19 / Progress – Canned vegetable processor
- 3) Client: Anadrini – Association of vegetable farmers
- 4) Client: Delta Pomefrits & Luko – Processed potato processor

1) Client : Pestova

Location: Pestova

Contact person : Bedri Kosumi

Product line: Fresh bagged potatoes & processed potato

Pestova, is a fresh potato producer and processor. 80% of the company sales come from classification and sales of fresh potato into the fresh market under his Pestova brand. Pestova is expanding activities to include frozen french fries and potato chips. Both products are now in a beginning stage of both processing and marketing. Both processing activities are being supported by STTA assistance by KCBS.

Pestova at this time has a demand of 200 ha potato production; of this, the company produces 100 ha and informally contracts another 100 ha from third parties. Mr. Kosumi expressed his concern at the current high interest rates (12-14% p.a.) in Kosovo as compared to 4-5% available in Serbia. This makes his product more expensive in the market and he finds it difficult to compete with imported frozen french fries and potato chips.

He indicated that he has adequate supplies of potatoes to meet his demands and that the company has informal agreements with producers, but based on my analysis these agreements are vague and open for both parties. More importantly these agreements do not state product specifications, prices and other terms. The company did agree that with a more formal contract they would be able negotiate lower interest rates from banks active in Kosovo. My perception is that since his supply of raw material is abundant the company sets prices in their advantage as long as adequate supplies are available.

Pestova also represents a Dutch supplier of potato seeds that can be used for both the fresh or processed market. I did not see that Pestova has a differentiated farming agreement and supply plan for potatoes to be sold on the fresh market and the potatoes to be used for processing. In the case of the processed potato products, firm contracts with set prices and specifications can be made with producers since sales prices of the finished products are stable. Attached is a model of a contract.

KCBS should work also with Pestova's growers to identify constraints or opportunities to improve their business either by increasing the revenues per hectare or lowering their productions costs.

[Annex 1 Attached – Proposed contract model for fresh potato](#)

2) Client: Abi & Elif 19 / Progress

Location: Prizren
Contact person: Irfan Fusha
Product line: Canned vegetables

Abi & Elif 19, also known by its brand name Progress, is a processor of fruits and vegetable products i.e. marmalade, jams and jellies, ketchup, peppers, cucumbers, green bean and other products. Progress is a reputable brand and has been in operation since 2001. The business of Abi & Elif 19 is a SOE facility operated under an open-end lease agreement, which means they can be removed from the facility once it is privatized at a future date. However they could also participate in the bid for the facility and if successful they would become owners. Due to existing legal conditions it is unadvisable that Abi & Elif 19 make investments to improve the production process. Progress has a market slot, however quality is poor compared to brands coming from Macedonia, Slovenia and Montenegro. It is critical that the facility is privatized as soon as possible so that both quality and efficiency can be improved.

Progress supplies of fruit and vegetables are from open market purchases from various suppliers without major distinction of quality or price. This means that supply is unstable, however Progress can also import from Turkey and Bosnia if the local fresh market is higher than imported fruit. Last year Progress bought 500 MT of peppers from different suppliers, however their agreement did not state quality parameters or delivery times. Regarding prices Progress did state estimated prices, yet on a foot note it was indicated that prices would be determined by open market prices at the moment of delivery, this contributes very little to having a firm and fair agreement between processor and grower.

The difficulty in developing a sustainable business relationship between Progress and their suppliers is not only the lack of a formal contract but also the fact that neither supplier nor processor are willing to commit to each other and both engage in a spot buying/selling when harvesting time comes. Explaining to both parties the benefits of having a fixed contract with identified terms and conditions is an area that should be addressed by KCBS.

Annex 2 – Current contract with supplier

Annex 3 – Proposed contract with supplier

3) Client: Anadrini
Location: Xerxe
Contact person: Shyqeri Krasniqi
Product line : Association of vegetables producers

The purpose of this visit was to determine, from the supply side, the limitations and constraints that a contract might solve regarding their association members business with processors or buyers in general. Anadrini is an association whose members are from 6 villages and number 7000 families; farm size varies from 0.25 ha with a few large farms up to 30 ha.

The agreements they have had in the past (annex 3) are very vague and open in terms and conditions such as price, quality and delivery time. It is my opinion that Andrei should have clear contracts that reflect the terms between Andrei with their buyers that will give protection and control to Andrei in case their members fail to deliver contracted supplies as per the terms agreed.

There has to be more participation between KCBS and Anadrini in terms of STTA regarding knowledge of production costs and improving income to the growers, not only by negotiating higher prices but also by improving yields and quality. An example of this was when we discussed current market prices of peppers, and how low it was due to oversupply by both local production and imports. It was evident that the association had no idea as to production costs or yields. A quick analysis tells you that at the prices we were given, growers were making a very high profit. But according to the association, growers were not even breaking even with production costs. Meaning that production per hectare was either below standard or production costs were too high. KCBS should be working with Anadrini and their association members to understand what must be done to improve the flow of production information.

Attached is a model contract between the Association and its members that provides the association formal tools to assure commitment from their members/farmer. This contract gives the right to Anadrini to take control of the crop in case the farmer/producer fails to follow the provided technical assistance or to deliver the product to Anadrini.

Annex 4 – Proposed contract model with members of association (Anadrini)

4) Delta Pomfrits

Location: Gjilan

Contact person: Enver Sherifi

Product line: Frozen French fries

Delta Pomfrits is an expensive artisanal french frie processing facility with sales of Euro 90,000 a year. Their high quality, packaging and affordable prices at retail level gives them an advantage in the market. Once financing is secured the company plans to expand their production. To date all equipment has been acquired using personal funds.

Delta Pomfrits require 300-350 MT of potatoes a year. This is produced on 26 ha, 6 ha of their own production and 20 ha contracted with 7 growers. Quality and sizes are extremely variable (see picture), creating inefficiencies in processing and unless corrected the business has little sustainability.

Varieties used are Agria and Fontana, seed of both varieties is imported by Delta from Holland, and are given to farmers in advance of the season. However their current terms and agreement do not require the farmers to deliver all production to Delta, only a ratio of 1:2 seed vs. fresh potato leaving the balance of production to be sold on the open market. In this case there is no commitment from the grower to farm for Delta specifications, as only a small portion of production will be purchased by Delta at open market prices.

The main problem is that out of the total amount harvested only half meets specifications and is delivered to Delta. The company requires a potato between 5cms to 12cms; the balance of production has no market and most of the time the farmers have to sell it for any price they can find. Delta does not fix the price before the season or before seed is provided. Prices are settled at market level once the crop is harvested. This season the price is fixed at 0.11€ per kg for production meeting size requirements. Considering that the majority of fruit delivered falls in the lower end of the size range the company might consider increasing the price for larger fruit and encourage better production practices while increasing processing efficiency.

This business will find it hard to succeed unless production techniques are improved to increase potato size and quality and this can only be accomplished by working with the growers.

KCBS has done variety test plots and provided technical recommendations to farmers, it is my opinion that a more active role beyond recommendations and test plots should be implemented. This means working together with the farmers and assuring that recommendations are being followed during the growing stage of the crop. This might be accomplished by hiring local technical assistance, managed by KCBS with presence of the processor and take the farmer through the first learning curve of production. I have also noticed farmers who are growing dual purpose potatoes are not following production practices recommended to meet the processors needs

By promoting contracts KCBS is mitigation two major constraints, building trust between farmers and processor, and assuring that both producer and processor are making money. This will promote the sustainability required to take the business into the next level.

Finally, the processor could and should set prices by size and quality before the season.

Annex 5 – Proposed contract for fresh potato for Chips (this model can be applied to most potato for industrial use, specification sheet needs to change)

TASK FINDINGS

The main focus of my assignment was to design and structure adequate contracts between suppliers such as farmers or associations of farmers and buyers such as food processors, wholesalers and others. For that purpose I had to analyze the current relationships between producers and buyers so contracts are not seen as a piece of paper waiting to be broken but to be as a vehicle to make strong and sustainable business.

As agreed with the Senior Cluster advisor I would focus on certain business and specific clients and develop contract models that would help to finalize negotiations between supplier and buyer of each particular business.

Studying previous assignments contracted by KBS, between 2000 and 2004 I found interesting reports of short term consultants that assessed similar issues we are discussing today, Pierre Deutsch August 2003, John Cancelrich January 2004. Most of these indicated identical problems that exist today, lack of trust, commitment etc. Yet most are focused on the efficiency of the processing and marketing end of the business.

My approach on this assignment is for KCBS and the buyer to look and work closer with the supply side in order to give suppliers higher economic returns for crops produced. This way contracts will not only be signed but will be fulfilled year after year. For a contract to be signed and work, the contract must be beneficial to all parties involved particularly in Kosovo where a buyers market exists.

Part of my work was to develop contracts that would strengthen the relationships between suppliers (farmers/associations) and buyers (processors). In addition I would offer some recommendations on how to improve those relationships that will give the contracts signed a real business sense by all the parties involved and would give both parties the incentive to fulfill contracts.

There has been a perception that legal agreements cannot be enforced due to the current situation in Kosovo. Also the lack of institutions limits, to a certain extent, the possibility to enforce most contracts. However a duly signed contract which includes clauses that will give an entity like the Kosovo Chamber of Commerce (Law No. 2004 / 7) the right to act as mediator for controversy or dispute can provide contracts a more solid and formal agreement document. – Attached.

http://www.unmikonline.org/regulations/2005/RE2005_30_ALE2004_07.pdf

Despite the ability to enforce a contract or penalize a default; in practice can be considered and a Document of Understanding between parties where good faith and business to be made will become the core element of the fulfillment of such document.

Kosovo has 11,000 sq. kms and 2 million habitants, where aprox. 400,000 hectares is land with efficient agricultural potential. At the same time Kosovo has nearby countries that are capable to supply by truck most of the agriculture products that Kosovo produces which becomes serious competition for the domestic production. For example, the truck distance from some neighbors countries are shown in the table below.

However regarding inland transportation of goods and services inside Kosovo, the road system throughout Kosovo insures efficient trucking of produce from the farms to the point of sale. In addition sufficient farming infrastructure such as tractors, greenhouses and irrigation systems would lead you to a conclusion that Kosovo has the basic infrastructure necessary for an efficient farming system to supply both the domestic demand or to be exported to processors in nearby countries.

Greece	: 6-8 hours	
Albania	: 8-10 hours	
Macedonia	: 4-6 hours	
Italy	: 3-4 days multimodal ocean-truck	
Croatia:	12- 14 hours	
Montenegro	: 3-8 hours	

Processors on the other hand are companies that are either relatively new investments or SOE (State Owned Enterprises) in the stage of being privatized www.kta/kosovo.org and have not indicated a lack of supply as a constraint to operation. This is because they can import products if local production is not available. This provides processors a negotiation edge in case farmers are not able to sell their goods in the open fresh market. This situation where suppliers and buyers each do business independently and will engage in a transaction only when beneficial to each other, makes the produce business in Kosovo unstable and with little chance to expand and leaves the farmers at the mercy of imported produce.

Though my SOW is focused on the design of a production contract, there is still much to do in structuring good and sound businesses that will insure a profit to both growers and processors. Having a contract between suppliers and buyers, as indicated, should not be viewed as the final objective, but as an instrument that permits all parties involved to implement their best actions i.e. improving yields, lowering costs, access to cheaper financing, timely production process and logistic aspects.

Finally the approach of KCBS is focused to support the client, who usually is a processing company and their main constraints, i.e. market development, processing and others. Yet there needs to be an equal attention to the constraints of the supplier and KCBS should assist producers as well in order to improve farm production sustainability. By doing this KCBS starts mitigating one major constraint, trust between supplier and buyer by acting as referee of “fair business” and helping both parties to form relationships and start building mutual trust.

It is very important to transmit to both parties involved in a contract that besides the direct commercial benefits of having a contract, the fact that the contract also helps to facilitate access to credit and might improve terms already given by commercial banks. This is very important because Kosovo’s private banking system has less than 3% of their loans in the agriculture sector, while commercial activities has nearly 50%. By having adequate contracts and agreements the business itself has less risks, will become a productive-trade business, which has a better perception by the banking system.

The process of changing the way day-to-day business is conducted requires hard work to achieve positive results. This is usually achieved over a period of time during which experience is being built. KCBS must be a strong communicator to both growers and processors the importance and benefits of changing the “business as usual” attitude

existing in Kosovo. This should provide actual results, resulting in better business for suppliers and buyers.

I prepared a model of a presentation that KCBS might have to present when discussing with suppliers and buyers about the new approach. It represents a different way of doing business looking at his counterpart as partners rather than competitors.

If KCBS clients do not share these thoughts, KCBS should identify and work with clients that do. We should keep in mind that our approach starts with a secured market, meaning good buyers for fruits and vegetables. As in the case of Alcred, the Albanian food processing company, KCBS will have to find buyers outside Kosovo willing to contract with Kosovar suppliers.

CONCLUSIONS AND RECOMMENDATIONS

Recommendations to KCBS to achieve a sustainable business agreement:

- A) Adjust the message to the clients: The goal is to produce on a per order basis given a signed contract. To reach this point KCBS should identify constraints and possible solutions for each specific business. As an example, work on a business plan to organize the supply to Delta Pomfrits with 350 MT of French Fries variety potatoes based on a quality, delivery and price stated in the contract.
- B) Evaluate costs and income of the suppliers (farmer) engaged in a specific business: Talk with the growers themselves and break down all his current costs from field preparation to harvesting costs and transportation to determine if they cash flow situation. This is an exercise that should be done when proposing new varieties, growing techniques and post harvest recommendations. For this purpose KCBS will have to use local agronomists possibly on a product basis to spend time with the farmer and take him through every stage of the business.
- C) Discuss with processors the need for new varieties that will produce better yields for processing and that meets the quality required by customers. In most cases there is no need to “re-invent the wheel”, but to do some investigation of what other successful companies are doing in places with similar growing conditions, for example what varieties are being used and if modified production practices must be used for a better finished product.

In most cases I have seen that these issues at the processing level are easier to improve as long as they don't require major investment in equipment. Also it is important to convince processors to insert themselves in the supply side by providing seeds or other inputs. In other words sharing a portion of the risk, since growers will be farming for them.

For both points above, the focus point is not necessarily production but productivity.

- D) Identify processors willing to change their mentality: It becomes critical for the project that the clients that are processors are willing to upgrade their business mentality toward procuring raw material. It is clear that there is no reason why a processor will not be interested to have a secure supply of raw material that also incorporates quality and fixed prices. Most processed goods like canned, frozen, juices etc. do not have monthly price variations; therefore these companies can fix prices based on quality and delivery time. It is my understanding that Abi & Alfi Progress is one of the most important canning facilities in Kosovo. It is very important that the processors are willing to set prices to secure purchase conditions and not continue to speculate. Even if this or another company will move forward with our approach, KCBS needs to have an active search for processors within and outside Kosovo, especially in Macedonia where the food industry has a good reputation for quality and sanitation in Western European countries and in the U.S. (see contact list of Macedonian Tomato, Pepper and Apple processors by Roman Herchak – March 5th 2003). Also make contact with Albanian and even Bulgarian processors.

The example of Alcred is very interesting and has a potential to grow under our scheme. Alcred is a solid company that freezes fruits and vegetables in Albania. What I learned from their website www.alcred.com their main bottle neck is

regular, high quality supply since they have a strong export market in Western Europe like Germany. So Alcred will be quite interested in working with Kosovar farmers technically guided by KCBS to provide them with timely, quality product. I am quite positive that engaging in well planned discussions with serious processors inside or outside Kosovo and understanding their bottle necks regarding raw material KCBS should be able to come up with a business design under contracts that could tackle those limitations.

- E) Give a closer look to Associations like Anadrini and evaluate their real job with the farmers regarding providing them clear and direct technical assistance AT THE FIELD LEVEL that becomes a real, practical help, not just theory lessons in a classroom. Associations should be tested with a specific business and see if they are capable to perform as they claim.
- F) Create a success story with each client: As long as the size of the success story is at a commercial level, having a positive result will increase the level of confidence from both parties. This will induce the growers to increase the size of their operations the next season that then can be followed by others. At that phase the “copycat” factor comes in and will exponentially make the business grow. KCBS should focus to make this success story.
- G) Focus more in the “Client Enterprise Action Plan” in describing the bottlenecks and their specific possible solutions, and avoid generic solutions like “improve competitiveness or increase sales”.
- H) KCBS management should meet with suppliers and processors and openly discuss benefits of having agreed upon terms in advance. This will help to identify fair clients that KCBS could use to build up his program. Attached is a Power Point presentation to be used as discussions with clients to promote contracts.

ANNEXES

- Annex 1 Contract for Purchase and Sale of Fresh Potato
- Annex 2. Current Contract between Anandrini and ABI & ELIF
- Annex 3. Private Contract for Purchase of Peppers
- Annex 4. Internal Contract for the Production, Delivery and Payment of Peppers
- Annex 5. Contract for Purchase and Sale of Fresh Potatos for Chips

ANNEX 1

CONTRACT OF PURCHASE AND SALE FRESH POTATO

Know all men by this document, that a Contract of Purchase and Sale is hereby drawn on one the one hand by, Pestova located in xxxx, duly represented by Mr. xxxxxxxxx identified with ID No. xxxxxxxxxxxxxxxxxxxx with power of attorney recorded under electronic file N° xxxxxxxxxxxxxxxx of public legal records of legal entities of Kosovo (hereinafter **PURCHASER**) and on the other hand by COMPANY Identified with Tax Identification N° and duly represented by its General Manager Mr. identified with ID N° and with legal domicile at, registered with the public registry book page, (hereinafter **SUPPLIER**); under the following terms and conditions:

1.0 THE CONTRACTING PARTIES

PURCHASER is a Kosovar company in the business of producing and trading food products from agricultural inputs, mainly fresh potato which it buys directly from agricultural producers.

SUPPLIER is a legal entity in the business of, , Kosovo, with an approximate size of 50 hectares. Furthermore, **SUPPLIER** states that it has the proper capacity to freely harvest and sell the product of its crops.

2.0 TYPE AND QUALITY OF THE CROP

By this document **SUPPLIER** agrees to plant and sell to **PURCHASER** the total production ofha of the variety, provided.

That the SUPPLIER will comply with the technical specifications and parameters set forth in **Annex N°1** titled "**QUALITY REQUIREMENTS OF THE**" which is known and accepted by **SUPPLIER** and which is duly signed by the parties, it is attached and it is an integral part to this contract, the purchase of the entire production of indicated in the last paragraph, will be dependent on compliance with the requirements set forth in the aforementioned **Annex No.1** and **Annex No. 2** titled: "**DELIVERY TERMS AND PRICES**" which is duly signed by the parties and is a part of this contract, as well as **PURCHASER**'s production needs in that sense. In the event that **PURCHASER** requires the production of a smaller amount of products, it shall promptly notify **SUPPLIER** providing a 5 business day advance notice prior to each shipment so that **SUPPLIER** can freely use its products. It is expressly understood by both parties that this agreement does not mean the total or partial termination of this contract, liberation of contracted obligations by the parties or the addition of aggravated conditions to the contract.

3.0 GUARANTEED PRICE

The price that **PURCHASER** shall pay **SUPPLIER** for the fresh potato bought is set forth, detailed and expressed in Euros per Kilogram, in **Supplement No 2** called: "**DELIVERY TERMS AND PRICES**", which is duly subscribed and signed by the parties and is attached hereto and is an integral part of this contract.

The agreed upon price includes the sales value, transportation charges to **PURCHASER**'s plant located at xxxxxxxx and unloading the fresh potato in the warehouses designated by **PURCHASER**.

The payment made by **PURCHASER** shall be made a week from invoicing the and upon shipment approval, in accordance with the "**QUALITY REQUIREMENTS OF THE**", detailed in **Supplement No 1**.

PURCHASER shall verify that the arrived to its plant is in full compliance with the “**QUALITY REQUIREMENTS OF THE**” from **Supplement No 1** regarding all terms, amounts and prices detailed in **Supplement No 2** titled: “**DELIVERY TERMS AND PRICES**”.

4.0 STATEMENTS FROM THE PARTIES

PURCHASER may name agricultural advisors who will visit **SUPPLIER’s** land plots and may provide the technical support required to ensure full compliance with the conditions set forth in “**QUALITY REQUIREMENTS OF THE**” detailed in **Supplement No 1**. **SUPPLIER** shall facilitate and support those visits / studies, keeping absolute confidentiality and reserve of the recommendations and information that they may receive from technicians and engineers sent by **PURCHASER**. In addition, **PURCHASER** may start all legal actions for damages if it proves any violation to the confidentiality requirements set forth by the parties in this contract.

SUPPLIER states that its land plots are free of any liability, assessment or mortgage that could limit (restrict) its disposition rights and its free capacity to sell the product of its crops. In the event of an embargo or execution over the land or the fresh potato production, **PURCHASER** may terminate this contract.

5.0 EFFECTIVE DATE OF CONTRACT

This contract shall be effective until the delivery of the whole crop harvested in the plots indicated in the introduction of this contract, within the terms set forth in Supplement N° 2 to this contract. It is then understood that the contract shall have a maximum effective date until December 30th, 2005.

6.0 EXCLUSIVITY OF SUPPLY

SUPPLIER expressly agrees to not sell the crops of its fresh potato plots to any company that is considered as a direct competitor of **PURCHASER**. In the event that **SUPPLIER** does not comply with the exclusivity commitment agreed upon in this clause, **PURCHASER** will automatically be authorized to terminate the contract and start the pertinent legal actions for damages or losses.

7.0 INDEPENDENCE OF THE PARTIES

The contractual relationship established between **PURCHASER** and **SUPPLIER** is by nature of commercial character, there is no labor or dependency relationship between the parties because between them there is no subordination, dependency or compliance with any work shifts.

SUPPLIER shall be exclusively responsible before its workers or helpers, and **PURCHASER** does not have a labor relationship with them and it will not be responsible for their wages, salaries, commissions, gratuities, social security, fringe benefits or any other obligation **SUPPLIER’s** workers are entitled to. Consequently, it is clearly established that neither **SUPPLIER** nor the persons hired by it may claim from **PURCHASER**, during the effective date and/or termination of this contract, any social or labor benefits. Neither shall they be entitled to have any rights, in the event of contract resolution due to non compliance, to any kind or claim for loss of income, earnings or profits, damages or losses, clients obtained, or any other concept.

8.0 LEGAL OBLIGATIONS OF SUPPLIER

SUPPLIER agrees to carry out the planting within the agreed-upon time period, which is:

- xxx hectares during the last week of January 2005
- xxx hectares in February, 2005
- xxx hectares in March, 2005
- xxx hectares in April, 2005
- xxx hectares in May, 2005
- xxx hectares in June, 2005
- xxx hectares in July 2005,

Except due to accidental events or circumstances beyond its control and that keep it from complying with the planting terms set forth in this contract, which shall be irrefutably demonstrated by **SUPPLIER**. In addition, in the event of non-compliance **PURCHASER** may reduce the fresh potato per kilo price agreed-upon under this contract as a penalty

SUPPLIER shall have all the legal documentation that all formally constituted companies must have, with regards to accounting, administrative, tax, and labor matters. In the event of non-compliance with the provisions set forth in this clause, **SUPPLIER** is responsible for all damages and losses that it may cause **PURCHASER** before all competent authorities, and **PURCHASER** is responsible for verifying such information when it deems it necessary.

SUPPLIER is expressly prohibited from acting as a representative of **PURCHASER** or to use the name of any of its brands without the written authorization of one of its competent officers. In the event of non-compliance with this restriction by **SUPPLIER**, this contract shall be understood as automatically terminated and **PURCHASER** reserves the right to start the respective civil and criminal actions against it.

9.0 CONTRACT TERMINATION CAUSES

PURCHASER may terminate this contract if it demonstrates any of the following causes.

1. In the event that **SUPPLIER** does not carry out the planting within the agreed-upon time periods.
2. In the event that **SUPPLIER** refuses without any justification to receive a field visit by the technical advisors sent by **PURCHASER** in order to provide the necessary technical support to guarantee full compliance with the fresh potato quality requirement conditions.
3. In the event that **SUPPLIER** hides or delivers false information regarding charges or assessments affecting the land plot where the products object of this contract will be planted.
4. **SUPPLIER** violates the exclusivity and confidentiality commitments agreed-upon by the parties in the sixth and seventh clauses of this contract.
5. **SUPPLIER** attempts to sell as its own the crops of third parties or crops produced in other land plots of its property which have not been included in this contract.

10. ASSIGNMENT

The parties agree that they cannot assign, transfer or modify in whole or in part the rights and obligations derived from this agreement, except salvo by express written authorization of the other party.

11. RESOLUTION OF DISPUTE

1. **PURCHASER** and **SUPPLIER**'s shall make every effort to solve amicably by direct informal negotiation any disagreement, dispute, or claim arising out of or in connection with the contract on the breach, termination, or validity thereof.

2. If, after thirty (30) days from the commencement of such informal negotiations, PURCHASER and SUPPLIER have failed to negotiate an amicable settlement, any party may require that the dispute be referred for resolution by a final and binding arbitration in accordance with the UNCITRAL Arbitration Rules presently in force.
3. For the purpose of this contract PURCHASER and SUPPLIER agrees to appoint the Kosovo Chamber of Commerce (hereafter KCC) under Law No. 2004 / 7 to act as arbitrator for the resolution of the dispute in discussion.
4. PURCHASER and SUPPLIER agree that the award of KCC will be the sole and exclusive remedy between them regarding any and all claims and counterclaims presented.
5. All notices to be given in connection with the arbitration shall be in writing and shall be effective upon receipt.
6. PURCHASER and SUPPLIER agree that this arbitration is an explicit waiver of immunity against enforcement and execution of the award or any judgment thereon and that the award or judgement thereon, if unsatisfied, shall be enforced against PURCHASER and against SUPPLIER in the courts of any nation, including Kosovo, in accordance with its laws.

In witness thereof this document is signed in two exact issues this 24th day of January 2005.

.....

PURCHASER

SUPPLIER

SUPPLEMENT No 1: FRESH POTATO QUALITY REQUIREMENTS

XXXXXXXXXXXXXX
QUALITY ASSURANCE DEPARTMENT

SPECIFICATIONS:

VARIETY

Amoro sa	Agria	Fontana	Red
-------------	-------	---------	-----

Internal Temperature	° C				
Solids	%	20-25	18 – 20		< 18
Small Fresh potato (>6,<10 cm)	%	0	< 10	10 -15	> 15
Large Fresh potato (>14,<16.5 cm)	%	0	0-4	4 - 6	> 6
Extra Large Fresh potato (>16.5cm)	%	0			> 1
Small Fresh potato Diameter (<5cm)	%	0	< 2.5	2.5 - 5	> 5
Large Fresh potato Diameter (>9cm)	%	0	< 1	1 - 5	> 5
Mechanical damage	%	0	< 1	1 - 6	> 6
Insect damage	%	0	< 1	1 - 4	> 4
Rotten	%	0	< 1	1 - 2	> 2
Soild	%	0	< 1	1 - 2	> 2
Sanitation	%	Absenc e	Absence		Presence
Deformed	%	0	< 4	4 - 6	> 6
Veins	%	0	< 1	1 - 2	> 2
Stones	%	0	< 1	1 - 2	> 2
Incrusted Stones	%	0	< 1	1 - 2	> 2
Tails	%	0	< 1	1 - 2	> 2
Harvest Days	%	3	1-3		> 10
Discoloration /Sick	%	0	< 1	1 - 2	> 2
Latex Presence	%				

SUPPLEMENT No 2

DELIVERY TERMS AND PRICES

DELIVERY MONTHS

PRICE (euros. / Kg.)

*10 tons of fresh potato per week
from April up to December
for all deliveries.*

Small: xxxx euros

Large: xxxxx euros

Extra large: xxxx euros

ANNEX 2

CURRENT CONTRACT BETWEEN ANANDRINI AND ABI & ELIF

CONTRACT

For vegetable bargain made between:

- I. "ABI & ELIF 19" grocery industry – Progres in Prizren as a buyer represented by Afrim Arzuallxhiu, director, and
- II. Farmers' Association – vegetable cultivators of "ANADRINI" in Xërxë, represented by Shyqri Krasniqi, director, as a collector in the other side.

This association will collect and deliver vegetables by its transport in these amounts:

	Amount in Kg	Cost	Total
1. Red Tomatoes	2 700 000	0.05 €	135 000 00 €
2. Green Tomatoes	40 000	0.15 €	6 000 00 €
3. Shorok Sharri Peppers	200 000	0.20 €	40 000 00 €
4. Kurtovscka Kapija Peppers	250 000	0.25 €	62 500 00 €
5. Somborka Peppers	10 000	0.20 €	2 000 00 €
6. Cabbage	60 000	0.10 €	3 000 00 €
7. Cauliflower	12 000	0.25 €	3 000 00 €
8. Eggplant	7 000	0.35 €	24 500 00 €
9. Onion	30 000	0.35 €	10 500 00 €
10. Okra	4 000	1.50 €	6 000 00 €

ONLY FOR ANADRINI MEMBERS

- III. Costs are approximate, while definitive costs will be determined according to the market flow.
- IV. Quantitative and qualitative acceptance will be done every day in Nutritional Industry in Prizren.
- V. Packing of such peppers will be done by Anadrini without any exchange by Nutritional Industry side.
- VI. Payment is done immediately after goods delivery.

ABI & ELIF 19

Afrim Arzuallxhiu ing.

ANNEX 3

PRIVATE CONTRACT FOR PURCHASE OF PEPPERS

Know all men by this document that a **“PRIVATE CONTRACT OF PURCHASE AND SALE FOR GREEN/RED PEPPER CROP CULTIVATION”** is hereby drawn and signed in duplicate, on the one hand by ABI & ELIF 19, identified with con I.D. N° XXXXXXXX, with legal domicile at XXXXXXXXXXXXXXX PEZREN, duly represented by its General Manager Mr. XXXXXXXXXXXX, hereinafter referred to as **“PURCHASER”**; and on the other hand, the ANADRINI Organization, identified with I.D. N°, with legal domicile at, place of registry of the country estate (Public Registry Number / Registry Card Number)....., duly represented by its General Manager, Mr., hereinafter referred to as **“SUPPLIER”**; under the following terms and conditions:

1. BACKGROUND

PURCHASER is a corporation in the business of commercializing and transporting agricultural products and their derivatives, as well as the purchase of agricultural factors of production.

As a part of its business, **PURCHASER** has contracts of purchase, supervision and intermediation for the commercialization of agricultural products with many farmers in the area, which offers the possibility of making the purchase, planting and harvest of artichokes.

SUPPLIER is a not for profit organization that currently manages 1,923 hectares devoted to the cultivation of different vegetables according to the attached list (Supplement 1). **SUPPLIER** is responsible for the organization and compliance of the members of its organization and will assume the economic responsibilities object of this contract.

2. OBJECT OF THE CONTRACT

By this contract, **PURCHASER** agrees to deliver to **SUPPLIER** the seeds necessary for planting peppers of the xxxx variety for the planting of 200 hectares in the land plots indicated in Supplement 2, attached hereto.

To this end, **PURCHASER** will have to deliver them at a place where **SUPPLIER** designates in optimal conditions and accepted by **THE PURCHASER**.

On his part, **SUPPLIER** agrees to deliver the total production resulting from the total amount of hectares indicated in the preceding clause, according to the purchase specifications set forth in the third clause of this contract; of the artichoke crops and their integrated management (fertilizing, applications, among others – approved by THE PURCHASER) necessary for the planting of the crops.

SUPPLIER grants **PURCHASER** the right to compensate against the purchase price of the peppers and that are delivered by **SUPPLIER**, the value of the seeds, agricultural factors of production, machinery rental, and transportation of the peppers delivered for the purposes of this contract.

3. TRANSACTION VALUE

The price set forth shall be:

US\$ xxxx per thousand for the seeds.

US\$ xxx per kilogram for the agricultural inputs

US\$ xxx per hour for the agricultural machinery rental.

PURCHASER will provide the supplies of seed and **SUPPLIER**, agrees that at the time of receipt of the seeds and being satisfied with the delivery, he/she will write out a note as a guarantee for their value, which shall be in the amount of US\$ (..... 00/100 American dollars)

The amount of this transaction will be proportionally deducted during the pepper harvest period, from the beginning of the campaign to the time of the final settlement of payments. Once the deliveries for the amount the aforementioned guarantee note was issued for are covered, and the artichoke price purchased by **PURCHASER** are applied to, according to paragraph 2 of the flowing Fourth Clause of this contract, the note will be returned to **SUPPLIER**.

4. TECHNICAL AND ECONOMIC TRANSACTIONS

1. The economic conditions for the peppers are set forth according to the technical specifications attached to in Supplement N° 1, which is an integral part to this contract.
2. **PURCHASER** agrees to purchase the peppers harvested according to their size, which can range between xxx cm and xxx cm in diameter. The price for the artichokes satisfying the technical specifications set forth in Supplement N° 1 is established in the aforementioned Supplement, according to **PURCHASER'S** calibration.
3. **SUPPLIER** agrees to pre-select (lightly) the peppers during the harvest, discarding in the field all those peppers which clearly do not satisfy the technical specifications set forth in Supplement N°1. Likewise, **SUPPLIER** agrees to deliver the product at the collecting center in the locality.
4. The product's weight will be recorded on an electronic scale located in the collecting center of **PURCHASER (located at xxx)**. **SUPPLIER** is authorized to have a supervisor at the time of weighing the product.
5. Weekly payments for the artichoke delivery shall be made by **PURCHASER** at week closing on Sunday, (this is to say, from Monday to Sunday), and all payments will be made the following Friday.

5. COMMITMENT NOT TO SELL TO THIRD PARTIES AND/OR USE FOR SELF- PROFIT

SUPPLIER on mutual agreement with **PURCHASER** agrees to not to remove or harvest for his/her own use or the use of third parties, any amount of the peppers harvested. In the event of proving that the peppers have been sold to a third party or have been used for self profit, **SUPPLIER** shall pay **PURCHASER** the amount of US\$ XXXXX per harvested hectare. (The production cost plus 10% for damages).

PURCHASER is authorized to inspect the plots when deemed necessary as well as to provide proper technical assistance, in which case he/she shall notify **SUPPLIER** in advance.

6. PURCHASER VISITS

PURCHASER may make visits to the plots at the time it deems proper, as a measure of control by itself or with clients. In the event **SUPPLIER** requires technical assistance he/she will notify **PURCHASER** in advance so as to ensure an optimum harvest, and to provide **technical assistance** for the same under the contract agreed upon.

7. OBLIGATIONS OF SUPPLIER

SUPPLIER agrees to faithfully comply with all the instructions that, with the purpose of achieving an optimum harvest, are timely provided by **PURCHASER**. In addition, **SUPPLIER** agrees to deliver the product every harvesting day according to the packing and post harvest management agreed upon by the contracting parties.

8. MINIMUM PRODUCTION.

The expected estimated production is of 14,000 kilos per hectare (See SUPPLEMENT 1 for harvest specifications), except for accidental events or circumstances beyond **SUPPLIER'S** control.

For the effects indicated in this clause, accidental events and circumstances beyond control are causes non imputable to any of the parties and consist of extraordinary, unforeseeable and uncontrollable events that prevent the execution of the obligation agreed upon or determines its partial compliance.

9. PRODUCTION LIABILITIES AND LIENS.

SUPPLIER states that there is no liability or lien against the crop, nor any judicial, or extra-judicial judgment limiting its free availability.

10. TERMINATION OF THIS CONTRACT

Non-compliance with any of the clauses of this contract shall be a cause for its termination by any of the parties. The complying party will notify the other about the non-compliance problem and will afford it a proper time frame to correct or solve it. In the event that the non-complying party does not address, correct, or solve the problem within this given time, the complying party has the right to terminate this contract fifteen (15) (business) days after the date of notification of its intention to make this clause valid.

11. OBLIGATIONS OF PURCHASER.

PURCHASER agrees to receive and pay for all the production of **SUPPLIER** according to all technical specifications set forth in the Fourth Clause of this contract, as well as in Supplement N° 1.

Every Friday, **PURCHASER** shall pay for the volume of product delivered from Monday to Sunday the previous week, based on the following price levels:

Quality A: \$ XXXX per kilogram
Quality B: \$ XXXX per kilogram
Quality C: \$ XXXX per kilogram

12. EFFECTIVE DATE OF CONTRACT

Both parties agree that taking into consideration that the artichoke harvest has a vegetative period of nine months and that the crop harvest is being extended to its second and third year, and state that the effective date of this contract shall be a three-year period for **SUPPLIER**. **PURCHASER** is therefore authorized to renew a new contract after the end of said life period of three years for the artichoke plots, depending on a mutual agreement by the parties.

13. FINANCIAL OBLIGATIONS

PURCHASER does not assume any economic, labor or tax liability with **SUPPLIER'S** personnel which could arise from this contract's implementation, execution, or results because they are the exclusive responsibility of **SUPPLIER**.

14. DISPUTE RESOLUTION

Both parties agree that in the event of a controversy or dispute regarding this contract's compliance, application, carrying out, execution and/or validity they shall subject themselves to the jurisdiction of Kosovo judges and courts, and that they renounce the jurisdiction that because of their legal domiciles might correspond to them.

In witness thereof this document is signed in two exact copies with notarized signatures, in the City of xxxx, this day of the month ofof the year 2005.

.....
"PURCHASER"

.....
"SUPPLIER"

SUPPLEMENT No. 1

RAW MATERIAL SPECIFICATION PEPPERS

QUALITY: FIRST (A)
SECOND (B)

DIAMETER: (1) xxxx cm. - xxxx cm.
(2) xxxx - xxxx cm.

DESCRIPTION: All peppers must have the typical shape and color of their specific variety. They must be fresh, clean, and free from any damages. The fruit must be exempt of any defects and deformations, pathological damages, free of holes, pricks or perforations, and free of hairs or foreign objects. They must not show any mechanical damage in their surface; the cut must be clean and not torn or ripped.

QUALITY: THIRD (C)

DIAMETER: All calibers.

DESCRIPTION: All peppers must have the typical shape and color of their specific variety. They must be fresh, clean and exempt of any pathological damages. A light hole in the upper middle part (up to 2/3 measuring from the lower part) is acceptable, as well as a certain degree of deformity. They must be free of hairs or foreign objects in their inside.

QUALITY: DISCARDS

DESCRIPTION: All those peppers showing signs of rottenness, dehydration, insect damages, pathological damages and deformities are considered discards. Those peppers that are too developed and show signs of ripeness are also considered as discards. Likewise, everything that is not considered a characteristic of the variety and it is in detriment of the product quality is also considered as a discard. Said product shall not have any economic value because it has not use and it will be discarded.

ANNEX 4

INTERNAL CONTRACT FOR THE PRODUCTION, DELIVERY, AND PAYMENT OF PEPPERS BETWEEN THE MEMBERS AND THE FARMERS ASSOCIATION VEGETABLES CULTIVATORS (ANADRINI)

Know all men by these presents the commitment made by the members and guests of the FARMERS ASSOCIATION VEGETABLES CULTIVATORS for the development of the 2005–2008 pepper planting campaign that is contracted with XXXXXX processing company.

This contract is signed on the one hand by ANADRINI, with legal domicile in the Acocro District, Province of Huamanga, Department of Ayacucho, Peru, duly represented by its President Mr. Pío Gomez Godoy, identified with NID No. 10257420, hereinafter called **ANADRINI** and on the other hand by the producer _____ identified with NID No. _____ and with legal domicile at _____, hereinafter called **THE PRODUCER** under the following terms and conditions:

- 1. ANADRINI** has signed a contract with PROGRESS to install 30 hectares to produce PEPPERS. In addition, upon the reception of all the seeds/seedlings. **ANADRINI** will sign a US\$ xxxxxx promissory note as a guarantee and it shall pay a penalty of US\$ 1,000 per harvested hectare that is not delivered to PROGRESS.
- 2. PRODUCER**, as a part of this productive-commercial chain, will participate with the amount of Hectares located in the locality of All the production achieved from these areas will be delivered in its entirety to **ANADRINI** at the facilities that it duly designates.
- 3. PRODUCER** agrees to comply with all technical instructions that the person designated by the KCBS Project provides for his fields.
- 4. PRODUCER**, through **ANADRINI**, may receive the financial support obtained from the financial entity xxxxxx, in accordance with the norms established by the latter.
- 5. PRODUCER** agrees to comply with the total repayment of the financial support and/or credits provided to him, including all interests and/or charges to be paid from the payments made for his delivery of products and according to the programming approved and coordinated by **ANADRINI**.
- 6.** The product shall be delivered to warehouses designated by **ANADRINI**, after having carried out a pre-selection process during the harvest, discarding in the field all those fruits that clearly do not comply with the technical specifications set forth bellow, pursuant to the contract signed by the purchasing company:

QUALITIES:

- FIRST: From xxxxx centimeters to xxxxxx centimeters in diameter.
SECOND: From xxxxx centimeters to xxxxx centimeters in diameter
THIRD: All calibers

PEPPERS of FIRST and SECOND quality must have the typical shape and color of their respective variety, must be fresh and clean, and free from any damage or decay. The product must be free of pathological damages, and free of any holes or navels, and it cannot have any mechanical damages on its surface, the cut must be clean and not ripped or torn.

PEPPERS of THIRD quality can have any shape but must have the typical color of their respective variety, they must be fresh, clean and free from pathological damages. It can have mechanical damages on the surface.

DISCARDS:

All those PEPPERS showing any sign of rottenness, dehydration, insect damage, pathological damage and deformity are considered discards.

Those PEPPERS that are too developed, those with a deep navel formation in the middle part and any signs of over maturity or everything that is not a characteristic of the variety and it is in detriment of the product quality is also considered as a discard.

7. The product prices set forth are as follows:

- FIRST QUALITY: euro xxx per kg.
- SECOND QUALITY: euro xxx per kg.
- THIRD QUALITY: euro xxx per kg.

These prices include product transportation and delivery to the designated warehouses.

8. Provisional per kilo deductions will be made to comply with all the Association's tax obligations for the mandatory Income Tax, as well as for the accountant's honoraria, invoice booklet and delivery slips booklet printing expenses.

This amount will be reconciled based on the accounting documentation submitted by **PRODUCER**. These provisions are set forth in detail in the Tenth Clause of this contract.

9. The payment method shall be as follows:

- PROGRESS will make direct payment transfers to the account that **ANADRINI** will open at the Financial Institution designated. The weekly amounts to be paid will be made by PROGRESS at closed week on Sunday, (this is to say, from Monday to Sunday) and payments will be made effective the following Friday, and all partial deductions for all delivered seeds/seedlings will also be made.
- **ANADRINI** will provide **PRODUCER** the amount equivalent to each corresponding delivery after deducting all the pertinent deductions indicated in the Fifth and Eighth Clauses of this contract.

10. As the product to be delivered is an agro industrial product, all sales will be made with an invoice therefore, all sales will be subject to pay the Income Tax on the total invoiced amount. Therefore, it must be understood that all purchases of crop inputs and related services made by each **PRODUCER**, shall be invoiced under the name of **ANADRINI** and using its corresponding Federal Tax Number (RUC), following instructions given by the Association's public accountant.

11. Pursuant to the First Clause of this contract, I understand and acknowledge the monetary commitment that implies the reception of seeds/seedlings as well as the delivery of the harvested product and that both are the exclusive responsibility of **ANADRINI** before the purchaser. Therefore, in the event that for any reason I cannot take care of my crop parcel efficiently, I authorize **ANADRINI** to continue attending it and at the end of the campaign, to pay me the corresponding amount due to me after deducting all expenses made on my land parcel.

In witness thereof the parties hereto execute and sign this document thisday of the month of August, 2005.

ANADRINI PRESIDENT

PRODUCER

ANNEX 5

CONTRACT OF PURCHASE AND SALE

FRESH POTATO FOR CHIPS

Know all men by this document, that a Contract of Purchase and Sale is hereby drawn on one the one hand by, Ideas located in xxxx, duly represented by Mr. xxxxxxxxx identified with NID No. with power of attorney recorded under electronic file N° 11299729 of public legal records of legal entities of Kosovo (hereinafter **PURCHASER**) and on the other hand by the company Identified with Federal Tax Identification N° and duly represented by its General Manager Mr. identified with NID N° and with legal domicile at, registered with the public registry book page, (hereinafter **SUPPLIER**); under the following terms and conditions:

1. THE CONTRACTING PARTIES

PURCHASER is a Kosovar company in the business of producing and trading food products from agricultural inputs, mainly FRESH POTATO FOR CHIPS which it buys directly from agricultural producers.

SUPPLIER is a legal entity in the business of, , Kosovo, with an approximate size of 50 hectares. Furthermore, **SUPPLIER** states that it has the proper capacity to freely harvest and sell the product of its crops.

2. TYPE AND QUALITY OF THE CROP

By this document **SUPPLIER** agrees to plant and sell to **PURCHASER** the total production ofha of the variety, provided.

That the SUPPLIER will comply with the technical specifications and parameters set forth in **Supplement N°1** titled "**QUALITY REQUIREMENTS OF THE**" which is known and accepted by **SUPPLIER** and which is duly signed by the parties, it is attached and it is an integral part to this contract, the purchase of the entire production of indicated in the last paragraph, will be dependent on compliance with the requirements set forth in the aforementioned **Supplement N°1** and **Supplement No 2** titled: "**DELIVERY TERMS AND PRICES**" which is duly signed by the parties and is a part of this contract, as well as **PURCHASER**'s production needs in that sense. In the event that **PURCHASER** requires the production of a smaller amount of products, it shall promptly notify **SUPPLIER** providing a 5 business day advance notice prior to each shipment so that **SUPPLIER** can freely use its products. It is expressly understood by both parties that this agreement does not mean the total or partial termination of this contract, liberation of contracted obligations by the parties or the addition of aggravated conditions to the contract.

3. GUARANTEED PRICE

The price that **PURCHASER** shall pay **SUPPLIER** for the FRESH POTATO FOR CHIPS bought is set forth, detailed and expressed in Euros per Kilogram, in **Supplement No 2** called: "**DELIVERY TERMS AND PRICES**", which is duly subscribed and signed by the parties and is attached hereto and is an integral part of this contract.

The agreed upon price includes the sales value, transportation charges to **PURCHASER**'s plant located at xxxxxxxx and unloading the FRESH POTATO FOR CHIPS in the warehouses designated by **PURCHASER**.

The payment made by **PURCHASER** shall be made a week from invoicing the and upon shipment approval, in accordance with the “**QUALITY REQUIREMENTS OF THE**”, detailed in **Supplement No 1**.

PURCHASER shall verify that the arrived to its plant is in full compliance with the “**QUALITY REQUIREMENTS OF THE**” from **Supplement No 1** regarding all terms, amounts and prices detailed in **Supplement No 2** titled: “**DELIVERY TERMS AND PRICES**”.

4. STATEMENTS FROM THE PARTIES

PURCHASER may name agricultural advisors who will visit **SUPPLIER’s** land plots and may provide the technical support required to ensure full compliance with the conditions set forth in “**QUALITY REQUIREMENTS OF THE**” detailed in **Supplement No 1**. **SUPPLIER** shall facilitate and support those visits / studies, keeping absolute confidentiality and reserve of the recommendations and information that they may receive from technicians and engineers sent by **PURCHASER**. In addition, **PURCHASER** may start all legal actions for damages if it proves any violation to the confidentiality requirements set forth by the parties in this contract.

SUPPLIER states that its land plots are free of any liability, assessment or mortgage that could limit (restrict) its disposition rights and its free capacity to sell the product of its crops. In the event of an embargo or execution over the land or the FRESH POTATO FOR CHIPS production, **PURCHASER** may terminate this contract.

5. EFFECTIVE DATE OF CONTRACT

This contract shall be effective until the delivery of the whole crop harvested in the plots indicated in the introduction of this contract, within the terms set forth in Supplement N° 2 to this contract. It is then understood that the contract shall have a maximum effective date until December 30th, 2005.

6. EXCLUSIVITY OF SUPPLY

SUPPLIER expressly agrees to not sell the crops of its FRESH POTATO FOR CHIPS plots to any company that is considered as a direct competitor of **PURCHASER**. In the event that **SUPPLIER** does not comply with the exclusivity commitment agreed upon in this clause, **PURCHASER** will automatically be authorized to terminate the contract and start the pertinent legal actions for damages or losses.

7. INDEPENDENCE OF THE PARTIES

The contractual relationship established between **PURCHASER** and **SUPPLIER** is by nature of commercial character, there is no labor or dependency relationship between the parties because between them there is no subordination, dependency or compliance with any work shifts.

SUPPLIER shall be exclusively responsible before its workers or helpers, and **PURCHASER** does not have a labor relationship with them and it will not be responsible for their wages, salaries, commissions, gratuities, social security, fringe benefits or any other obligation **SUPPLIER’s** workers are entitled to. Consequently, it is clearly established that neither **SUPPLIER** nor the persons hired by it may claim from **PURCHASER**, during the effective date and/or termination of this contract, any social or labor benefits. Neither shall they be entitled to have any rights, in the event of contract resolution due to non compliance, to any kind or claim for loss of income, earnings or profits, damages or losses, clients obtained, or any other concept.

8. LEGAL OBLIGATIONS OF SUPPLIER

SUPPLIER agrees to carry out the planting within the agreed-upon time period, which is:

- xxx hectares during the last week of January 2005
- xxx hectares in February, 2005
- xxx hectares in March, 2005
- xxx hectares in April, 2005
- xxx hectares in May, 2005
- xxx hectares in June, 2005
- xxx hectares in July 2005,

Except due to accidental events or circumstances beyond its control and that keep it from complying with the planting terms set forth in this contract, which shall be irrefutably demonstrated by **SUPPLIER**. In addition, in the event of non-compliance **PURCHASER** may reduce the FRESH POTATO FOR CHIPS per kilo price agreed-upon under this contract as a penalty

SUPPLIER shall have all the legal documentation that all formally constituted companies must have, with regards to accounting, administrative, tax, and labor matters. In the event of non-compliance with the provisions set forth in this clause, **SUPPLIER** is responsible for all damages and losses that it may cause **PURCHASER** before all competent authorities, and **PURCHASER** is responsible for verifying such information when it deems it necessary.

SUPPLIER is expressly prohibited from acting as a representative of **PURCHASER** or to use the name of any of its brands without the written authorization of one of its competent officers. In the event of non-compliance with this restriction by **SUPPLIER**, this contract shall be understood as automatically terminated and **PURCHASER** reserves the right to start the respective civil and criminal actions against it.

9. CONTRACT TERMINATION CAUSES

PURCHASER may terminate this contract if it demonstrates any of the following causes.

- 9.1. In the event that **SUPPLIER** does not carry out the planting within the agreed-upon time periods.
- 9.2. In the event that **SUPPLIER** refuses without any justification to receive a field visit by the technical advisors sent by **PURCHASER** in order to provide the necessary technical support to guarantee full compliance with the FRESH POTATO FOR CHIPS quality requirement conditions.
- 9.3. In the event that **SUPPLIER** hides or delivers false information regarding charges or assessments affecting the land plot where the products object of this contract will be planted.
- 9.4. **SUPPLIER** violates the exclusivity and confidentiality commitments agreed-upon by the parties in the sixth and seventh clauses of this contract.
- 9.5. **SUPPLIER** attempts to sell as its own the crops of third parties or crops produced in other land plots of its property which have not been included in this contract.

10. ASSIGNMENT

The parties agree that they cannot assign, transfer or modify in whole or in part the rights and obligations derived from this agreement, except salvo by express written authorization of the other party.

11. RESOLUTION OF DISPUTE

- 11.1. PURCHASER and SUPPLIER's shall make every effort to solve amicably by direct informal negotiation any disagreement, dispute, or claim arising out of or in connection with the contract on the breach, termination, or validity thereof.
- 11.2. If, after thirty (30) days from the commencement of such informal negotiations, PURCHASER and SUPPLIER have failed to negotiate and amicable settlement, any party may require that the dispute be referred for resolution by a final and binding arbitration in accordance with the UNCITRAL Arbitration Rules presently in force.
- 11.3. For the purpose of this contract PURCHASER and SUPPLIER agrees to appoint the Kosovo Chamber of Commerce (hereafter KCC) under Law No. 2004 / 7 to act as arbitrator for the resolution of the dispute in discussion.
- 11.4. PURCHASER and SUPPLIER agree that the award of KCC will be the sole abd exclusive remedy between them reagarding any and all claims and counterclaims presented.
- 11.5. All notices to be given in connection with the arbitration shall be in writing and shall be effective upon receipt.
- 11.6. PURCHASER and SUPPLIER agree that this arbitration is an explicit waiver of immunity against enforcement and execution of the award or any judgment threon and that the award or judgement thereon, if unsatisfied, shall be enforced against PURCHASER and against SUPPLIER in the courts of any nation, including Kosovo, in accordance with its laws. To that effect, PURCHASER and **SUPPLIER's** legal domicile is that indicated in the introduction of this contract.

In witness thereof this document is signed in two exact issues this 24th day of January 2005.

.....
PURCHASER

SUPPLIER

SUPPLEMENT No 1: FRESH POTATO FOR CHIPS QUALITY REQUIREMENTS

XXXXXXXXXXXXXX
QUALITY ASSURANCE DEPARTMENT

SPECIFICATIONS:

VARIETY

		Var .1	Var.2	Var.3	Var.4
Internal Temperature	° C				
Small FRESH POTATO FOR CHIPS (>6,<10 cm)	%	0	< 10	10 -15	> 15
Large FRESH POTATO FOR CHIPS (>14,<16.5 cm)	%	0	0-4	4 - 6	> 6
Extra Large FRESH POTATO FOR CHIPS (>16.5cm)	%	0			> 1
Small FRESH POTATO FOR CHIPS Diameter (<5cm)	%	0	< 2.5	2.5 - 5	> 5
Large FRESH POTATO FOR CHIPS Diameter (>9cm)	%	0	< 1	1 - 5	> 5
Mechanical damage	%	0	< 1	1 - 6	> 6
Insect damage	%	0	< 1	1 - 4	> 4
Rotten	%	0	< 1	1 - 2	> 2
Soild	%	0	< 1	1 - 2	> 2
Sanitation	%	Absenc e	Absence		Presence
Deformed	%	0	< 4	4 - 6	> 6
Veins	%	0	< 1	1 - 2	> 2
Stones	%	0	< 1	1 - 2	> 2
Incrusted Stones	%	0	< 1	1 - 2	> 2
Tails	%	0	< 1	1 - 2	> 2
Harvest Days	%	3	1-3		> 10
Discoloration /Sick	%	0	< 1	1 - 2	> 2
Latex Presence	%				

2.8 Frying Test (Defects)

		Var.1	Var.2	Var. 3	Var.4
Humidity		1.58	1.31- 1.81		>1.8,<1.35
Color Hunter L.A.B		35-43			>43
Undesirable Color	%	0	< 1	1 - 3	> 3
Fibrous	%	0	< 1	1 - 3	> 3
Rooted	%	0	< 1	1 - 3	> 3
Latex stained	%	0	< 1	1 - 3	> 3
Dark Aureola	%	0	< 1	1 - 3	> 3
Total Defects	%	0	< 3	3 - 7	> 7

SUPPLEMENT No 2

DELIVERY TERMS AND PRICES

DELIVERY MONTHS

PRICE (euros. / Kg.)

*10 tons of FRESH POTATO
FOR CHIPS per week
from April up to December
for all deliveries.*

*Small: xxxx euros
Large: xxxxx euros
Extra large: xxxx euros*

Packaging:

In 60-80 kg ventilated mesh bgds

CONTRACT FARMING

AS A VEHICLE FOR SUSTAINABLE
AGRIBUSINESS
IN KOSOVO

ESSENCIAL CONCEPTS

- SUPPLIER AND BUYER NEED TO MAKE MONEY > WIN - WIN
- FARM/GROW ON A PER ORDER BASIS WITH KNOWN CONDITIONS
- YIELD AND QUALITY AT FIELD GIVES MORE \$\$ THAN CHASING PRICES
- CONTRACTS WILL IMPROVE ACCESS TO FINANCING OR CONDITIONS
- CONTRACTS ARE MADE TO BE HONORED – CAN BE ENFORCED.
- TRUST IS BUILD THROUGH TIME

CONTRACTS FOCUSED IN KEY CLIENTS

- PESTOVA – FRESH POTATO BUSINESS (*)
- DELTA / LUKO – FROZEN FRENCH FRIES / POTATO CHIPS
- ABI & ELFI 19 / PROGRESS – CANNED PEPPER (OR ANY CANNED VEGETABLE)
- ANADRINI – ASSOCIATION - SUPPLIER TO A CANNERY, FREEZER, OR ANY PROCESSOR.

CHANGES IN SPECS. ANNEX CAN BE USED FOR OTHER INDUSTRIES

CONCERNS / SOLUTIONS

THAT WILL MAKE CONTRACT EFFECTIVE

- BUSINESS BASED ON OPEN MARKET PRICES – BUYER'S MKT
 - > EXPLAIN WHY FIXING PRICES IS BENEFICIAL FOR ALL
- PROFITABILITY OF SUPPLIER AND BUYER
 - > KCBS TAKE A MORE ACTIVE ROLE WITH SUPPLIER
- ANALYZE INCOME PER HECTARE
 - > LOOK AT YIELDS, VARIETIES, QUALITY

CONCERNS / SOLUTIONS

THAT WILL MAKE CONTRACT EFFECTIVE (CONT)

- LITTLE SPECIFICATION ON RAW MATERIAL SUPPLY
 - > WORK A SPECIFICATION SHEET AD HOC
- NO AGREED PRICE ON RAW MATERIAL
 - > PRICE BASED ON QUALITY (SIZE, COLOR ETC)
- NO COMPROMISE TO BUY OR SELL FROM PARTIES
 - > BUYER NEEDS TO BE PART OF BUSINESS CHAIN (I.E) SEEDS

POOR YIELD



TRUST

- A CONTRACT IS EFFECTIVE THEN THERE IS TRUST
- KCBS CAN PLAY A IMPORTANT ROLE TO BUILD TRUST
- CREATE A SUCCESS STORY PER CLIENT AND PROMOTE IT

FALEMNDERIT



CONTRACT FARMING

AS A VEHICLE FOR SUSTAINABLE
AGRIBUSINESS
IN KOSOVO

September 2005

ESSENCIAL CONCEPTS

- FARMER AND PROCESSOR NEED TO MAKE MONEY > WIN - WIN
- GROW A CROP ON A PER ORDER BASIS FROM BUYER WITH KNOWN CONDITIONS (QUALITY, PRICE, DELIVERY DATES)
- YIELD AND QUALITY AT FIELD GIVES MORE \$\$ THAN CHASING PRICES IN THE FRESH MARKET
- VARIETIES FOR SPECIFIC PURPOSE IMPROVES EFFICIENCY TO PROCESSOR
- CONTRACTS WILL IMPROVE ACCESS TO FINANCING AND CONDITIONS.
- CONTRACTS ARE MADE TO BE HONORED – CAN BE ENFORCED.
- TRUST IS BUILD THROUGH TIME

PROBLEMS / SOLUTIONS

THAT WILL MAKE CONTRACT EFFECTIVE

- BUSINESS BASED ON OPEN MARKET PRICES DOES NOT GUARANTEE LONG TERM BUSINESS.
 - LOW YIELD AND QUALITY FROM FIELD MAKE \$\$ RETURN TO THE FARM INSUFFICIENT TO COVER COST AND LEAVE MARGIN.
 - SOMETIMES FARMER PR PROCESSOR DOES NOT COMPLY WITH AGREEMENT SS
- > OPEN MARKET PRICES ARE UNSTABLE AND CANNOT MAKE FUTURE PLANNING. SIGN CONTRACT BEFORE PLANTING.
 - > KCBS WILL EVALUATE AND SUPPORT ALSO EFFICIENCY AT THE GROWING LEVEL. FROM SOIL & LAND PREPARATION TO POST HARVEST TECHNICS.
 - > KCBS WILL SUPPORT TO DISCUSS CONTROVERSIES IN A NEUTRAL ENTITY LIKE KOSOVO CHAMBER OF COMMERCE STABLISHED BY UNMIK.

PROBLEMS / SOLUTIONS

THAT WILL MAKE CONTRACT EFFECTIVE (CONT)

- THE IS NOT SPECIFICATION OF RAW MATERIAL
 - > BASED ON THE BUSINESS WILL INCLUDE IN CONTRACT A SPECIFICATION SHEET
- NO AGREED PRICE ON RAW MATERIAL
 - > SPECIFIC PRICE WILL BE STATED IN CONTRACT BASED ON QUALITY (SIZE, COLOR ETC)
- PLANTING, THEFORE HARVESTING TIME IS MADE WITHOUT COORDINATION WITH BUYER
 - > PLANT BASED ON A HARVESTING SCHEDULE AGREED BY BOTH PARTS. ALSO STORAGE CONDITIONS WILL HAVE TO BE ESTIDIED
- NO COMPROMISE TO BUY OR SELL FROM PARTIES
 - > IT IS IMPORTANT THAT BUYER BECOMES PART OF THE BUSINESS MORE THAN BUY, BECAUSE SUPPLIER IS PRODUCING FOR THEM. (I.E, SEEDS, FERTILIZERS, EQUIPMENT TIME)

FALEMNDERIT

