

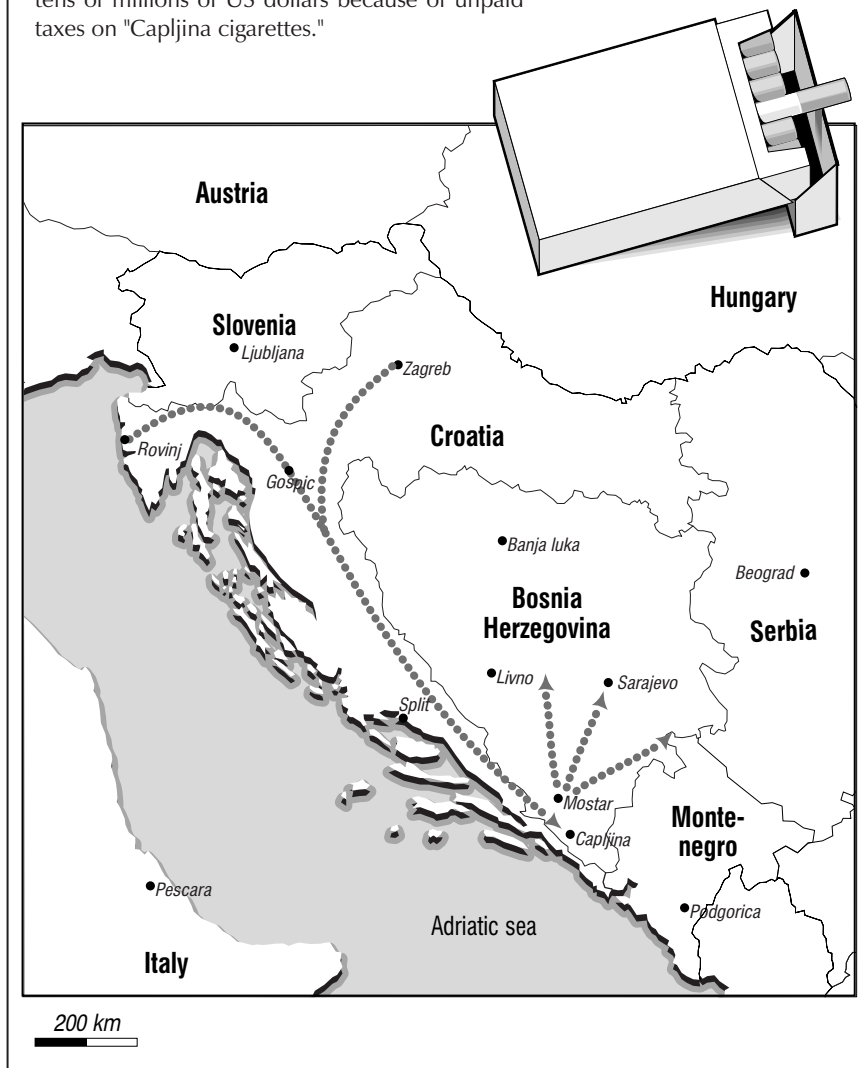
## 2. 2. CIGARETTE SMUGGLING

The goods, which are smuggled most often are mainly those that tend to undergo transformation, or are completely consumed. Such are fuels and lubricants, alcoholic and non-alcoholic beverages, food, raw materials, etc. In other words, when they appear in the market and are sold, they are difficult to track, and since they subsequently disappear they cannot be tracked down should it be established that they

were imported illegally. The second important characteristic of most often smuggled goods are the high import tax and duty rates (so-called excise goods). The cigarettes and other tobacco products have both of these two features. It is thus hardly surprising that cigarette smuggling became one of the most profitable and widespread illegal activities in the region.

**Chart 2: The Capljina cigarettes**

Cigarettes produced in Croatian tobacco factories in Zagreb and Rovinj were smuggled to Hercegovinian town of Capljina, and from there transported all over the republic as products of Tobacco Factory Capljina. The "factory" was closed down in 2000 after the investigation of the Financial Police uncovered the scheme. According to the Chief Inspector of the Financial Police, Bosnia-Herzegovina lost tens of millions of US dollars because of unpaid taxes on "Capljina cigarettes."



**Cigarette smuggling in the region involves both locally produced cigarettes and major international brands.** The schemes for smuggling locally produced cigarettes usually involve "export" to a neighbouring country, followed by illegal transport of these same cigarettes back into the country of origin. Cigarette smuggling prospered because of the existence of several borders in the region, which were deliberately kept porous for political reasons (border between Croatia and the Croat-populated Herzegovina, border between Serbia and the Serb-populated Republika Srpska, and the border between Serbia and post-1999 Kosovo). **Another popular customs fraud, used in cigarette smuggling, is to present cigarettes as being produced in a (real or fake) domestic factory, and not abroad as it is really the case.** This scheme was exceptionally widespread in Bosnia-Herzegovina (see chart 2).

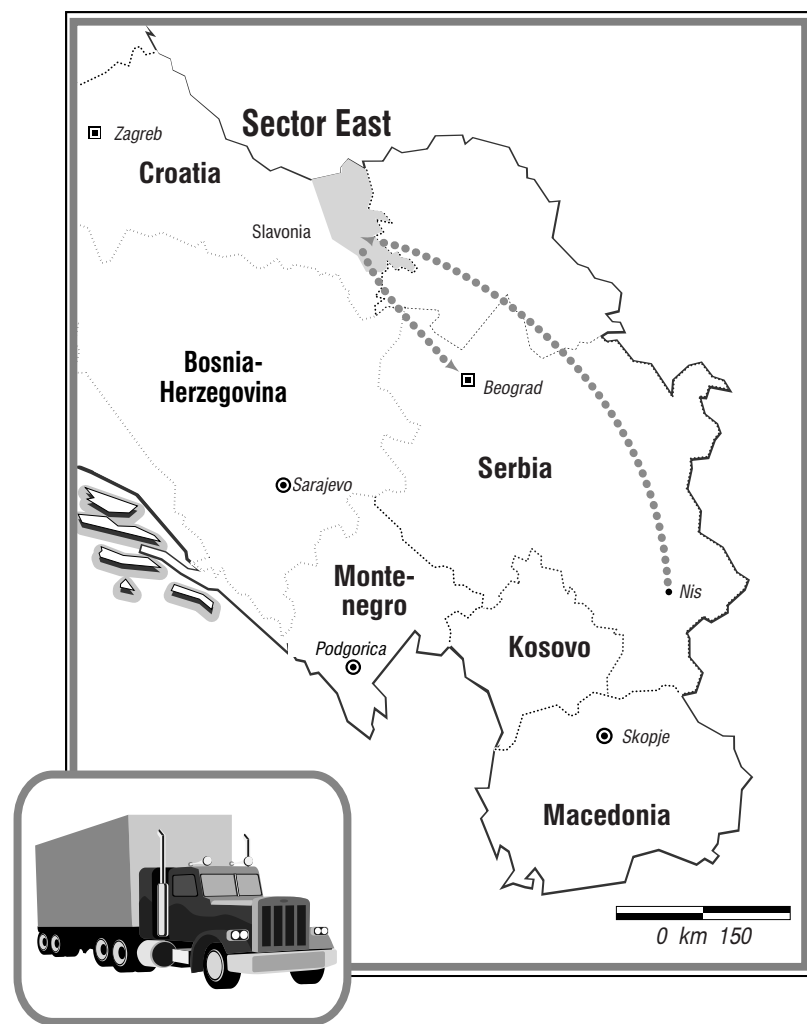
Counterfeit cigarettes, produced from smuggled low-quality tobacco in various small-size factories all over the country are also a very serious problem in Bosnia. Due to their low price, counterfeit cigarettes are extremely popular despite the enormous health hazard they represent. It is difficult to come up with precise figures on cigarette smuggling in Bosnia, but some estimates can be made. For exam-

ple, every month approximately 280 tons of cigarettes, produced in the *Tvornica duhana Rovinj*, are sold in the republic. However, only around 100 tons are legally imported every month. Representatives of the World Bank and the IMF estimate that Bosnia-Herzegovina loses around \$500 million annually because of the illegal cigarette imports.<sup>79</sup>

After the fall of Milosevic's regime, the new Serbian authorities took numerous measures to cut the cigarette smuggling channels and to regulate the trade with cigarettes and other high-duty commodities:<sup>80</sup>

### Chart 3: The "Sector East" Scheme

The largest cigarette smuggling scheme in Serbia, operating from 1995 to 1997, involved "export" of cigarettes, produced by the Serbian cigarette-producing giant *Duvanska industrija Nis* to Eastern Slavonia, the last part of Croatia held by the Serbs (until January 1998, when it was peacefully reintegrated into Croatia). The "exported" cigarettes were then smuggled back into Serbia and sold on the local black market, costing the state budget up to \$800,000 per day in lost revenues.<sup>81</sup>



- According to the Serbian Prime Minister Djindjic and the head of the Federal Customs Administration Begovic, the share of the illegal cigarettes on the market decreased from 65 to 15 percent by September 2001.

- In 2000, just slightly over \$400,000 was collected from duties on cigarette import. In 2001, the sum was 32 times larger (almost \$13 million).

- In 2001, 5,313 tons of cigarettes were legally imported, against the 3,078 tons for the whole period between 1995 and 2000.

- Numerous arrests were made and over 500,000 boxes of cigarettes confiscated.

- Still, according to estimates of G17, Serbian think-tank, in which many of the country's top economists work, Serbia still loses \$120 million annually in revenues due to illegal cigarette import.

<sup>79</sup>Slobodan Vaskovic. "Ceka za kapitalca." *Reporter* no. 122. 23 August 2000. < <http://www.reporter-magazin.com/rep122/0008.htm> > .

Dzenana Karup – Drusko. "Reket za Dodika, Bicakcica i Covica." *Dani* no. 176. 13. October 2000.

< <http://www.bhdani.com/arhiv/2000/176/t17619.htm> > .

<sup>80</sup>Tatjana Stankovic. "Reforme iza dimne zavese." *AIM Press*. 30 September 2001.

< <http://www.aimpress.ch/dyn/pubs/archive/data/200109/10930-014-pubs-beo.htm> > .

Serbian Government. "Government Decree Spurs Trade with Kosovo-Metohija." *Web Page of the Serbian Government: News*. 29 January 2002.

< <http://www.serbia.sr.gov.yu/news/2002-01/29/322320.html> > .

<sup>81</sup>Zoran Kosanovic. "Sverc zatvorio fabriku." *AIM Press*. 10 July 1997.

< <http://www.aimpress.org/dyn/pubs/archive/data/199707/70710-019-pubs-beo.htm> > .

Batic Bacevic. "Do poslednjeg dima." *Nin* no. 2421. 23 May 1997.

< <http://www.nin.co.yu/arhiva/2421/> > .

According to the estimates, 95 percent of cigarettes entering Kosovo were smuggled into the province. Most of these cigarettes came from Serbia.<sup>82</sup>

A scheme, similar to the one employed in Serbia, has been used in Macedonia. The cigarettes produced by the local tobacco factory *Makedonija tabak* were exported duty free to Serbia and Kosovo. A significant part was then smuggled back into Macedonia and sold on the market by small traders and street vendors. According to the data of the former Macedonian Interior Minister Trajanov, more than 1,300 trucks of cigarettes were smuggled this way between June and September 2000 alone. Trajanov estimates that the smuggling strategists (who are, according to him, closely connected to the two ruling parties) pocketed \$57 million of profits.<sup>83</sup>

Trajanov, as well as some newspapers and magazines, name the Customs Director Dragan Daravelski as the most important link in the Macedonian cigarette smuggling. *Tutunski kombinat*, cigarette factory located in Daravelski's home town of Kumanovo is allegedly a place where counterfeit cigarettes like Assos (no Macedonian company has a license to produce this brand) are made. The ease with which enormous quantities of smuggled cigarettes move across the Macedonian borders with Albania, Kosovo and Serbia indicate that the involvement of customs and government officials is indeed very likely.<sup>84</sup>

One of the biggest Romanian smuggling scandals of 1990s involved the illegal import of cigarettes and had dealt a significant blow to the administration of President Constantinescu. It involved smuggling of cigarettes worth several million USD to Romania through the Otopeni military airport near Bucharest.

#### The Otopeni Cigarette Smuggling Affair

On 25 April 1998, few Romanian newspapers ran a story about a several million USD worth cigarette smuggling operations at the Otopeni military airport. It is believed that during 1997 and the first months of 1998 more than 20 flights were conducted, each of them bringing up to 3,000 cases of cigarettes (most likely from Cyprus) to Otopeni. After landing, cigarettes were unloaded by members of the special force Guard and Protection Service (Constantinescu's presidential guard) and transported to a special "safe house." Unloading and transportation were conducted under the personal supervision of the deputy director of the Guard, general Trutulescu. The disclosure of the scandal resulted in arrests of few implicated people, including the commander of the Otopeni airport Suci (sentenced in 2001 to 15 years in prison) and the general Trutulescu (sentenced to seven years). Trutulescu's superior, the head of the Guard and Protection Service, general Anghel, resigned.<sup>85</sup>

According to the most conservative estimates, the annual sales volumes of cigarettes in Bulgaria are about \$120 million. The imported cigarettes sales amount to 15 percent of the cigarettes sold (\$18 million). Yet, in 1998 the value of the legally imported cigarettes was only about \$2.5 million, which means that only 14.1 percent of the imported cigarettes, sold in the country, have been registered with the relevant authorities and that the proper taxes

<sup>82</sup> "Kosovo: A Strategy for Economic Development," p. 9

<sup>83</sup> Klekovski. "Blame the Economy in Macedonia."

"Concern in Macedonia at Explosion of Crime in Kosovo." *Agence France Presse*. 16 September 2000. < <http://www.balkanpeace.org/hed/archive/sept00/hed580.shtml> > .

"Шверцот транзитира низ Македонија со амин на власта и на некои меѓународни организации." *Дневник*. 22 September 2000.

<sup>84</sup> "Macedonia's Public Secret: How Corruption Drags the Country Down." *International Crisis Group Balkan Report* no.133. 14 August 2002, pp. 22-22.

< [http://www.intl-crisis-group.org/projects/balkans/macedonia/reports/A400739\\_14082002.pdf](http://www.intl-crisis-group.org/projects/balkans/macedonia/reports/A400739_14082002.pdf) > .

<sup>85</sup> Baleanu. "Romania at a Historic Crossroads."

"Romanian Security Chief Resigns over Smuggling Scandal." *BBC News Online*. 29 April 1998. < [http://news6.thdo.bbc.co.uk/hi/english/world/europe/newsid\\_85000/85656.stm](http://news6.thdo.bbc.co.uk/hi/english/world/europe/newsid_85000/85656.stm) > .

"Cigarette Smugglers Handed 3-To-15-Year Terms." *Daily Bulletin*. 27 February 2001.

have been paid. The situation even worsened in 1999. A comparison shows that the duties paid by October 1999 had dropped by about 35 percent compared to 1998. The cigarette import often involves the most flagrant forms of smuggling, with entire shipments smuggled into the country, with documents being forged with false customs seals and with involvement of ghost companies.<sup>86</sup>

Cigarette smuggling in Montenegro has reached such proportions in the last decade that the tiny republic has acquired an infamous name of "The Cigarette Empire" in the international press, with presumptions of the direct involvement of the republic's highest government officials in this illegal activity often being made. In fact, the notorious permeability of Montenegrin borders, which the cigarette business

depends on, could not be maintained for so long without the active involvement of the republic's authorities. It is widely believed that while Milosevic was still in power, the international community deliberately turned a blind eye to this smuggling due to President Djukanovic's anti-Milosevic position.<sup>87</sup>

The speedboats smuggling cigarettes from Montenegro to Italy were allegedly accompanied by the Montenegrin coast guard while they were still in the republic's territorial waters. Thus they were protected from the patrols of the Federal Police and Customs officials. According to the estimates, Italy loses a few hundred million USD annually in unpaid taxes due to cigarette smuggling. The German government's customs investigator, dealing with the cigarette smuggling, estimates that in the years 2000 and 2001, the EU lost \$3.4 billion because of the unpaid taxes for cigarettes smuggled from Montenegro.<sup>89</sup>

### Tobacco Giants Assist Cigarette Smuggling?

In the fall of 2000, the EU launched a lawsuit in the New York court against two of the largest tobacco companies in the world, Philip Morris and RJ Reynolds. The tobacco giants were accused of facilitating cigarette smuggling by exporting highly exaggerated quantities of their products to countries like Montenegro, despite being aware that their domestic market is much too small to accommodate the imported quantities. The companies profit from this scheme because the lower price of the smuggled cigarettes increases the consumption of their products and consequently increases the profits. At the same time, dumping of the cheaper, smuggled cigarettes on European markets is destroying the domestic cigarette production. On July 17, 2001, the New York court ruled that every EU country can individually sue Philip Morris and RJ Reynolds for compensation of losses, suffered because of smuggling of cigarettes, produced by these two companies.<sup>88</sup>

### Investigation against the Foreign Minister

The Italian government launched an investigation in cigarette smuggling and gathered evidence against 46 implicated individuals, among whom the then Montenegrin Foreign Minister Branko Perovic. According to the investigators, Perovic has been in personal contact with several of the Italian organized crime bosses since 1992. In December 1999, he was indicted on charges of cigarette smuggling and racketeering by the Public Prosecutor in Naples, but refused to present himself in the court claiming political immunity. He resigned approximately one year later.<sup>90</sup>

<sup>86</sup> "Corruption and Trafficking: Monitoring and Prevention," pp. 43-45.

<sup>87</sup> Ivanovic. "Speedboats, Cigarettes, Mafia and Montenegrin Democracy." Nebojsa Medojevic. "Pusenje ili drzava!" *Forum*. 2 February 2001. < [http://www.forum.com.mk/Arhiva/Forum76/politika/politika\\_sverc.htm](http://www.forum.com.mk/Arhiva/Forum76/politika/politika_sverc.htm) .

<sup>88</sup> Berislav Jelinic. "Razotkrivena svjetska mreza svercera cigaretama." *Nacional* no. 297. 26 July 2001. < <http://www.nacional.hr/htm/297013.hr.htm> > .

Andy Rowell and Rich Cookson. "No Smoke Without Fire." *Action on Smoking and Health*. 2 October 2000. < <http://www.ash.org.uk/html/smuggling/html/bigissuefull.html> > .

<sup>89</sup> Ivanovic. "Speedboats, Cigarettes, Mafia and Montenegrin Democracy" Jelinic. "Razotkrivena svjetska mreza svercera cigaretama."

<sup>90</sup> Foster and Husic. "Probe into Montenegro's Role at Illegal Cigarette Trade."