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The smuggling channels, developed in Croatia and Bosnia-Herzegovina in 1990 – 1991, and in Kosovo between 1994 and 1998 had an enormous impact on the process of Yugoslavia's disintegration. Enabling Croats, Bosnian Muslims and Kosovo Albanians to at least narrow the gap in the military strength between themselves and the Serbs, they played a crucial role in securing independence for Croatia and Bosnia-Herzegovina, and semi-independence for Kosovo. As such, they continue to be viewed by the majority of Croats, Bosnian Muslims and Kosovo Albanians not as criminal acts, but rather as legitimate, if not even legal, state-organized covert operations. This presumption needs to be seriously challenged, especially since soon afterwards, these "state-building" smuggling channels were turned by some of the very same people who developed them into clearly criminal routes for smuggling drugs, stolen vehicles, contraband goods, and human beings.

1. 2. SURVIVING UNDER SANCTIONS: SERBIA AND MONTENEGRO

Unlike the other republics of the former Yugoslavia, Serbia and Montenegro (which constituted the Federal Republic of Yugoslavia after 1991), had no need to import arms, since they "inherited" the lion's share of the YPA's arsenal. Because of their role in the war in Croatia and in Bosnia-Herzegovina, the UN Security Council imposed international sanctions on the two republics in the summer of 1992. The Serbian province of Vojvodina has always been known as "the bread basket" of Yugoslavia and even under the sanctions, Serbia and Montenegro had little problems in producing enough food to cover the domestic needs. Serbia was also (apart from Slovenia) the only former Yugoslav republic which was an energy exporter and as such had enough reserves to "survive" few years of sanctions.¹⁶ What Serbia and Montenegro lacked, above all, was oil. The Serbian war machine in Bosnia especially depended on smuggled fuel, without which it would have been brought to a standstill. Almost immediately after the sanctions were imposed, the Serbian State Security Service (SDB, *Sluzba drzavne bezbednosti*) organized smuggling channels for supplying the rump Yugoslavia with oil.

SERBIA

The Serbian SDB was a direct successor of the former Yugoslavia's SDB, inheriting most of its agents, assets and practices. Yugoslav SDB had a long established practice of cooperating with the criminal underworld. Numerous criminals, among whom Zeljko Raznjatovic Arkan is the most well-known, were recruited as its assassins and as natural-born operatives for SDB's drugs and cigarettes smuggling operations. These were used for raising funds for various covert operations. The Yugoslav SDB was funded also with money, coming from sales of goods (including drugs), seized by the customs. This is another practice copied by the Serbian SDB, and the link between SDB and the Customs Administration is evident by the fact that Mihajl Kertes, the former deputy-chief of the SDB became the head of Serbian Customs under Milosevic. Yugoslav SDB set up numerous companies abroad, which were used as cover for intelligence gathering and for money laundering. After the breakup of Yugoslavia,

¹⁶ Of course, a decade of mismanagement, war and sanctions turned Serbia from energy exporter to importer by 2001. US Energy Information Administration. "Enforcement of Serbian Sanctions and Embargo." *US Energy Information Administration*. 10 June 1999.
< <http://www.eia.doe.gov/cabs/serbsanc.html> > .

Chart 1: Oil smuggling routes to the Federal Republic of Yugoslavia



Serbian SDB widely used many of these companies to circumvent sanctions and the financial isolation of Serbia.¹⁷

Three main channels for smuggling oil into the rump Yugoslavia were opened soon after the imposition of sanctions (see chart 1):

- One smuggling channel (across the lake Skadar between Montenegro and Albania) was run by Montenegrin mafia in close cooperation with authorities in Podgorica (discussed in more detail below).

- The second channel was a result of the joint cooperation between SDB agents and a few selected criminal gangs, which were given "import licenses" by corrupt state officials. It involved "imports" of oil from Macedonia, Bulgaria and Romania, transported with boats across the Danube (in case of Romania) or with trucks, private cars, buses or tractors (from Bulgaria and Macedonia).¹⁸

- By far the biggest was the Serbian state-run channel, which involved a number of high officials, including one of Serbian Prime Ministers and one of Deputy Federal Prime Ministers from Milosevic's period. Huge quantities of Serbian grain were shipped to Russia, where they were bartered for oil. Both the grain and the oil were transported by ships over the Danube and the Black Sea.

Grain for Oil

The company *Progres Trade* occupied the central place in this smuggling scheme. *Progres Trade* exported grain to Russia through the *Progresgaz Trade*, a joint venture of *Progres Trade* and the Russian oil and gas producing giant, *Gazprom*. Serbian grain was always bartered directly for Russian oil. No hard currency transactions were involved to avoid the danger of funds being seized by the international financial watchdogs. According to the estimates, the regime bartered for **between \$100 and 250 million worth of grain for oil per year**. The profits were used for financing the army, police, secret service, state-run media and for subsidizing state-run companies, but significant part also went in pockets of those involved in the transaction.¹⁹

¹⁷ Federation of American Scientists. "State Security Service." *Federation of American Scientists: Intelligence Resource Program*. 2 October 1998. < <http://www.fas.org/irp/world/serbia/sdb.htm> > . Slobodan Ikonc. "Serif iz Hajducke sume." *Nin* no. 2439. 25 September 1997. < <http://www.nin.co.yu/arhiva/2439/3.html> > . Marko Lopusina. "Svi Dolancevi ljudi." *Ubij bliznjeg svog: Jugoslovenska tajna policija 1945-1997*, Beograd: Narodna knjiga, 1997. < http://www.suc.org/culture/library/Ubij_Bliznjeg_Svoga/sdb/sdb6.html > .

¹⁸ "Enforcement of Serbian Sanctions and Embargo." *US Energy Information Administration*. 10 June 1999. < <http://www.eia.doe.gov/cabs/serbsanc.html> >

¹⁹ "Serbia's Grain Trade: Milosevic's Hidden Cash Crop." *International Crisis Group Balkan Report* no. 93. 5 June 2000. < http://www.crisisweb.org/projects/balkans/serbia/reports/A400047_05062000.pdf > .

The Lake Skadar "Pipeline"

Up to 200 boats nightly would make a trip from Zeta in Montenegro to Vraka in Albania, bringing barrels of oil to the Montenegrin shore, where the fuel was quickly loaded on trucks and transported to other parts of the republic, to Serbia and to Serbian held parts of Croatia and Bosnia-Herzegovina. A 210-liter barrel was bought for 160 to 190 DEM in Albania and sold for 300 to 340 DEM in Montenegro (the price depended on the quality of fuel). According to the estimates, **the value of smuggled oil sometimes reached more than \$1 million per day.**²⁰

MONTENEGRO

As in Serbia, **the smuggling channels in Montenegro were set up to circumvent the international sanctions and used primarily for supplying oil** to Montenegro and Serbia. Montenegrin government controlled the oil imports by issuing special permits to chosen companies and individuals, without which it was impossible to transport or purchase oil. In the beginning, fuel was brought to Montenegro in small quantities by cars and trucks with double petrol tanks. This lasted only for a short period until the main channel of supply was opened across the lake Skadar (Shkodra in Albanian), shared by Albania and Montenegro.

Apart from oil, cigarettes were the most sought-after commodity and cigarette smuggling brought enormous profits to people involved in it. According to recent testimonies of few people who were engaged in cigarette smuggling in Montenegro, the government of the then-Prime Minister Milo Djukanovic was involved in the business from the very beginning. Cigarette smuggling schemes were developed by people from the top echelons of the Serbian SDB. Part of the profits was used for financing war effort in Bosnia-Herzegovina, but the rest went to private accounts of those involved, including some of the highest Montenegrin officials.²¹

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The smuggling channels in Serbia and Montenegro were established to circumvent the international sanctions and as such gave the appearance of serving the interests of the state. This was especially true in the case of oil, the most important commodity the rump Yugoslavia lacked and without which its war effort in Bosnia-Herzegovina would be seriously hampered. The illusion that smuggling was in the "interest" of the state was strengthened by the fact that it was organized and controlled by high-ranking individuals from within the state institutions, including even some ministers. Smuggling did in fact generate revenues, which were used for financing a number of state services (from security forces to state-owned media) and state-run enterprises, but it might be more accurate to say that smuggling financed the ruling regime, rather than the state. Even this illusion was soon shattered, when smug-

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The Cigarette Smuggling

Cigarettes were sent to Montenegro from **Cyprus** by two off-shore companies *Dulwich* and *Wellesley*, owned by a high ranking SDB agent, and "imported" by two Montenegrin companies *Mia* and *Zetatrans*. Occasionally, up to four airplanes, loaded with 3000 boxes of **cigarettes worth roughly \$250,000** would land on Podgorica airport in a single night. Only a fraction of these cigarettes ended on the domestic market. Most were transported from Podgorica to Bar and Zelenika ports from which they were carried across the Adriatic in fast speedboats to Bari, Brindisi and other Italian ports.²²

²⁰ Dragan Djuric. "Da bog podrzi sankcije." *AIM Press*, 23 January 1994.

< <http://www.aimpress.ch/dyn/pubs/archive/data/199401/40123-006-pubs-pod.htm> > .
US Energy Information Administration. "Enforcement of Serbian Sanctions and Embargo."

²¹ Sam Vaknin, "The Balkans Between Omerta and Vendetta or: On the Criminality of Transition."
 < <http://samvak.tripod.com/pp23.html> > .

Drasko Djuranovic. "Prekid sverca cigaretama na relaciji Crna gora - Italija." *AIM Press*. 16 November 1996. < <http://www.aimpress.ch/dyn/pubs/archive/data/199611/61116-002-pubs-pod.htm> > .

²² Ivo Pukanic and Berislav Jelinic. "The Crown Witness Against the Tobacco Mafia – The Interview with Srecko Kestner." *Nacional* no. 289. 31 May 2001.

< <http://www.nacional.hr/htm/289050.en.htm> > .

Djuranovic. "Prekid sverca cigaretama na relaciji Crna gora - Italija."

gling channels were expanded to include other "commodities" like drugs, and when the increasing share of the profits was diverted to various private bank accounts abroad.

1. 3. THE OUTER RING: THE ROLE OF MACEDONIA, ALBANIA, ROMANIA AND BULGARIA

This group of states constituted the "outer ring" which, due to the specifics of the smuggling channels, could not remain isolated from the illegal trade on the territory of the former Yugoslavia. **These countries played the role of mediators in the trans-national system of smuggling and trafficking in violation of international sanctions.**

It should be noted, however, that these countries in their own turn became important centers of international smuggling schemes, stimulated both by the supranational processes of the globalization of organized crime, and by the national political and economic changes, occurring during the transition to democracy and market economy. **The main factor with direct impact on smuggling and trafficking in these countries was the liberalization of command economy.** In the sphere of foreign trade, this led to dismantling of the imposed Soviet model of state monopoly over the trans-border trade operations. Instead of the traditional specialized state-owned companies, which imported and exported the prescribed types of goods, after 1989 a large number of private trade companies appeared. Their import-export activities were boosted by the total liberalization of trade operations and by lifting of traveling restrictions. Apart from the positive impact of these processes, the related weakening of the state control functions and of the role, played by security forces in the fight against trans-border crime, contributed to the expansion of smuggling and trafficking across the borders of these states.

Due to the open character of Balkan states' economics,²³ **the state borders turned increasingly into leading mechanisms for redistribution (including in the illegal way) of national wealth in the conditions of transition.** According to national statistics, import and export represent between 65 and 80 percent of their national GDPs. Trans-border crime therefore became the most serious challenge to the consolidation of democratic institutions and market economy in this group of states.

Although Macedonia, Albania, Romania and Bulgaria have not been involved in the war nor were they subject to international sanctions, they were nevertheless strongly affected by both. The proximity to the war zone and the possibilities the sanction-busting offered to the well-placed individuals and groups led to the rapid development of smuggling and other illegal activities, and to the proliferation of organized crime in Macedonia, Albania, Romania and Bulgaria. Yet, due to the fact that smuggling and especially sanction-busting represented what was in some cases the only available source of revenue to impoverished population of these four countries, they came to be regarded as generally acceptable. In Macedonia, Albania, Romania and Bulgaria, smuggling was, at least initially, also perceived as something positive.

²³ With the exception of Albania, where until 1991, the economy was hermetically sealed off from the rest of the world by its communist leadership.