

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 transnational 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.

MACEDONIA

After 1991, Macedonia found itself almost completely cut off from all of its traditional trading partners. The war in Croatia and Bosnia-Herzegovina effectively closed down the markets for Macedonian goods in these two republics. COMECON, where Macedonia used to export 30 percent of its production, collapsed, reducing Macedonian exports to ex-COMECON countries by half. In 1992, UN sanctions were imposed on Serbia, the most important Macedonian trading partner. And finally, in February 1994, Greece officially introduced a unilateral trade embargo (the blockade was actually in force without being officially declared since 1992), cutting off Macedonian access to the Thessalonica port on which Macedonia depended. The Greek blockade alone cost Macedonia \$60 million per month. For decades, the north-south axis, running from Belgrade through Skopje to Thessalonica, was Macedonia's lifeline. For political reasons, the Yugoslav authorities kept the relations with Bulgaria and Albania at a minimal level. Consequently, the development of infrastructure, which could facilitate economic and other relations between Macedonia and its western and eastern neighbor, was also neglected.

When Macedonia had to redirect its trade through Albania and Bulgaria after 1991, the decades' long disrepair, the lack of maintenance of roads, and insufficient transport and commerce infrastructure on the West-East route caused up to 400 percent increase in expenses of Macedonian import and export.²⁴ Numerous businesses had to close and many factories had to cut their production and to dismiss their workers, pushing one of the least developed parts of the former Yugoslavia into a truly dire economic situation. To many in Macedonia, smuggling thus seemed as a "legitimate" means of coping with the situation.

The Micei Fortend Scandal

An American citizen of Macedonian origin exported through his company *Fortend USA* a large quantity of ammunition, laser-gun sights, night-vision goggles, electroshock weapons, tear gas and helmets to Macedonia. In Macedonia, his partner was his own brother, owner of the company *Micei Fortend*, one of the main suppliers of Macedonian Ministries of Interior and Defense. In 1996, the owner of *Fortend USA* pleaded guilty in the District Court of California on charges of exporting military equipment without obtaining necessary export licenses. In 1999, he was sentenced to three years for violating the International Emergency Economic Powers Act (which regulates commercial and financial transactions with another country in order to deal with a threat to the national security, foreign policy, or economy of the United States) and the Export Administration Act (which restricts the export of military equipment to countries, which military build-up could affect the US national security and interests). Despite denials from the Macedonian government, sufficient indications exist to assume that the equipment imported by the *Micei Fortend* was resold to Serbia.²⁶

During the war in Bosnia-Herzegovina, when former Yugoslav republics were subjects to the embargo on import of weapons, **Macedonia was involved in the illegal arms trade.** According to media reports, three Macedonian ministers of defense, a Foreign Minister, the head of intelligence service and an MP were involved in the illegal weapons trade.²⁵ According to the estimates of the international organizations, **Macedonia was also among the most active violators of**

²⁴ Udovicki and Ridgeway, editors. *Burn This House*, pp. 298-299.

²⁵ Wood and Peleman. "Chapter 8: The USA: Getting Around the Toughest Law." *The Arms Fixers*. < <http://www.nisat.org/publications/armsfixers/Chapter8.html> > .

"Denials on Alleged Illegal Arms Export." *MILS News*. 9 December 1997.

< <http://www.soros.org.mk/mn/mils/en/97/12/09.html> > .

Slobodan Casule. "Makedonija – afera 'Oruzje'." *AIM Press*. 27 December 1997.

< <http://www.aimpress.ch/dyn/pubs/archive/data/199712/71227-007-pubs-sko.htm> > .

²⁶ Casule. "Makedonija – Afera 'Oruzje'."

sanctions imposed on the rump Yugoslavia. There were countless not-too-hidden convoys of tank trucks passing the Serbian-Macedonian border.²⁷

Numerous Macedonian "businessmen" participated in a popular scheme used by thousands of Serbian entrepreneurs for side-stepping the sanctions. The scheme involved the establishment of a phantom company in Skopje. The Serbian goods (which could not be legally exported) were smuggled across the porous Serbian-Macedonian border and then exported, branded with *Made in Macedonia* stamp. For few years, this scheme was one of Macedonia's main foreign currency earners.²⁸

ALBANIA

The majority of the Albanian smuggling channels were developed by former agents of the Albanian secret service *Sigurimi*. *Sigurimi* was abolished in July 1991 and replaced with the National Intelligence Service (NIS). As a result of this restructuring, many of the approximately 10,000 *Sigurimi* agents lost their positions and turned to organized crime.²⁹ They exploited all the opportunities offered by the sanctions imposed on the neighboring Yugoslavia, and **by the partnership with the Italian organized crime**, which has entered Albania almost immediately after the collapse of the country's Stalinist regime. **The smuggling of oil to the rump Yugoslavia (especially to Montenegro) became the most lucrative activity for numerous former security service agents**, who acquired monopoly on the large-scale smuggling operations in northern Albania (explained in more detail in the Montenegro section). Apart from them, many ordinary citizens also got involved in oil smuggling. They were transporting oil across the border by boats, private cars and even with donkeys.³⁰

The oil smuggling reached its height in 1994, when the largest channel was opened – transportation of oil by railway from Durres through Shkoder to Podgorica. The realization of this project would not be possible without participation or at least without the knowledge of authorities in Podgorica and Tirana. According to the source in the Albanian railway company, more than 1 million liters of oil were transported from Durres to Montenegro in September 1994 alone (see chart 1). The involvement of government officials and the former *Sigurimi* agents, who were appointed as the leading figures of the customs and tax authorities, was confirmed by Genc Ruli, the former Finance Minister in Sali Berisha's government.³¹

Channels for trafficking people to Greece and Italy were also set up almost immediately after the collapse of the communist regime. Like the oil smuggling, these channels were perceived by the majority of people as "beneficial." This view was shared by hundreds of thousands of desperate Albanians who rushed to flee their pauperized homeland (in the first half of the 1990s, the average salary was \$50, with

²⁷ Cvetko Stefanovski. "Macedonian Nouveaux-Riches." *AIM Press*. 6 October 1996. <http://www.aimpress.org/dyn/trae/archive/data/199510/51027-002-trae-sko.htm> > .

²⁸ Judah. *The Serbs*, pp. 272-273.

²⁹ The Library of Congress. "Albania – A Country Study." *The Library of Congress Country Studies*. April 1992. < <http://lcweb2.loc.gov/frd/cs/altoc.html> > .

³⁰ Djuric. "Da bog podrzi sankcije"

³¹ Fabian Schmidt. "Sleaze Spreads in Pauperized Albania." *Transitions Online*. 12 July 1999. < <http://www.ijt.cz/session/highlight?url....html&words=schmidt,+albania+%&color>> .

roughly 20 percent of Albanians earning less than \$20 per month) and by their mostly young compatriots, known as "skafisti" who make a living by operating speedboats between Albania and Italy.³² The trafficking of people to Italy was developed in cooperation with the Italian organized crime, especially with the *Sacra Corona Unita* clan. The first contacts between Albanian and Italian criminal organizations were related to the Italian mafia's purchases of weapons and explosives from their Albanian partners, who had easy access to Albanian arms depots due to their close ties with the former *Sigurimi*. The cooperation soon extended to include drugs and illegal immigrants.³³

ROMANIA

The severe authoritarianism of Ceausescu's regime in Romania, the pauperization and shortages, created by the mismanagement of the command economy and the drive to repay the foreign debt created a fertile ground for the proliferation of smuggling and illegal trade. Unable to buy raw materials and to sell their products on the free market, numerous large and small state-owned enterprise managers participated in development of a huge black market. Many agents of the Romanian Department of State Security, popularly known as *Securitate*, also played an exceptionally important role in its development and expansion to include money laundering and cigarette, drugs and arms smuggling schemes. Cigarette, drugs and arms smuggling was initiated in the 1970s with the goal of obtaining hard currency for *Securitate's* covert operations abroad. Yet, because the poor living conditions in Romania were so widespread, even the privileged *Securitate* agents were affected, which gave them a strong incentive to abuse their positions and to begin diverting the funds, generated through smuggling, to their personal bank accounts abroad (mainly in Switzerland).³⁴ The self-preservation motives of the *Securitate* agents were also behind their allegedly decisive role for the outcome of the bloody uprising against Ceausescu's regime.

After 1990, many operatives engaged in *Securitate's* smuggling and other illegal operations abroad returned to Romania to expand their "business." **When the war in the former Yugoslavia closed down the traditional "Balkan Route" for heroin, Romania became one of its alternatives.** The inadequate legislation, the collapse of public order, the economic recession and rampant corruption contributed to turning

³² Schmidt. "Sleaze Spreads in Pauperized Albania."

Frederika Randall. "Italy and Its Immigrants." *Nation* vol. 268, no. 20. 31 May 1999.

< <http://past.thenation.com/cgi-in/frames.cgi?url=http://past.thenation.com/1999/990531.shtml> > .

³³ Randall. "Italy and Its Immigrants."

Frank Cilluffo and George Salmoiraghi. "And the Winner Is... The Albanian Mafia." *Washington Quarterly* vol. 22, no. 4. Autumn 1999. < <http://www.twq.com/autumn99/224Cilluffo.pdf> > .

Observatoire Geopolitique des Drogues. "Albania." *Observatoire Geopolitique des Drogues Annual Report*. 1997. < http://www.ogd.org/rapport/gb/RP06_3_ALBANIE.html > .

³⁴ Federation of American Scientists. "Department of State Security."

Federation of American Scientists Intelligence Resource Program. 5 September 1998.

< <http://www.fas.org/irp/world/romania/securitate.htm> > .

Alina Mungiu – Pippidi. "Crime and Corruption after Communism: Breaking Free at Last – Tales of Corruption from the Post-communist Balkans." *East European Constitutional Review* vol. 6, no. 4.

Fall 1997. < <http://www.law.nyu.edu/eecr/vol6num4/feature/breakingfree.html> > .

George Baleanu. "Romania at a Historic Crossroads." *Conflict Studies Research Centre*.

< <http://www.ppc.pims.org/Projects/CSRC/g65.htm> > .

Romania into, as *Observatoire Geopolitique des Drogues* put it, "the biggest drug warehouse in Eastern Europe."³⁵

Of all the Southeast European countries, **foreign nationals have played perhaps the largest role in organizing the smuggling channels in Romania.** As one of the measures taken to raise funds for paying off the foreign debt, Ceausescu's regime invited thousands of students from developing countries (mostly the Arab world) to Romania. During the shortages in the 1980s, many of these students turned into "businessmen" and became the main suppliers of the expanding black market. In 1990, many Arabs were among the first to "legalize" their businesses, using them as a cover for the expanding smuggling networks. Arab presence was especially strong on the drug and cigarette smuggling scene. The biggest competitors to the Arab smugglers seem to be the Kurds from Turkey, who control the heroin shipments from Turkey through Romania to Western Europe. Indications exist that the profits from Kurdish-run heroin trade are used for financing the Kurdistan Workers' Party (PKK).³⁶

Like all other Serbian neighbors, **Romania also exploited the opportunities offered by the international sanctions imposed on rump Yugoslavia.** In the year 2000, the then-President Constantinescu accused his predecessor, the current President Iliescu and the former Foreign Minister Melescanu of being involved in the oil smuggling to Serbia (see chart 1). Such allegations are not uncommon in the Southeast European political infighting and should be treated with caution. Yet, it is hard to believe that the largest operation, involving around 1,000 railway wagons loaded with fuel and which, as subsequent investigation revealed, crossed from Romania into Serbia at the Jimbolia border crossing, could have been performed without the knowledge of some of the highest Romanian officials.³⁷

Romania was also among the largest exporters of arms to all warring sides in the former Yugoslavia during the arms embargo imposed on them. **The illegal arms exports were controlled by former Securitate and army employees.** Viktor Stanculescu, the former head of the quartering corps for Romanian army and a member of the tribunal which sentenced Ceausescu to death, became the owner of several leading arms exporting companies (all of which were selling weapons to Croatia and to Serbia) almost immediately after the revolution.³⁸

BULGARIA

The smuggling channels in Bulgaria were allegedly set up by the communist state and were controlled by the former State Security – the secret service of the communist regime. Regrettably, proof of this criminal activity no longer exists. Only accounts of anonymous participants in the smuggling channels and some indirect evidence are available today. The latter include the accusations by western states of smuggling of arms, drugs, medications, and excise goods.

³⁵ Observatoire Geopolitique des Drogues. "Romania." *Observatoire Geopolitique des Drogues Annual Report*. 1997. <http://www.ogd.org/rapport/gb/RP07_4_ROUMANIE.html> .

³⁶ Ibid.

³⁷ Marian Chiriac. "Romanian Smuggling Scandal Sparks Political Turmoil." *Institute for War and Peace Reporting Balkan Crisis Report* no. 156. 14 July 2000, <http://www.iwpr.net/index.pl?archive/bcr/bcr_20000714_4_eng.txt> .

³⁸ Roman Frydman, Kenneth Murphy and Andrzej Rapaczynski. *Capitalism with a Comrade's Face*. Budapest: Central European University Press, 1998, pp. 45-46.

In the late 1970s a special department was created within the state monopolistic arms export organization, which was designated as "covert transit." Its chief area of activity was the smuggling of arms to third countries and was managed by a group of officials from the then Second Chief Directorate of State Security in charge of counterintelligence. In addition to arms smuggling, the channels were used for the illicit transfer of people - mainly persons prosecuted in their countries of origin for communist or terrorist activity - and even for trafficking in objects of historical value.

The illicit trafficking in the period under consideration involved emigrants of Palestinian, Syrian, Kurd, Turkish, Iranian, or Albanian origin. Most of them had contacts with Islamic, extremist or communist groups in their own countries and abroad, which helped them set up viable channels across the state borders of several countries – both to the Near East and Asia, and to Western Europe. A number of companies were established abroad in order to facilitate and regulate payments. One of the functions of these companies, which also served to covertly import equipment and technologies obtained illegally from western corporations, was to evade the COCOM (Coordinating Committee for Multilateral Export Controls) restrictions. Entire sectors of Bulgaria's economy used to develop on the basis of "smuggled technologies."

In the period 1987-1989 certain individuals were granted control over part of these channels and vast authority to dispose with the undercover companies. This turned them into their heirs apparent and allowed them to appropriate funds into personal accounts. By data of the Ministry of the Interior, in early 1991 Bulgaria owned more than 250 companies in Germany, Italy, France, Austria, England, India, etc. Those were limited liability and public liability companies in which about USD 160 million were invested. Data from 1989 indicate that their turnover exceeded USD 1.1 billion. In addition, the export of Bulgarian products by companies based abroad amounted to another USD 600 million. The fate of these companies remains unclear.

Following the collapse of the totalitarian system and the subsequent transformation of the State Security structures in the period 1990-1993, thousands of police officers were made redundant or left the Ministry of the Interior, taking with them a large part of the archive files on agents, connections, and mechanisms for evading border control. At the same time, the ensuing vacuum in the exercise of control functions by the state, as well as the economic recession, especially in 1989-1991, **created favourable conditions for illegal trafficking in goods intended to meet the domestic demand for a wide range of products.** While until November 10, 1989, the State Security was mostly engaged in trafficking to other countries and transiting of drugs and banned goods, after that date the same smuggling channels came to be used for the illicit import of anything that could be sold in Bulgaria. Evading payment of customs and excise duties and fees, certain circles of former police agents and party activists earned illegal profit and accumulated huge financial resources.

* * *

Macedonia, Albania, Romania and Bulgaria had to face numerous difficulties when they started their transition to the market economy. The swift political and economic changes, the rising unemployment, and the rising discrepancy between wages and prices pushed many people into the gray economy and on the black market. The abolishment of tight restrictions on movement of goods and people (especially in the

case of Albania and Romania) at the same time removed many obstacles which hitherto prevented people from engaging in the shadow economy. In the first years of transition, smuggling was a nation-wide phenomenon tolerated by the authorities to avoid the social upheaval among the pauperized population, which had little choice apart from engaging in small-scale oil smuggling to the rump Yugoslavia and in the "suitcase trade." The involvement of numerous high-ranking government officials in the large-scale smuggling operations is another, even more significant reason why in the first years of the 1990s, virtually no attempts to counter smuggling were made.

1. 4. BACK TO NORMALCY: PRIVATIZATION OF STATE-SPONSORED SMUGGLING CHANNELS IN THE WESTERN BALKANS

The smuggling channels, set up semi-officially with the knowledge, if not even active participation of the highest state officials, were soon "privatized" by certain well-placed individuals and groups within or closely connected to the ruling elites. Personal enrichment completely overshadowed any potential benefit to the state and to majority of people, whose trust and support were quickly eroded. The most obvious cases were the Serbian-held territories in Croatia and parts of Bosnia-Herzegovina. A series of military defeats they suffered in 1995 was a direct consequence of a total demoralization of their defenders, caused by the rampant corruption of the ruling circles.

The situation was not much different in other regional countries. Smuggling and illicit trade started to seriously undermine the normal functioning of the state. In countries, which were not involved in the war or were not under sanctions, and where government change was at least theoretically possible (Macedonia, Albania, Romania, Bulgaria), some measures to stem proliferation of smuggling were taken. Unfortunately, in most cases these measures were ineffective, and (if government has in fact changed) led only to the change of people involved in the smuggling. In Croatia, Bosnia-Herzegovina, Montenegro and Serbia, where due to the specific circumstances (involvement in the war being the most important one) the same regimes remained in power for almost the whole decade, all the attempts to check the flow of smuggled goods were mostly cosmetic.

The process of "privatization" of the smuggling channels was well underway by 1992 in all the regional countries and largely concluded by 1995. The only exception was Kosovo where the process started with the 1997 appearance of the KLA as an important regional player and was concluded in the aftermath of the 1999 NATO campaign. During the same period, the channels initially established for smuggling predominantly of weapons and oil were expanded to include other goods, such as drugs, stolen vehicles, cigarettes, alcohol and other commodities. The origins of the constantly growing Balkan "trade in human beings" can also be traced to the 1992-1995 periods and to the lucrative business of "assisting" refugees to escape from the war zones to safety.

CROATIA

Soon after their establishment, the smuggling operations in Croatia were taken over by a relatively small circle of people from within the Defense Ministry and the