

2. RECENT DEVELOPMENTS IN TRANS-BORDER CRIME IN SOUTHEAST EUROPE (1995 – 2002)

The years 1995 and 1996 represented a crucial point in the development of illegal trade in Southeast Europe. With the gradual termination of armed conflicts in the Western Balkans, the processes of consolidation of the new status quo accelerated. The sanctions against the FR Yugoslavia were, albeit only temporary, terminated. This and numerous other developments have drastically reshaped the geography of the regional smuggling networks.⁶⁸

Trade with weapons (with the understandable exception of Kosovo, where the turning point was the 1999 NATO intervention and expulsion of the Serbian security forces from the province) and oil, previously the most sought after commodities, diminished dramatically, and gave way to a progressively expanding illegal trade with illicit drugs, excise goods (most notably cigarettes) and human beings. The reorientation towards new "commodities" was paralleled with the conclusion of transition from "state-sponsored" to mafia-run smuggling. Apart from the increase in large-scale smuggling, there was also the rapid growth of the small-scale, or "suitcase" smuggling in all countries of the region, due to the widespread impoverishment, the high prices of legally imported commodities, and weak law enforcement.

2. 1. MASS SMUGGLING ("THE SUITCASE TRADE")

Mass smuggling is a specific form of the illegal trade in goods. Its significance is often underestimated, despite the fact that it constitutes a considerable part of the illegal imports and exports in Southeast Europe. Suitcase traders cross borders on a daily basis, sometimes even several times in the same day. Upon each crossing, they transfer merchandise for which no customs duties and other fees are paid. Instead, a bribe is often paid to the border police and customs officials, facilitating what is called "administrative corruption." Suitcase traders make additional profit due to the price

⁶⁸ In the summer of 1995, Croatian army launched a surprise attack on Serb-held parts of Croatia and regained most of them, with the exception of the eastern-most part, called East Slavonia (known also as Sector East), which remained under the international administration until January 1998, when it was peacefully reintegrated into Croatia. Few months later, the war in Bosnia-Herzegovina ended with the Dayton Agreement, negotiated in November 1995 in Dayton, Ohio, and signed in Paris on December 14, 1995. The UN Security Council issued a Resolution 1022 on 22 November 1995, which indefinitely suspended sanctions against the Federal Republic of Yugoslavia. After the September 1996 elections in Bosnia-Herzegovina, the Resolution 1074 of 1 October 1996 terminated the sanctions against the FRY and the Bosnian Serbs. The so-called "Outer Wall" of sanctions (prohibiting FRY's membership in international organizations as UN and OSCE, and its access to international financial institutions), however, remained in force. The FRY thus remained an international pariah, cut off from majority of world's economic currents even after the signing of the Dayton Agreement and the end of war in Bosnia-Herzegovina. In such circumstances, country's access to oil imports continued to be restricted.

differences of the smuggled goods on both sides of the border. The goods most often smuggled in this manner include gasoline, household goods, foodstuffs and beverages, fruits and vegetables, clothes, medicine, etc. The goods subject to import and export bans may also be involved. Turkey plays the role of the most important regional "shopping center," with suitcase traders from Bulgaria, Romania, Macedonia, FR Yugoslavia and Albania contributing an important share to the enormous turnover the suitcase trade generates in Turkey. According to the Turkish statistical data, **the volume of suitcase trade in 1996 reached \$8.8 billion.**⁶⁹

All of the regional countries felt the impact of this phenomenon to a greater or lesser degree. **In some, however, the suitcase trade reached such proportions that it began to seriously threaten local economy. Croatia is such an example.** In the second half on the 1990s, Croatia became arguably the most expensive transitional country in which a rapidly growing number of people found it increasingly difficult to get by. This forced scores of Croats to daily visit Bosnia-Herzegovina, Hungary and even Slovenia to buy food and other commodities. The exceptionally high prices in Croatia were partly the result of the war and the subsequent destruction of industries and infrastructure, and partly of the rampant corruption and the related "tycoonization" of Croatian economy. This resulted in the majority of enterprises being plundered and brought to bankruptcy. The situation was almost identical in Bosnia-

Herzegovina and Serbia, but prices there were deliberately kept low with no VAT and no excise duties levied in Bosnia-Herzegovina, and no VAT and only 5 percent excise duty levied in Serbia. In sharp contrast to these two countries, Croatian authorities introduced relatively high 22 percent VAT and 20 percent excise duties.⁷⁰

For years, Croatian authorities did nothing to curb the "suitcase" trade, despite the losses it was bringing to its domestic production and to the state

Herzegovina – the Croatian Duty Free Shop

In addition to numerous official crossings, **there were up to 400 unofficial points of entry between Croatia and Bosnia–Herzegovina** where goods were smuggled in or out of the country. In practice, Croat populated Herzegovina became an enormous duty-free shop. On the one hand, it helped an increasing number of impoverished Croatian citizens make the ends meet, since numerous goods, especially food, were up to 50 percent cheaper in Bosnia-Herzegovina than in Croatia. On the other hand, this directly threatened Croatian economy. The same practice was repeated also on larger scale, by numerous proprietors and shop-owners. On one occasion, police stopped and confiscated a truck full of cheese, destined for one of the many Croatian shops, which are illegally supplied with Herzegovinian goods.⁷¹

budget. On the contrary, considering the "suitcase" trade as a safety valve for preventing the social upheaval, Croatian authorities even made customs frauds and smuggling much easier by opening around 200 border crossings, of which 108 between Croatia and Bosnia–Herzegovina alone (for comparison, Hungary which is double the size has only 65 border crossings). Only 20 of them were properly equipped for control of passengers and goods. Even on the larger border crossings, the customs and border police officers operated in make-shift offices, set in the roadside trailers. There were usually no areas for conducting inspection of vehicles. Due to the lack of customs officials, many border crossings were controlled only by the police who rarely did anything but check the identity of passengers.

⁶⁹ "Corruption and Trafficking: Monitoring and Prevention." *CSD Reports*. Sofia: Center for the Study of Democracy, 2000, pp. 26-27

⁷⁰ Georgi Ranchev. "The Combination of Services - Infrastructure - Taxes Is a Struggle for Foreign Investments." *Pari*. 21 August 2001. < <http://www.policy.hu/~ranchev/article3.html> > .

⁷¹ Zeljko Rogosic. "Hrvatska – drzava organiziranog sverca." *Nacional* no. 271. 25 January 2001. < <http://www.nacional.hr/hm/271013.hr.htm> > .

Despite the lifting of sanctions, Serbia's access to oil remained very limited and small-scale smuggling of oil from neighbouring countries remained widespread in the second half of 1990s. When the EU and the USA reimposed the oil embargo on Serbia during the Kosovo conflict, the neighbouring countries officially joined the embargo. The 1996 elections in Romania and the 1997 elections in Bulgaria brought new governments to power, which made certain that there was no repetition of the 1991-1995 events, when huge convoys of tanker trucks travelled to Serbia under the protection of important figures from within the government. However, they could do little to prevent the small-scale smuggling, involving private cars, crossing the border and selling the fuel from their tanks:⁷²

- The customs officials at the Vrashka Chuka border crossing between Serbia and Bulgaria estimated that more than 200 cars passed from Bulgaria to Serbia every day, taking almost 10,000 litres of gasoline across the border.
- According to the Romanian press, there were up to 100 cars standing in line to cross the Iron Gate Dam border crossing at any time of day during the three-month conflict.
- The situation was not much different on the other four Serbian border crossing with Bulgaria, on the four with Romania and the two with Macedonia.

Mass smuggling in Kosovo represents perhaps even a more pressing problem than anywhere else in the region because numerous indications exist that it is controlled by the organized crime structures, which have evolved from the KLA and which are closely connected with the local political elites.

Kosovo smugglers are making huge profits through customs frauds, which UNMIK (the United Nations Mission in Kosovo) was so far unable to tackle. In 1996, the governments in Belgrade and Skopje signed an agreement according to which a flat one percent duty is charged on all goods, traded between the two countries. UNMIK respects this agreement and consequently, the same low duty is levied on all imports from Macedonia, Serbia and Montenegro to Kosovo. The duty for imports from all other countries is 10 percent. The smugglers use this and forge documents and stamps to present goods (including even bananas and oil), coming from other countries, as originating in Macedonia. In the first four months of 2001 alone, over 200 false certificates, issued by the Macedonian customs authorities, have been detected. The situation is even worse at the "border" with Serbia, where, due to the still unclear status of Kosovo, only semi-official "control points" exist, where taxes collected by the

The Kosovo Political Elite and Smuggling

A case, which clearly speaks of the involvement of the new Kosovo political elite in smuggling is that of the head of the province's Customs Service. It was a public secret that the Blace border crossing between Kosovo and Macedonia was the main point of entry for goods, smuggled into the province. In an attempt to cut this smuggling channel, the head of the Customs Service removed several customs officers, working at Blace, which resulted in the 40 percent increase in the revenues collected there. Almost immediately he started to receive death threats and was simultaneously pressured by several top officials of Hashim Thaci's Democratic Party of Kosovo to reinstate the dismissed officers.⁷³

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⁷² US Energy Information Administration. "Enforcement of Serbian Sanctions and Embargo."

⁷³ "Kosovo: A Strategy for Economic Development." *International Crisis Group Balkan Report* no.123. 19 December 2001.

< http://www.intl-crisis-group.org/projects/balkans/kosovo/reports/A400514_19122001.pdf > .

"border officials" end up in their pockets, instead of in the Serbian and Kosovar budgets.⁷⁴

Some estimates about the range of suitcase smuggling and customs frauds in Albania can be made from the data on collected customs revenues. The reforms in the customs and tax authorities, initiated by the new Socialist government with the assistance of international institutions, soon produced some tangible results:⁷⁵

- In 1996, customs revenues were only \$10 million.
- From September to December 1997 alone, \$28 million were collected.
- However, the estimated losses from **unpaid customs duties for 1998 were still over \$80 million**, and the extent of smuggling and corruption in Albania continues to be higher than anywhere else in Europe.

According to the 1998 World Bank survey, 70 percent of Albanian entrepreneurs admitted to bribing customs officials. The investigation launched by the Office of the Prosecutor General discovered that the former Director General of customs himself was involved in smuggling operations.⁷⁶

In the second half of the 1990s, huge part of the Romanian "suitcase traders" became involved in large smuggling networks for coffee, alcohol, cigarettes, food and other consumer goods. According to the estimates of companies, united in the Romanian-American Commerce Chamber, up to 70 percent of certain goods sold on the market have been imported illegally. Between 50 and 70 percent of mobile phones, 25 percent of coffee, 50 percent of whiskey, and over 50 percent of cosmetics have been smuggled into the country.⁷⁷

One of the ways to estimate the scope of the suitcase trade is the number of "exits" from the country. In Bulgaria, such research was conducted by the Center for the Study of Democracy and was based on the information supplied by the National Statistical Institute. In 1996 and 1997, more than 3 million exits were registered. Most of the visits of the Bulgarian citizens were made to the neighboring countries: about one third of all departures went to the Federal Republic of Yugoslavia, 17 percent to Turkey and 15 percent to Romania. In nine out of ten cases, "tourism" was the reason cited for the trip. Yet, "tourism" can be regarded (to an extent) as a valid reason only in the case of Turkey, which is in fact a popular tourist destination. In cases of Yugoslavia and Romania, the numbers offer a very good indication of the potential scope of the suitcase trade. According to these estimates, there is enough evidence to claim that between one fourth and one third of 900,000 people engaged in the private sector are involved in suitcase trade. **This makes it the largest sector of the Bulgarian economy** in terms of the number of people engaged. A large number of small and medium-sized enterprises in Bulgaria depend on suitcase trade.⁷⁸

⁷⁴ Fehim Rexhepi. "Kosovo – Smugglers Heaven." *AIM Press*. 3 June 2001.

< <http://www.aimpress.org/dyn/trae/archive/data/200106/10603-001-trae-pri.htm> > .

"Organized Crime Contributing to Lawlessness in Kosovo." *Balkan Times*. 2001. < <http://www.balkan-times.com/html/english/5871.htm> > .

"Kosovo: A Strategy for Economic Development."

⁷⁵ "Constitutional Watch – Albania." *East European Constitutional Review* vol. 7, no. 3. Summer 1998. < <http://www.law.nyu.edu/eecr/vol7num3/constitutionwatch/albania.html> > .

⁷⁶ Schmidt. "Sleaze Spreads in Pauperized Albania."

⁷⁷ Ziarul Financiar. 8 May 2001.

⁷⁸ "Corruption and Trafficking: Monitoring and Prevention," pp. 26-27.