



**SERBIA'S GRAIN TRADE:
MILOSEVIC'S HIDDEN CASH CROP**

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Map of Serbia and Montenegro

Source: <http://www.un.org/Depts/Cartographic/map/profile/yugoslav.pdf>



SERBIA'S GRAIN TRADE: MILOSEVIC'S HIDDEN CASH CROP¹

EXECUTIVE SUMMARY

Nearly a year after NATO defeated Serbia in the war over Kosovo, the international community appears uncertain about how to remove Yugoslav President Slobodan Milosevic from power.

With its avowed policy of tough economic sanctions, the indictments by the UN's International Criminal Tribunal for the former Yugoslavia (ICTY), the accompanying asset freeze placed on all indictees by the Tribunal's chief prosecutor, and the visa and financial ban lists maintained by the European Union (EU) and United States government, the international community has focused on dismantling the regime's financial underpinnings. However, the potential effectiveness of this approach has been undermined because thus far, the sanctions have been poorly implemented and enforced, enabling Milosevic and his associates to exploit their economic hold over key Yugoslav resources and industries.

This is especially true of the grain trade. Export of wheat and maize alone, it is estimated, yields an astonishing 25 per cent of Serbia's hard currency needs; moreover, grain is bartered for oil and gas from Iraq, Libya, Syria, Russia, and Ukraine, resulting in a total estimated yield from the grain trade of nearly one-third of Serbia's fungible financial base.

Among the companies carrying out this trade are Jugoimport-SDPR and Progres Trade. Jugoimport, Yugoslavia's defence procurement agency, currently exports grain to Libya, Syria, and, under the UN "oil-for-food program," to Iraq, with which it has a long history of collaboration on weapons technology and development programs, including the development of weapons with nuclear, biological, and chemical (NBC) capabilities. Progres Trade, headed by Serbian Prime Minister Mirko Marjanovic, handles the grain trade with Russia through the Russian firm Gazprom, which is headed by former Russian prime minister and Kosovo peace broker, Viktor Chernomyrdin.

¹ This is a revised version of ICG Balkans Report No.93, originally published on 2 May 2000.

In its second systematic investigation of how Milosevic has successfully managed to sustain himself in power and manipulate the Serbian population,² ICG has examined the mechanics of grain from farm gate to foreign market. This paper discusses the regime's decade-long exploitation of the farmers of Vojvodina, a traditional breadbasket of central Europe; the arrangements with Montenegro and the implications of the current blockade of Serbian foodstuffs on that dissident, democratising Yugoslav republic; and the activities of the international humanitarian assistance programs which, by providing wheat to a wheat-surplus nation, are not only giving Belgrade added capacity to manipulate its vulnerable refugee population, but are assisting the cash-strapped regime in exporting its own strategic reserves in exchange for a critical supply of fuel and foreign exchange.

In recent months the international community has taken a hard look at its use of sanctions³ against pariah states with a mind toward toughening restrictions on the regimes in question while softening their impact on the respective civilian populations, be they Iraqi, Libyan, or Serbian. In early April the European Union refined and more sharply focused its own sanctions program against the Belgrade regime, in an effort to clarify to the Serbian people that Milosevic, not the population itself, is the intended target of the international community's punishing strategy, which will remain in place until he is out of power. The inclusion of the Serbian grain trade in this more refined application of sanctions can significantly enhance the program's effectiveness in constricting the financial resources available to Milosevic. ICG's recommendations are directed at further strengthening this potentially powerful tool.

RECOMMENDATIONS

Economic Pressures:

1. The European Commission's designation of whole economic sectors in Serbia with which commerce is now to be severely restricted because they are owned or controlled by the Milosevic regime should be expanded to include the Serbian grain trade;
2. Non-EU nations which signed on to an earlier EU regulation freezing Yugoslav assets and limiting trade with regime-controlled Serbian or Yugoslav companies should now adopt the EU's new, more finely targeted trade restrictions, expanded to include an embargo on the export of Serbian grain. Neighbouring states such as Bosnia, Bulgaria, Croatia, Hungary, Macedonia, and Romania should not only refrain from purchasing Serbian grain, but should take steps to prevent it from being sold in or transited through their territory. These states should be compensated financially by Western governments for the burdens this embargo will place on them;

² See ICG Balkans Report No. 82, "Trepca: Making Sense of the Labyrinth," 26 November 1999.

³ See Appendix II: Current Sanctions Against Serbia.

3. The names of all Serbian-run companies and individuals dealing in substantial quantities of grain should be placed on both the EU "visa ban" and the US Department of Treasury's Office of Foreign Asset Control (OFAC) lists of firms and persons banned or blocked because of their close financial ties to Belgrade. These publicly available EU and US lists should include information detailing the nature and extent of those ties to the regime;
4. Foreign ministry officials of governments working on sanctions against Serbia and its trading partners, Iraq and Libya, should institute a regular exchange of information to alert all sets of offices to proposed transactions subject to review under the sanctions regulations;

United Nations:

5. Both the Secretary-General and member states of the Security Council should place holds on any contracts likely to benefit the Milosevic regime through the oil-for-food mechanism authorised by UNSC Resolution #661;
6. The contract-approval process under the UN oil-for-food program should be made more transparent by publishing the details of contracts awarded through this process;

Humanitarian Assistance:

7. Aid agencies should energetically pursue alternatives to the regime's controlled distribution mechanisms by means such as the following:
 - Given that neither the Yugoslav nor the Serbian Red Cross societies has been able to demonstrate its autonomy from the regime's control, in the event that a local Red Cross office prove itself capable of functioning independently, international agencies should insist on working through and delivering their financial support directly to that local office; and
 - Agencies should explore local sources of wheat that are outside government control, taking cognisance of the difficulties in ascertaining that the chosen partner is not corruptible or susceptible to manipulation.

Washington/Brussels, 5 June 2000



SERBIA'S GRAIN TRADE: MILOSEVIC'S HIDDEN CASH CROP

I. INTRODUCTION: EXPLOITATION TO EXPORT, THE PLIGHT OF THE SERBIAN FARMER

For centuries the rich soil of Serbia's Vojvodina region has furnished central Europe with its most fertile breadbasket. Fed by the Danube River, the lush wheat fields form an uninterrupted plain with those of neighbouring Croatia and Hungary, separated only by international borders. Vojvodina's proud agriculturists have long been renowned for their capacity to produce regardless of adverse weather, economic, or political conditions.⁴ Vojvodina and Kosovo were autonomous provinces of Serbia until the ascent of Slobodan Milosevic and his manipulated abrogation of their status. In his new Serbia, Vojvodina would be exploited for its wealth, and Kosovo would become a captive market.

The great majority of Serbia's 1.7 million farmers, one for each five citizens in Serbia, operate on a subsistence basis, producing enough food for their families and sufficient surplus to barter or sell at the local green market.⁵ About 20 per cent of Serbia's agricultural production is produced by large state-owned farms; the bulk of Serbia's production, particularly its grain production, comes from the half-million farmers of the Vojvodina.⁶ Vojvodina claims to have fed up to 20 million people from the yield of its farmlands.⁷ In recent years, however, with only limited access to fuel, tractors, spare parts, pesticides, fertilisers, this output has substantially diminished to roughly half that.

In theory, the economics of Serbian farming begin with a farmer contracting with a local, government-owned company to produce a certain amount of grain at a price to be set late in the spring.⁸ For its part, the company provides the farmer

⁴ For an up-close introduction to Vojvodina's history, beauty, and cultural pride, see: <http://www.vojvodina.com/gallery/vojvodina/index.htm>; http://www.novisad-home.com/vojvodina/photo_tour.html.

⁵ ICG interviews with farmers in Novi Sad, February 2000; <http://www.serbia-info.com/facts/agriculture.html>.

⁶ ICG Interview, farm official, Novi Sad, February 2000.

⁷ Milena Putnik, "Blockade Against Plunder," 25 December 1996.

⁸ ICG interview with farmers in Novi Sad, February 2000.

with the necessary inputs to raise a crop, e.g., seeds, fertiliser, and fuel, at subsidised prices.⁹ After paying a state-owned company to rent a combine, the farmer is obliged to deliver his wheat to a local, state-operated silo and mill.¹⁰ After his debts for inputs are accounted for, the farmer is to receive payment for his crop in three or four instalments spread out over the course of the following year. Payments take the form of cash or coupons that can be traded for further inputs.¹¹ While in principle the farmer is free to mill any surplus grain he may have produced beyond what had been contracted for, he nevertheless must pay for storage and milling.

Milosevic has selectively but systematically refined this system to maximise the regime's control over the farmers' output while minimising its obligations to them. Inputs arrive late or not at all.¹² With local production accounting for less than half the necessary supply of such key inputs as fuel and fertiliser, Serbia is dependent on the importation of both commodities, which has been hampered by international sanctions.¹³ Instead of obtaining his inputs on credit as before, the farmer must now pay the supplier "up front" or attempt to find them on the alternative gray and/or black markets.¹⁴ Once the state has extracted what it considers its due for inputs (which it may or may not have supplied in full or even in part) and for taxes, cash payments are usually made late, with inflation having significantly eroded their value.¹⁵ Finally, the coupons that the government issues instead of cash are essentially worthless outside government suppliers, and, once redeemed, have been substantially diminished in value, as a result of further tactical delays intended to maximise the benefits to the state of inflation and price fluctuations.¹⁶ At every step the system is set to extract the most from the farmer and to deliver the highest return to the government.

Should a farmer not wish to deliver his crop to the state-owned mills, he has few other options.¹⁷ Farmers do not have their own silos and therefore have no place to store wheat once it is harvested,¹⁸ nor can individual farmers or farmers' co-operatives secure the necessary permits to sell wheat themselves.¹⁹ Police in Vojvodina regularly harass farmers suspected of "smuggling" grain, that is, of

⁹ ICG interview with farmers in Novi Sad, February 2000.

¹⁰ USDA Agricultural Situation Annual Report: Serbia/Montenegro, 30 September 1995.

¹¹ ICG interviews with farmers in Novi Sad, February 2000.

¹² ICG interview, farmer in Belgrade and Novi Sad, February 2000; *Glas*, 11 February 2000.

¹³ USDA Agricultural Situation Annual Report: Serbia/Montenegro, 30 September 1995.

¹⁴ ICG interviews with farm official in Novi Sad, February 2000, and with UN official in Belgrade, March 2000. The black market refers to illegal trade, while the gray market refers to informal but technically illegal trade, that is, trade tolerated by the authorities.

¹⁵ ICG interviews, journalist from Novi Sad, February 2000.

¹⁶ ICG interview, farm official in Novi Sad, February 2000.

¹⁷ ICG interview with Belgrade journalist, February 2000.

¹⁸ ICG interviews with Novi Sad journalist and Vojvodina farm official, February 2000.

¹⁹ ICG interview, farm official, Vojvodina, February 2000.

selling it outside government channels.²⁰ If caught, "smugglers" are fined \$US 2,000; if merely suspected, they are harassed and fined for such details as frayed treads on old tractor tires.²¹ Nevertheless, illicit trade in grain continues, spurred by farmers' financial needs and/or irresistibly high grain prices.²²

A farmer is allowed to sell some quantities of already milled wheat (flour) on the local green market, but with strings attached: first, he must deliver the wheat to the local, state-owned mill and pay a milling fee. Then, he can only draw down his flour with the state's permission, which he has no hope of obtaining, should he owe the state or the state have need of the crop.²³ Even then, with state-set bread prices, the open market price is likely to run low.

The maize crop is handled somewhat differently. With far less stringent storage conditions for maize, farmers are able to accommodate a good portion of their crop, 80 per cent of which they feed directly to their farm animals, thereby raising their own saleable commodities.²⁴ Farmers are free to sell the balance of their crop, either to others who raise livestock or for export.²⁵ However, maize, like wheat, can only be exported by those accorded proper authorisation.²⁶

How, then, do the Vojvodina farmers survive? First, as distinct from the West, where farms are generally mortgaged and often under threat of foreclosure, Serbian farmers own their land. Survival, therefore, does not depend on generating large cash returns every year.²⁷

Secondly, if farmers judge the regime's price to be set too low prior to harvest, if the regime is tardy on its payments, and/or if inputs are in short supply, then, come the fall (the subsequent sowing season), farmers will reduce accordingly the number of acres they plant to wheat. Come the following spring, depending on their available cash, seed, and inputs, farmers may allow fields to lie fallow or, instead, plant them to maize.

Thirdly, most farmers raise livestock and grow some type of cash crop, whether fruits and vegetables, or more lucrative field crops, such as soybeans or sunflowers.²⁸ These crops are bartered two ways: formally, where crops may be traded to local shopkeepers in exchange for goods or produce, or informally, by

²⁰ ICG interview, farm official, Vojvodina, February 2000. If farmers are able to sell privately at all, they must do so in small quantities, as anyone transporting significant amounts of grain can be easily spotted.

²¹ ICG interview, farm official, Vojvodina, February 2000.

²² USDA Grain and Feed Update: Yugoslavia, July 1996.

²³ ICG interview, farm official, Vojvodina, February 2000.

²⁴ ICG interview with journalist in Novi Sad, February 2000;

<http://www.vojvodina.com/gallery/vojvodina/index.htm>.

²⁵ USDA Grain Annual: Yugoslavia, February 1996.

²⁶ ICG interviews with farm official, Vojvodina and journalist in Novi Sad, February 2000.

²⁷ ICG interviews with journalists in Belgrade and Novi Sad, February 2000.

²⁸ ICG interview with UN official, Belgrade, March 2000.

supplying farm-fresh food to urban-based friends and family in return for goods not readily available in rural areas.²⁹

Fourth, as much as 80 per cent of farmers supplement their income with other forms of employment.³⁰ Finally, many farmers receive remittances from abroad. As has been the case in all areas of the former Yugoslavia since the days of the *Gastarbeiter* (guest workers) a regular 300-400 deutschmark (DM) per month infusion from one's brother or son in such places as Hamburg or Toronto enables the family farm to survive.³¹ Farmers commonly make use of Hungarian bank accounts to facilitate money transfers and/or to maintain any savings they wish to keep beyond the reach of the regime.³²

Why Vojvodina farmers continue to plant wheat each year is less clear. For one thing, wheat is relatively easy to grow, wheat seed more readily available, and wheat farming is what these farmers know how to do. Wheat production is a habit that a rural community finds hard to break, one that has led to a certain, inbred cultural pride.³³ Many Vojvodina farmers still believe it is their obligation or patriotic duty to feed the nation.³⁴ Year after year, in pre-Milosevic days, Yugoslavia depended on Vojvodina for its food, and the farmers did not let their country down.

Nevertheless, the Milosevic regime has done everything in its power to destroy this culture of provision, and, on two occasions, has pushed farmers well beyond the limits of their patriotism. In the fall of 1995, after a season of low prices and broken promises from the regime, the farmers reduced planted acreage by 35 per cent. The following year's price hikes encouraged the farmers to increase their planting back to normal levels. But after last year's lower harvest,³⁵ compounded by the regime's repeated manipulation of prices and inputs, the farmers now claim to have once again greatly reduced their acreage planted.³⁶ However, it appears that the actual reduction in acreage sown is not so drastic, amounting possibly to as little as 8 per cent below normal. The farmers may be holding back on making contractual commitments to the regime's buyers in anticipation of higher prices and/or as a hedge against possible hyperinflation that would render their contracts worthless.

Such attempts to exert some control over the wheat supply are one way in which farmers have tried to sustain their traditional livelihood. Other outlets for farmers'

²⁹ ICG interviews with farmer in Novi Sad, February 2000, and with UN official in Belgrade, March 2000.

³⁰ USDA Agricultural Annual: Yugoslavia, October 1995.

³¹ ICG interviews with Belgrade journalist and Vojvodina farm official, February 2000.

³² ICG interview, Vojvodina farm official, February 2000.

³³ Biserka Matic, "Agriculture in Serbia," AIM, 17 September 1999.

³⁴ ICG interview, Novi Sad journalist, February 2000.

³⁵ The low 1999 yield has been ascribed to adverse weather conditions throughout the region and poor farm inputs such as fertiliser and fuel.

³⁶ ICG interview, Vojvodina farm official, February 2000.

discontent have been political organising, including demonstrations and attempts to effect change at the ballot box. This more overt activist approach has not been successful, for three reasons: the rural population is inherently conservative; the lightly populated rural areas are difficult to organise, and Serbia's opposition parties have repeatedly failed to recognise or to cultivate the farmers as likely allies.³⁷ Since Titoist times, Yugoslavia's focus has been on urbanisation and industrialisation.³⁸ Farmers have long been expected to produce food for the masses, sons for the army, and votes for the ruling party.³⁹ "The state is obviously relying on the fact that, however threatened, the peasants will sow their fields when the time comes, so 'weeds do not outgrow maize,' that they will take care of the agricultural methods the best they can, that they will smuggle cheaper fertilisers and pesticides, and that they will, of course - regularly pay taxes."⁴⁰ The opposition has yet to break from this mentality.⁴¹

Nevertheless, a farmers union has been organising over the past few years and is reportedly now represented in 4000 villages.⁴² Recent, credible polling reveals that farmers are growing both more politicised and more inclined to support regional parties that advance their own agenda,⁴³ rather than the conventional array of Belgrade-centric parties that have shown little interest in rural concerns. As one politically active farmer said, "I am glad that farmers finally start thinking with their own heads. Finally they put the TV down - stopped watching RTS (Radio-Television Serbia) and are listening to RFE (Radio Free Europe), and BBC (British Broadcasting Corporation)."⁴⁴

II. COMPANIES TRADING IN SERBIAN GRAIN

The Milosevic regime exerts its control over Serbia's grain production, supply, pricing and trade through a number of companies, two of which – Jugoimport and Progres Trade -- are treated below.

In general, Jugoimport has handled grain exports to the Middle East, in particular, to Syria, Libya, and Iraq, this last, under the UN oil-for-food program. Jugoimport's director, Major-General Jovan Cetkovic, and former Yugoslav president and Socialist party (SPS) leader Zoran Lilic, have been the prime intermediaries in establishing and maintaining Jugoimport's relationships with those three countries. Progres Trade, headed by Serbian Prime Minister Mirko Marjanovic, has

³⁷ Biserka Matic, "Agriculture in Serbia," AIM, 17 September 1999.

³⁸ ICG interview, Belgrade journalist, February 2000.

³⁹ Matic, "Agriculture in Serbia," AIM, cited above.

⁴⁰ Milena Putnik, "Blockade Against Plunder," 25 December 1996.

⁴¹ ICG interview, journalist in Novi Sad, February 2000.

⁴² ICG interview, Vojvodina farm official, February 2000.

⁴³ Presentation by the American polling firm Penn, Schoen & Berland Associates, Inc., 12 April 2000, on the results of their series of Serbian public opinion surveys conducted in September and November 1999 and in March 2000 for the National Democratic Institute.

⁴⁴ ICG interview, Vojvodina farmer, February 2000.

traditionally handled all grain trade with the former Soviet Union and, more recently, with Russia and Ukraine. Both Jugoimport and Progres Trade are Tito-era, state-owned companies.

A. Jugoimport

Following the Second World War and Tito's rise to power, Jugoimport was created to handle imports of strategic materials necessary to build Yugoslavia's defence industry. In the mid-1970s the firm became the Federal Directorate of Supply and Procurement (SDPR), known as Jugoimport-SDPR, and it claims to have been the number one Yugoslav exporter of this period.⁴⁵ During the last two decades Jugoimport-SDPR developed expertise in the production of nearly all types of conventional armaments, including M-84 tanks, Super-Galeb jets, Naval Patrol boats, as well as a range of ammunition for these and other weapons.⁴⁶ Other fields of activity involve the transfer of military technology, the construction of underground military facilities, joint production and research programs, and the manufacture of nuclear, biological, and chemical detection, protective, and decontamination products, as well as anti-riot chemical agents.⁴⁷

Jugoimport Director Jovan Cetkovic is a major-general who joined the firm some ten years ago, just as Slobodan Milosevic began his rise to power, and was appointed director-general in 1995. In mid-1996, within months of the signing of the Dayton agreement that put an end to the Bosnian war, Jugoimport was re-organised to take advantage of the resulting suspension of international economic sanctions. Following the traditional approach of the Yugoslav "kombinat" or conglomerate, the company has since expanded energetically into the food and other industries.

In late 1997 Cetkovic, as Jugoimport director, played a key role in Milosevic's high-profile trip to China, returning with one of the few signed contracts with Chinese firms.⁴⁸ A few months later, as the crackdown on Kosovo was gaining momentum, Cetkovic was brought into key meetings on military co-operation between Yugoslavia and Greece.⁴⁹ In the summer of 1998, as Serbia's repressive tactics in Kosovo generated hundreds of thousands of displaced and provoked western nations to threaten tougher economic sanctions, Milosevic acolyte and former Yugoslav president Zoran Lilic⁵⁰ was appointed President of the Administrative Committee of Jugoimport.⁵¹ Lilic and Cetkovic began shuttling to Libya and Iraq in

⁴⁵ www.yugoimport.co.yu

⁴⁶ See John Sweeny, "Bosnia: Saddam Supplies Serb War Machine," *The Observer*, 31 May 1992.

⁴⁷ www.yugoimport.co.yu

⁴⁸ Tanjug, 14 Nov 1997.

⁴⁹ Macedonian Press Agency, 27 February 1998; Tanjug, 13 January 1998.

⁵⁰ Handpicked by Milosevic to succeed another Milosevic choice, Belgrade nationalist and novelist Dobrica Cosic, Lilic served as Yugoslavia's president from 1993 to 1996.

⁵¹ Tanjug, 18 June 1998; see also <http://freeserbia.net/Editorial/1998/June15.html>.

hopes of securing a steady oil supply likely due to Yugoslavia's fear of the re-imposition of sanctions.⁵²

Yugoslav-Iraqi military links go back at least to the 1970s, well before Milosevic entered the scene. The Iraqi multiple rocket launcher system, for instance, is a version of Yugoslavia's Orkan system, which was co-produced with Jugoimport-SDPR.⁵³ These rocket launchers can be fitted with both conventional and chemical warheads. Iraqi MIG-23s being refurbished in Yugoslavia in 1992 were put at the disposal of the Yugoslav air force when war broke out there.⁵⁴ But Iraq has been remiss on payments on its contracts with Yugoslavia, and Belgrade has designated Jugoimport as its "economic performance co-ordinator" of all past and future trade with Iraq.⁵⁵

In recent years, Milosevic has taken an unconventional approach to this important trade relationship: he placed its dealings with Iraq under the watchful eye of the United Nations. From late 1997 through 1998, a Jugoimport subsidiary called Atera was permitted on at least five occasions to export goods to Iraq under the UN oil-for-food program, through which Iraq is permitted to export oil in exchange for food and other goods deemed by a committee consisting of Security Council members to be of humanitarian use only.⁵⁶

Although approved transactions under the UN oil-for-food program began with the export from Serbia of modest quantities of products described as anti-snake venom and veterinary medicines, by September 1998 oil-for-food exports accounted for nearly \$US 20 million in wheat alone, and Jugoimport had put

⁵² Reuters, 25 August 1998; Tanjug, Tripoli, 26 & 27 October 1998;
http://www.suc.org/news/yds/b281098_e.html#N4 ; http://www.suc.org/news/yds/b271098_e.html#N6;
http://suc.org/news/yds/b271098_e.html

⁵³ Jane's Armour and Artillery 1998-99, 19th edition, pp. 798-9 & 835-6.

⁵⁴ Sweeny, "Bosnia: Saddam supplies Serb War Machine," *The Observer*, cited above.

⁵⁵ G. Brkic, "Jugoimport-SDPR in carrying out the program Food for Oil," *Danas*, 19 March 1999.

⁵⁶ Under the oil-for-food program, authorised by UNSC Resolutions #661 (1995) and #986 (1995), a company wishing to trade with Iraq made a contract with the Iraqi government or counterpart, after which an application was submitted to the UN sanctions office by the UN mission of that company's government. The sanctions office then circulated the application to the so-called 661 Committee, on which all Security Council members are represented. Any Security Council member had the right to object to the proposed transaction within two days, for food, or seven days, for all other materials. If no member state objected within the allotted time, the application was approved. Depending upon the terms of the contract, the UN released payment for the goods from a bank account set up specifically to handle Iraqi oil revenues.

On 1 March 2000 the 661 Committee accelerated the approval process for contracts dealing in foodstuffs and other "basic or standard health, agricultural and educational supplies, which would no longer require submission to the Committee for approval, but rather would be notified to the Secretary-General." According to a release by the UN Office of the Iraq Program, oil for food, 31 March 2000 (entitled "Accelerated procedures for the approval of contracts for specified humanitarian supplies for Iraq"): "The accelerated approval procedures were mandated by the Security Council in its resolution 1284 (1999), paragraph 17. Additional lists of pharmaceuticals, basic medical supplies and equipment, and basic agricultural supplies and equipment were approved by the 661 Committee on 29 March 2000.

forward plans for \$US 80 million worth of sales of food and medicines.⁵⁷ Apparently, no member state represented on the 661 Committee queried why a Yugoslav arms merchant with extensive biological-chemical capabilities should have been allowed to trade with Iraq, which was then under sanctions prohibiting exactly those materials.⁵⁸ Indeed, no question seems to have arisen as to why an arms merchant was involved at all, given that Yugoslavia has other firms, such as Progres Trade, with far more expertise in the export of grain.

Jugoimport director Cetkovic has made very clear in a published interview that the company's trade in wheat has been a stop-gap measure. "Since we were constrained during the sanctions and could not carry out our main activities - arms sales and military equipment, we used that opportunity to exploit the capacities and personnel potential of the firm. . . The circulation of arms, military equipment, transfer of the technologies and military engineering are still the primary activities of Jugoimport-SDPR."⁵⁹

In fact, the UN has played an invaluable role in keeping both Jugoimport and the regime flush with hard currency, as Maj.-Gen. Cetkovic has said: "Although it sounds paradoxical, Iraq is, for the moment the best buyer, because it pays for the bought merchandise immediately, with convertible currency from the [UN] account in New York. Jugoimport-SDPR has a permission from the UN for the appearance on the Iraqi market, which means that we can charge for the merchandise regardless of the external wall of sanctions towards our country, with the permission of the UN."⁶⁰

The Iraqi sanctions regime was ostensibly established so as to make more transparent any trade with a state well known to have developed, possessed, and used weapons of mass destruction. However, UN officials have explained that neither the list of applicants nor of approved contracts is made public, because to do so would violate proprietary knowledge between contractual partners.

Without this public knowledge, however, only interested Security Council members would know if an individual shipment violated existing sanctions. A Romanian customs official, for instance, would have no way of knowing whether a shipment headed for Iraq that crossed his path was in violation or not. To have given the UN total control over all dealings between this state and a supplier (in this case, Jugoimport-SDPR) that provides such materials and the accompanying expertise, and then to refuse to make that process transparent out of respect for the proprietary concerns of the parties involved, renders the entire process absurd.

⁵⁷ Reuters, 25 August 1998.

⁵⁸ The Pentagon appears to receive only advance warning and the opportunity to vet contract applications when the US mission is considering submitting an application on behalf of an American firm. (ICG interview, Pentagon officials, 2 March 2000.)

⁵⁹ G. Brkic, "Yugoimport-SDPR in carrying out the program Food for Oil," *Danas*, 19 March 1999.

⁶⁰ *Ibid.*

But this comedy of international errors has only ripened with the linkage of these UN-sanctified wheat-for-oil deals to the international community's provision of humanitarian assistance to the very regime that has actively created the need for that assistance. In August 1998, Yugoslav officials traveled to Iraq and Libya hoping to obtain oil supplies; by the end of the month, they had secured a contract with the Saddam Hussein regime in Baghdad.⁶¹ On the Kosovo front, it was precisely in September 1998 that the number of Kosovars expelled from their homes by Serb forces was peaking. The spectre of hundreds of thousands of homeless Kosovars hiding and freezing in the mountains as winter approached was haunting international officials and aid agencies. Above all they felt the need to do something, to deliver aid.⁶²

As the international community began to focus on Kosovo's pending humanitarian crisis, so did Milosevic. Recalling the international community's fixation on providing humanitarian assistance during the Bosnian war, he announced that the regime's own humanitarian agency, the Yugoslav Red Cross (YRC), would establish humanitarian centres in Kosovo where the YRC might distribute internationally donated assistance to Kosovars displaced by his regime. Some international aid officials agreed, and on 2 September 1998, a US envoy met in Belgrade with Milosevic and Vice-Premier Nikola Sainovic, Belgrade's point man for Kosovo who has since been indicted for war crimes there, to work out the arrangements.⁶³ That same day, a newly appointed administrator at the US Agency for International Development (USAID) announced in Pristina that the US would support the Serb-run centres by providing American grain to the Serbian strategic reserves, long the staging ground for exports.⁶⁴ The Serbs, in turn, would deliver their own domestic grain, which was spoiled and unfit for export,⁶⁵ to their new humanitarian centres in Kosovo, where they might entice the displaced Kosovars out of hiding and back into their control.

⁶¹ Reuters, 25 August 1998. By late 1998, oil was beginning to flow as well from Libya, under a Jugoimport-brokered deal that included not only wheat, manufactured goods, and cash, but weaponry, as well (Reuters, 6 November 1998, and Adel Darwash, "Gaddafi diverted two oil tankers to supply Yugoslavia," *The Scotsman*, 30 April 1999).

⁶² Save the Children's press release, "Crisis in Kosovo: Children Bear the Brunt" (2 September 1998), was representative:

Save the Children calls on the international community to do all it can to secure a peace settlement in Kosovo. But the following action must be taken immediately if a humanitarian catastrophe in the region is to be averted:

Unhindered humanitarian access to all parts of the province must be secured - without it the already dreadful conditions in which children are living will deteriorate further.

The international community must demonstrate greater resolve and leadership in coordinating the humanitarian response.

Both sides in the conflict must respect human rights and the right of the population to humanitarian assistance.

⁶³ Yugoslav Daily Survey, Tanjug, 2 September 1998.

⁶⁴ Transcript: Press Conference, USAID Assistant Administrator Parmer, Pristina, 2 September 1998.

⁶⁵ USDA Grain and Feed Update: Yugoslavia, September 1997.

The terms of this \$US 20 million US assistance package were agreed upon on 4 September, during another meeting with Sainovic in Belgrade.⁶⁶ On 8 September Belgrade submitted an application to the UN sanctions mission proposing that Jugoimport sell 100,000 tons of wheat to Iraq for approximately \$US 18 million.⁶⁷ On 9 September, with the US having obtained Sainovic's assurances that its assistance would in fact be delivered, President Clinton authorised the \$US 20 million in humanitarian aid for Kosovo.⁶⁸ Outrage from some private voluntary agencies, familiar with Milosevic's tactic of manipulating displaced persons through the provision of assistance, scuppered American support for the Serb-run centres; the Jugoimport deal with Iraq, however, went ahead as approved. The Milosevic regime quickly followed up by applying to the UN on behalf of its state-owned oil company, Beopetrol, to purchase Iraqi crude.⁶⁹

In early 1999, as the situation in Kosovo deteriorated further and NATO's threats grew more bellicose, Milosevic again dispatched Jugoimport officials to Libya and Iraq. Zoran Lilic visited Libya, capitalising on his long nurtured contacts there, while Maj.-Gen. Cetkovic returned to Iraq.⁷⁰ The following week, Serb chemical and biological weapons expert Ivan Ivanovic spent several days visiting Iraqi military facilities.⁷¹ Shortly after these trips, a British foreign office spokesperson, commenting on press accounts of increasing military co-operation between Iraq and Serbia, said, "We believe that they are accurate and based on good information."⁷² Indeed, Western intelligence agencies were sufficiently concerned about Jugoimport-SDPR's activities during the spring of 1999 to place the company's headquarters on NATO's bombing target list. It bears recalling that the real target of the mistaken, fatal attack on the Chinese embassy was reportedly the headquarters, only 300 metres away, of Jugoimport-SDPR.⁷³

Since the end of the NATO bombing in June 1999, Jugoimport-SDPR has continued its high-profile commercial relations with Iraq and Libya,⁷⁴ and in late 1999 Belgrade announced its expectation that the UN will soon approve more grain

⁶⁶ Transcript: Press Conference USAID Assistant Administrator Parmer, Belgrade, 4 September 1998.

⁶⁷ UN document, in possession of ICG.

⁶⁸ Presidential Determination No. 98-34, 9 September 1998.

⁶⁹ Note Verbale Dated 20 October 1998, from the Permanent Mission of Yugoslavia to the United Nations.

⁷⁰ Beta, 28 February 1999.

⁷¹ Con Coughlin, "Milosevic in Arms Pact with Saddam," *Sunday Telegraph*, 28 March 1999.

⁷² Ibid.

⁷³ Transcript of oral presentation by Under Secretary of State Thomas Pickering to the Beijing government, 17 June 1999. http://www.state.gov/www/policy_remarks/1999/990617_pickering_emb.html The Yugoslav Federal Directorate of Supply and Procurement headquarters "was the first and last target the CIA selected during the war," according to US congressional testimony by CIA director George Tenet (*New York Times*, 9 April 2000).

⁷⁴ With regard to Libya, see Tanjug, 30 August 1999; Tanjug [Tripoli] 4,5,7,8, 17 September 1999; http://suc.org/news/yds/b300899_e.html; with regard to Iraq, see Tanjug, 3 December 1999.

exports to Iraq, this time, reportedly for \$US 150 million over the course of the next year.⁷⁵

During the spring of 2000, a third Middle Eastern country has entered the Yugoslav trading sphere. Syria, which suffered a bad harvest in 1999, has become Belgrade's latest marketing target. In March Serbian Minister of Energy Slobodan Tomovic announced a wheat-for-oil deal with Syria,⁷⁶ and a reliable source witnessed "hundreds of rail wagons of grain being loaded for Syria" in the Danube river port of Varsac.⁷⁷ US Department of Agriculture analysts, however, while stating that Syria has in fact authorised grain imports this year, believe it unlikely that there will be any. In fact, it is possible that, instead of importing, Syria will re-export the Serbian grain to Iraq.

Enemies for 20 years, Iraq and Syria have of late undergone some degree of rapprochement.⁷⁸ Despite having scarcely enough grain to feed its own population, Syria, with its capacious Mediterranean harbours, is expected to join in the UN oil-for-food program.⁷⁹ If Syria is indeed acting as an intermediary, the Belgrade regime would be able to continue, through one of the export companies it controls, to export its grain to Iraq, this time indirectly, without even having to submit itself to UN scrutiny.

B. Progres Trade

Progres Trade was established during Titoist times as a vehicle for fostering trade between Yugoslavia and the Soviet Union. At first it was a minor player, with another Yugoslav company, Inex, dominating the field.⁸⁰ In the early 1970s Mirko Marjanovic, Serbia's prime minister since 1994, joined Progres and was dispatched to its Moscow office. There he developed such an extensive network and reputation as a facilitator of Soviet-Yugoslav relations that in 1979 he was appointed general manager of Progres Trade in Belgrade.⁸¹

Progres could easily have fallen victim to the collapse of the Soviet Union and the coincidental rise of Slobodan Milosevic. However, the firm took a proactive tack,⁸² by solidifying relations in two sectors in which the countries were mutually

⁷⁵ Tanjug, 3 December 1999.

⁷⁶ V.I.P. Daily News Report (Belgrade), 7 March 2000. Despite the oil embargo, the regime has begun to import crude oil, according to *Glas javnosti* (Belgrade), which on 4 April quoted an unnamed Serbian oil company source as saying that a first shipment was expected the following day. The source refused to say how much crude was being imported or where the oil would be coming from. On 8 March Energy Minister Tomovic stated, "Syria, Iraq, Russia have been our traditional crude suppliers.... It is now a matter of conspiracy, inventiveness, how we obtain the crude." (Reuters, 4 April 2000).

⁷⁷ ICG Interview with agriculture expert, Belgrade, March 2000.

⁷⁸ Iraq Report, RFE/RL, 17 Dec 1999.

⁷⁹ Ibid.

⁸⁰ ICG interview with Belgrade journalist, February 2000.

⁸¹ *Betaweek*, September 1999, and "No gas the second winter in a row," AIM, 15 February 1995.

⁸² ICG interview with Belgrade journalist, February 2000.

dependent: oil and grain. Progres made its first move in 1993, when Marjanovic and his long-time acquaintance Viktor Chernomyrdin, Gazprom director and sometime Russian prime minister, set up a joint venture, Progresgaz Trade.⁸³ The venture was established with the assistance of another long-time Milosevic associate, then energy minister, now indicted war criminal and Deputy Federal Prime Minister, Nikola Sainovic.⁸⁴

Progresgaz Trade did not attempt to intrude on any logistical component of the Russian-Yugoslav gas trade, e.g., production, transport, or distribution. It left these key functions to existing firms such as Gazexport, a Gazprom subsidiary; MOL, the Hungarian pipeline operator, and NIS Energogas, which ran Serbia's distribution network. Rather, from its virtual office of only nine employees, Progresgaz Trade insinuated itself into the contractual arrangements between the Serbian distributor and Russian supplier.⁸⁵

Progres's biggest deal to date came in the wake of the 1995 grain crop. After years of sanctions and the regime's continual public plaint of victimisation, the farmers had little recourse but to accept the \$US 60-70 per ton price offered for their crop during the summer and fall of that year.⁸⁶ While NATO bombs fell on Serb-held areas of Bosnia, and leaders of the former Yugoslavia were brought to the table at Dayton to end the Bosnian war, Prime Minister Marjanovic was instructing the Serbian Directorate for Commodity Reserves to stockpile as much wheat as possible. The directorate succeeded in securing 1.8 million tons.⁸⁷ In late November 1995, after a blatant manipulation of the export licensing system, Progresgaz Trade won the state exporting contract.⁸⁸ At the same time, the Dayton Peace Agreement was being signed in Paris, and all UN sanctions relating to the Bosnian war were suspended. Serbian traders no longer had to bear the costly overhead associated with the risks entailed in sanctions-busting. With contract in hand and sanctions lifted, Marjanovic, sitting on nearly two million tons of wheat, had struck it rich. His buying spree continued, and farmers, desperate for inputs in a spring-maize planting season with market prices rising, began

⁸³ According to Progresgaz Trade's director, Toplica Nedeljkovic, "Progresgas-Trading [sic]" was founded in 1992 as a "mixed Russian-Yugoslav company." Although the company was registered in 1992 as a private firm, in 1995 Marjanovic contested that status, reportedly because, if Progresgaz Trade were indeed private, "Prime Minister Marjanovic would have to explain how the monopoly on import of gas and oil to Yugoslavia was taken from 'The Serbian Oil Industry' [NIS corporation]...and ended up in his hands." Dimitrije Boarov, "Prime Minister Marjanovic in a Triple Role," *Vreme*, Belgrade, 4 December 1995.

⁸⁴ "No gas the second winter in a row," AIM, 15 February 1995.

⁸⁵ Dimitrije Boarov, "Prime Minister Marjanovic in a Triple Role" *Vreme*, 4 December 1995; ICG interview with Belgrade journalist, February 2000.

⁸⁶ Even this amount does not seem to have ever been fully paid. See *Vreme*, 4 December 1995.

⁸⁷ USDA Grain Annual Report: Serbia/Montenegro, February 1996.

⁸⁸ Boarov, "Prime Minister Marjanovic in a Triple Role" *Vreme*, cited above, and Zoran Miljatovic, "Prime Minister in Wheat," *Nin*, 29 March 1996, and USDA Grain and Feed Update: Serbia/Montenegro, 29 December 1995.

mortgaging their upcoming wheat crop.⁸⁹ Then the unexpected happened: the market price of wheat skyrocketed, reaching nearly \$US 300 per ton by year's end.⁹⁰ For Marjanovic, who, as always, was dealing on behalf of the Milosevic regime, a good investment had turned into a windfall.⁹¹

Two important repercussions ensued from the regime's good fortune. First the political opposition, led by Democratic Party leader Zoran Djindjic and *Nedelni telegraf* editor Dragan Belic, cried foul. They publicly accused the prime minister of using his position for financial gain by cornering the wheat trade. The state responded with a libel charge, a hasty trial, and the sentencing of Djindjic to four months in jail, with the prison term suspended pending good behaviour.⁹² (This probationary period has since been extended, in an apparent attempt to rein in Djindjic and as a pretext for incarcerating him at any time.)⁹³

Secondly, and more financially wounding, was the farmers' reaction. The combination of government-mandated, low farm prices and high international returns shocked them out of their political stupor, and they cut back drastically on acreage planted. The next harvest was so substantially reduced that in combination with Marjanovic's stripping of state reserves for export in early 1997, Serbia, for the first time in living memory, was forced to import wheat.⁹⁴

Following the improved 1997 harvest, Marjanovic was once again able to convince his business partner Chernomyrdin not to cut off the supply of Russian gas.⁹⁵ In addition, with the renewed assistance of Vice-Premier Nikola Sainovic, a new wheat-for-weapons deal was negotiated.⁹⁶

In February 1998, with the Kosovo crackdown imminent, Milosevic had to decide between re-appointing Marjanovic as prime minister or forging a coalition with the Serbian Renewal Movement, a prominent opposition party, and appointing its leader, Vuk Draskovic.⁹⁷ With the Clinton administration backing away from, but not having explicitly rescinded, the so-called 'Christmas warning' of a unilateral US military response to any state-sponsored violent repression in Kosovo,⁹⁸ it is likely

⁸⁹ USDA Grain and Feed Update: Yugoslavia, 30 June 1996.

⁹⁰ USDA Grain and Feed Update: Yugoslavia, 3 January 1997.

⁹¹ Jovan Dulovic, "Hayfever," *Vreme*, 6 July 1996.

⁹² *Betaweek*, September 1999, and Jovan Dulovic, "Hayfever," *Vreme*, 6 July 1996; ICG interviews with Belgrade journalist and with Serb opposition figure, Washington, February 2000.

⁹³ Z. Panovic, "Serbian Supreme Court Increases Zoran Dindic's Sentence," *Danas*, 23 November 1998.

⁹⁴ USDA Grain and Feed Updates, April and May 1997.

⁹⁵ *Financial Times*, 16 October 1997.

⁹⁶ *Nasa Borba*, December 1997.

⁹⁷ <http://search.rferl.org/newsline/1998/02/4-SEE/see-200298.html>.

⁹⁸ The Christmas warning, first issued to Milosevic by President George Bush in December 1992 and reiterated by Secretary-of-State Warren Christopher in February 1993, told the then-Serbian president unequivocally that the US would intervene militarily, should state forces crack down violently on the population of Kosovo.

that Milosevic wished to keep all links to Russia open. Chernomyrdin was prime minister at the time, and Yeltsin was sick; Marjanovic was re-appointed.

The gamble paid off: in mid-June 1998, just as international anger over the regime's brutality in Kosovo culminated in a pointed show of NATO air power over the Adriatic, Milosevic flew to Moscow where he was able to buy some time with a deal brokered by Chernomyrdin.⁹⁹

The story of Progres Trade's success in propping up the regime can only be partly told through wheat. In fact, most of the wheat has not been sold for hard currency, but rather has been bartered for commodities in which Serbia is deficient, such as machinery, spare parts, fertiliser, and, above all, oil and gas.

Grain, oil, and gas have long been, and continue to be, bartered for two reasons. First, barter was the traditional form taken by transactions in pre-Milosevic times, when Serbian agricultural produce was sent to the Soviet Union in exchange for oil, gas, and manufactured goods.¹⁰⁰ Tito tried to counter this typically imperial Soviet approach with a modern industrialisation policy. However, Milosevic had no interest in developing a strategy that would benefit the state at the price of hurting his relationship with Moscow. He had successfully exploited Marjanovic's Soviet connections to insinuate Progres into this bilateral trade relationship, and the last thing either of them wanted to do was to disrupt the flow. The second reason to maintain the barter arrangements was to avoid giving any opening to a possible international sanctions regime that might have interdicted financial flows. Should a financial trail have been established by selling grain for hard currency on international markets and then purchasing oil or gas, the regime may have feared that international watchdogs would interrupt the trade and sequester the funds. The regime need not have feared; no such energetic approach on the part of the international community was implemented, nor has any sophisticated sanctions-monitoring mechanism since been created.

The regime benefits from the oil and gas trade in at least three ways: through transport and import taxes, subsidising the supply for state-run industries, and the black market.

First, gas and oil is purchased from other nations at wholesale prices to which transport fees are added. Oil and gas sold in Serbia on the legitimate market at retail prices has a mark-up of roughly 200 per cent. A similarly hefty "fuel tax" is standard throughout much of Europe; however, in Serbia, fuel tax revenues have

⁹⁹ The deal staved off NATO's threat of military action in exchange for Milosevic's promise to allow the West to deliver humanitarian aid to Kosovo, indeed, to the very people his forces had turned into would-be beneficiaries. But Milosevic's word did not deter him from obstructing the UN High Commissioner for Refugees (UNHCR) and other humanitarian agencies from following through on their part of the agreement.

¹⁰⁰ ICG interview with Belgrade journalist, February 2000.

subsidised such government priorities as the army, state security forces, state-run media, and police.

Secondly, some key state-controlled industrial units, such as Sartid Steel Factory, have been favoured with heavily subsidised or free oil and gas.¹⁰¹ The free fuel is critical to any industrial activity, while monies for salaries, spares, and investment remain sporadic.

Finally, the regime profits from the oil trade inside Serbia via the black market, where not even the façade of state institutional mechanisms gets in the way. After paying the added costs of the necessary infrastructure (e.g., plastic jugs and harried vendors), the difference between wholesale and retail price is pure profit. While the regime may not have total control over the black market, no sizeable fuel flows can cross the border without Belgrade's acquiescence: the long-time Minister of Customs, after all, is Mihalj Kertes, Milosevic's Chief of the Federal Secret Police during the Bosnian war, his onetime deputy security chief, and alleged partner in war crimes.¹⁰²

III. A MECHANISM TO RESTRICT SERBIA'S GRAIN TRADE

Until now, the international community has not had a readily available mechanism through which it could selectively target those sectors of the Serbian economy which most benefit the regime. Instead, it has had to rely on a more generalised, blunter instrument capable only of sanctioning everything or nothing. These blunt sanctions have been imposed several times in the course of the last decade, in response to Milosevic's repeated refusals to abide by international law. Such sanctions regimes were also inflexible, in that whenever sufficient pressure has induced Milosevic to comply, or where the effects of sanctions on the civilian population have been deemed too harsh, the only way to relax them has been to suspend or to lift them. Milosevic's calculated control of the throttle driving both Serbia's successive military campaigns and the oscillating international reactions to them has time and again triggered the imposition, subsequent suspension, and re-imposition of economic sanctions. (For a description of existing sanctions against Serbia, see Appendix II.)

A recent revamping of the EU's sanctions regime against Serbia, occasioned by concern on the part of most member states that the sanctions were hurting the Serbian people more than the regime, has sharpened and refocused this non-lethal weapon in ways that are likely both to improve its aim and to increase its effectiveness.

¹⁰¹ ICG interview with Novi Sad journalist, February 2000.

¹⁰² Laura Silber and Allan Little, *Yugoslavia: Death of a Nation* (Penguin, 1997); Dusko Doder and Louise Branson, *Milosevic: Portrait of a Tyrant* (Free Press, 1999); Julian Borger, "Inside Story: The President's Secret Henchman," *The Guardian*, 3 February 1997.

The revised EU regulation, which was developed in close consultation with the US State Department and enters into force on 15 May,¹⁰³ introduces the construct of a "white list" of Serbian companies and individuals capable of proving their independence from the Belgrade regime and with which and with whom member states are therefore at liberty to conduct ordinary business.

Companies or individuals must earn their right to appear on the white list by furnishing evidence either that:

1. the firm or person has been able to keep from the regime all earnings from transactions with European Community partners;¹⁰⁴

or that:

2. the firm's or person's transactions with the EU will not exceed a total of 100,000 euro per month, *and* the nature of the enterprise is wholly unrelated to "banking and financial services, energy and fuel supply, production of or trade in military or police equipment, transport, petrochemicals, iron and steel."¹⁰⁵ These blacklisted sectors and industries are considered by European and American experts to be controlled wholly or in large measure by the Milosevic regime.

To further strengthen the EU regulation, and to limit the benefits currently accruing to the regime from Serbia's grain trade, grain should be included among the banned economic sectors. In addition, the 14 non-EU European countries -- most critically, those states neighbouring Serbia -- which signed on to the earlier regulation should endorse this amended one, as well. In addition, to maximise the effectiveness of this new, more carefully targeted approach, the European Commission should build up its implementing and monitoring capacities, both within member states and at EC headquarters in Brussels.

¹⁰³ ICG interviews, US State Department officials, February-March 2000. The amended regulation, published on 6 April 2000 as, "Council Regulation (EC) No 723/2000 of 6 April 2000," [OJ L 86, 7.4.2000, p. 1-4], entered into force on 7 April, with the exception of Article 1(3), the article that authorises and details the mechanics of the "white list," which enters into force on 15 May.

¹⁰⁴ Article 8/2(a), Council Regulation (EC) No 723/2000 of 6 April 2000, cited above.

¹⁰⁵ Article 8/2(c), Council Regulation (EC) No 723/2000 of 6 April 2000, cited above.

IV. THE BLOCKADE ON MONTENEGRO, MACEDONIA, AND REPUBLIKA SRPSKA

Montenegro's 650,000 people produce only about one-third of their wheat needs and depend on Serbia, largely on the Vojvodina, for the balance.¹⁰⁶ Prior to 1997 and the beginning of the schism between Serbia and Montenegro, wheat was sent to Montenegro under the same regulations and pricing mechanisms as to the rest of Yugoslavia. That is, the prices of both flour to the bakeries and bread to the public were subsidised and controlled. Over the last decade, one of the main companies purchasing wheat at concessionary prices from Vojvodina for Montenegrin consumption has been MK Kommerce of Novi Sad.¹⁰⁷ Run by Miodrag Kostic, the firm reportedly served as a commercial link between Montenegrin President Milo Djukanovic and Serbian opposition figures Zoran Djindjic, of the Democratic Party, and Nenad Canak, head of the League of Social Democrats of Vojvodina.¹⁰⁸

The grain trade has figured prominently in the dramatic recent escalation of tensions between Montenegro and Serbia. According to the Montenegrin government, Serbia began cutting Montenegrins off from their Vojvodina suppliers late last summer,¹⁰⁹ just as Belgrade was assessing the impact of the reduced 1999 wheat harvest on its export capability.¹¹⁰

The Montenegrins realised their vulnerability, and MK Kommerce tried to secure as much wheat as possible. In November 1999, when Montenegro adopted a dual currency system (whereby the deutschmark was accepted as legal tender along with the Yugoslav dinar), Belgrade reacted swiftly. The regime condemned the move, cut off financial contact, and further tightened the once invisible border between the republics, with grain, and later all food, among the first commodities to undergo stiffer controls.

Belgrade officials framed their argument in economic terms: why should Montenegro continue to receive subsidised wheat if it is no longer even using Yugoslav currency? Montenegro was taking the wheat and then reselling it at world market prices to Albania, the Serbs claimed, in exchange for hard currency.¹¹¹

¹⁰⁶ Out of a total annual requirement of 150,000 tons, some 100,000 have traditionally come from Vojvodina.

¹⁰⁷ www.mkcommerce.co.yu

¹⁰⁸ ICG interview with Belgrade academic, March 2000. This would have set up MK Kommerce as a potential rival to Progres Trade and its director, Serbian PM Marjanovic, who launched the libel suit against Djindjic for his incriminating allegations.

¹⁰⁹ ICG interview with US government official, March 2000, and M. Smith, "Milosevic puts Montenegro under siege," *Daily Telegraph*, 1 July 1999.

¹¹⁰ As noted above, the 1999 crop was down 20-30 per cent from normal. To varying degrees, the whole region of eastern Europe suffered a bad harvest.

¹¹¹ V.I.P. Daily News Report, Issue No. 1722. Some regime opponents in Belgrade think there is some validity to this charge (ICG interview, journalist in Novi Sad, February 2000).

Obviously, the regime has no interest in subsidising either the Montenegrin government or Montenegrin trade with Albania. Instead, Serb officials had their eyes on the newly lucrative market in neighbouring Bulgaria, Romania, Hungary, and Ukraine, where, as in Serbia, bad weather and cash-strapped farmers unable to afford key inputs resulted in a poor harvest that has increased prices across the region (see below).¹¹²

As Serbia looked eastward for non-subsidised trading partners, it tightened its blockade on Montenegro, making it difficult for such firms as MK Kommerce to get grain through.¹¹³ With the Montenegrin deutschmark experiment just getting underway, Belgrade appears to have calculated that the Montenegrins would be forced to use their new-found hard currency assets to import wheat. For their part, the Montenegrins denounced the blockade as vengeful, political blackmail intended to destabilise the republic and punish Montenegro for its expanded ties to the West.¹¹⁴

With rising prices and fears of bread shortages in Podgorica, Belgrade believed it had backed the Montenegrins into a corner. But Washington helped Montenegrin President Milo Djukanovic counter the blockade. Early this year, under the 1998 Presidential Wheat Initiative, the US Department of Agriculture (USDA) provided the first of some 50,000 tons of wheat and maize.¹¹⁵ The grain has been given to the Montenegrin government, which is free to sell it on the local market just as if it had come in from Vojvodina. The proceeds are to be used in a fashion mutually acceptable to the Montenegrin and US governments.¹¹⁶

This discreet USDA initiative effectively treats Montenegro as a sovereign government without having to recognise it as such. The Montenegrin government must be vigilant in guarding against any possible diversion of the grain or the proceeds, which would have a negative impact not only on the prospects for further grain support but also on the bilateral assistance currently being contemplated by several other countries.

Serbia's blockade was extended in February to Bosnia's Republika Srpska (RS) and to Macedonia, both of which, the regime claimed, were being used to transit goods

¹¹² "Poor quality seen deterring Bulgaria wheat exports," Reuters, 16 July 1999.

¹¹³ Difficult, but not impossible: the enterprising firm has apparently found at least one way around the blockade. In early March ICG analysts sighted one MK Kommerce convoy traversing Bosnia's Republika Srpska territory en route toward Montenegro, its trucks replete with grain.

¹¹⁴ V.I.P. Weekly Economic Bulletin, 10 Feb 2000, and V.I.P. Weekly Economic Bulletin, 9 March 2000.

¹¹⁵ Press Release, 2 March 2000, see www.fas.usda.gov. The Presidential Wheat Initiative is a program that targets the large US surplus at other governments that are then free to monetise the wheat for funds to support democratic or agricultural reform.

¹¹⁶ In this case, the two governments have agreed that the proceeds are to go to agricultural development programs and the purchase of urgent medicines, another key commodity cut off by the Serbs.

to Montenegro and thereby undermining the embargo there.¹¹⁷ The Macedonian government claims that the blockade violates its free-trade agreement with Serbia.¹¹⁸ Serbia responded by tightening its embargo to include not only the export of grain and other food to Macedonia, but imports from Macedonia, as well as license for Macedonian trucks and trains to traverse Serbian territory.¹¹⁹ This came as a particularly serious blow to Macedonia, as it cut its most efficient access route to central Europe and has forced Macedonians to use more expensive alternative routes through Kosovo or Bulgaria. Macedonian officials have since sought more Western financial support on the ground that it was the country's support of NATO during the bombing campaign which provoked the punishing Serb blockade.¹²⁰

Despite the increased economic hardship inflicted upon Macedonia, Montenegro, and the RS, the Serbian economy may in fact suffer more than the targets of the regime's blockade. According to Serbian economist and opposition figure Mladjan Dinkic, Serbia stands to lose some \$US 40 million per month just from the break with Montenegro.¹²¹ In addition, Serbia has infuriated its friends and supporters in the RS and Macedonia. One explanation for this seemingly self-destructive behaviour may lie in the tussle within Serbia for control of export markets.¹²² With the reduced quantity of grain for export, the loss of the former internal trade to Kosovo and Montenegro, and the need to develop alternative logistical structures in light of damage from the bombing, the regime may have felt the need to reassert its authority and tighten the reins on semi-independent traders such as MK Kommerce.¹²³

Other potentially high-yield export markets lie to Serbia's north and east, as suggested above, in Hungary, Bulgaria, Romania, and as far afield as Ukraine,¹²⁴ which had such a disastrous year that this onetime Soviet breadbasket announced plans to import 1.5m tons this year.¹²⁵ While Kazakhstan appears to furnish the bulk of Ukraine's necessary imports, it is far less costly for the western Ukraine to transport grain from neighbouring Hungary. But because Hungary's crop also

¹¹⁷ V.I.P. Weekly Economic Bulletin, 10 February 2000.

¹¹⁸ V.I.P. Weekly Economic Bulletin, 17 February 2000.

¹¹⁹ V.I.P. Weekly Economic Bulletin, 10 February 2000.

¹²⁰ ICG interview, foreign government official, Washington, March 2000.

¹²¹ V.I.P. Weekly Economic Bulletin, 17 February 2000. Montenegro has also declared its willingness to forgo any more concessionary prices and to pay world rates (see V.I.P. Daily News Report, 6 March 2000).

¹²² Not that Milosevic has ever had any need to explain self-destructive behaviour; all previous crises which have led to loss of territory by Belgrade have begun with trade and financial embargoes.

¹²³ The recent slackening of the blockade vis-à-vis the RS suggests that this may in fact be the case: those few grain convoys reported to have finally been permitted to enter the RS at two different border crossings have been operated by none other than Mirko Marjanovic's Progres Trade (V.I.P. Weekly Economic Bulletin, 24 February 2000). However, as stated above, MK Kommerce has also managed to move convoys through the RS, suggesting that the regime's attempts to hamstring the semi-independents have not been completely successful.

¹²⁴ ICG interview with USDA official, Washington, March 2000.

¹²⁵ "Ukraine's government starts efforts to solve grain supply problem," AP, 17 January 2000.

suffered, the Ukrainians went even further afield: in December a state-sponsored business delegation from the western Ukrainian city of L'viv visited Vojvodina's Executive Council,¹²⁶ and in early February contracts were signed to import Yugoslav grain.¹²⁷

In 1999 a portion of the fuel subsidised by the Ukrainian government for the purpose of helping Ukrainian farmers found its way to the Yugoslav market. Having thus supported the regime with fuel, Ukraine then imports from the same regime grain it might well have produced at home. Nevertheless, when the Ukrainian government's National Electricity Regulation Mission, the body tasked with regulating the nation's fuel prices, and the Agrarian Policy Ministry recently reviewed the situation, the agencies came to the conclusion "that nothing should change."¹²⁸

On several occasions since then, Vojvodina farmers have spotted, and attempted to block, large convoys of their grain being shipped overland into Hungary, under cover of darkness,¹²⁹ suggesting that the operators believe there is some need for subterfuge. From Hungary, experts believe, the Vojvodina grain is likely being shipped either directly to Ukraine, or Hungarian grain is being shipped in its place. (Vojvodinan and Hungarian grain strains are so similar that it would require a close inspection by a trained eye to distinguish between them.) These midnight shipments are almost certainly authorised by Belgrade, as their sheer volume would mitigate against their evading the notice of Serbian Customs, the notoriously corrupt agency that is tightly controlled by Milosevic associate, Mihalj Kertes. One plausible explanation for the stealth convoys might lie in the potential embarrassment for Hungary, should its NATO allies realise that it may well be facilitating Milosevic's grain trade.

V. HUMANITARIAN ASSISTANCE

The international community has consistently supplied Serbia with wheat as part of its humanitarian assistance with little examination of whether or not Serbia in fact lacks wheat, or of what becomes of the wheat once it is delivered into Serbian hands.

In fact, Serbia has long been a wheat-surplus country. Displaced persons and refugees, while admittedly forced to live in extremely disadvantaged conditions, are in no danger of famine. Were donors not to furnish grain for the displaced, there would be sufficient supply in-country to feed them. Nevertheless, the aid community persists in providing grain to Serbia, freeing the regime to export its

¹²⁶ Radio Jugoslavia, 13 December 1999.

¹²⁷ "Ukraine imports 400,000 tons of grain," Reuters, 6 February 2000.

¹²⁸ *New Europe*, 9-15 April 2000, p. 35.

¹²⁹ ICG interview, Vojvodina farmer, March 2000.

own surplus.¹³⁰ Moreover, the regime tightly controls all distribution mechanisms for the delivery of humanitarian assistance, raking off handling charges, the credit for feeding the needy, and, most dangerously, the potential for manipulating aid recipients through control of beneficiary lists. The chief implementing agency through which these abuses are carried out is, and has long been, the Yugoslav Red Cross.¹³¹

Since the late 1980s and the influx of refugees into Yugoslavia from Romania's then repressive regime, the international humanitarian agencies, led by the UN High Commissioner for Refugees (UNHCR) and the international Red Cross movement (that is, the International Committee for the Red Cross [ICRC] and the International Federation of the Red Cross/Red Crescent [IFRC]), have used the Yugoslav Red Cross (YRC) as their partner in distribution of aid. As Yugoslavia descended into violence in the early 1990s, these international agencies once again turned to the Red Cross, insisting that there was no alternative. Despite obvious signals that the local Red Cross societies had begun to mirror the ethnic biases of their respective governments, neither the UN nor the international Red Cross movement had sufficient resources or motivation to set up alternative networks, and both continued to work exclusively through the local Red Cross.

From the earliest days of the Bosnian war, the Yugoslav Red Cross was actively involved in ethnic cleansing, providing the buses, trucks, trains, and temporary camps used in the expulsion of non-Serbs from eastern Bosnia. The YRC, with the help of international assistance, projected the kinder, gentler face which successfully lured many Bosnians onto these vehicles and into these way-stations;

¹³⁰ The question immediately arises as to why the international community is sending grain to a grain-exporting nation. Humanitarian aid, of course, is fungible: for every ton of flour brought in, a corresponding amount of grain can be exported. During the years in which the international community was providing only 20,000-50,000 tons per year, the "export yield" to the regime remained relatively small. But with this year's international assistance reaching the 200,000-ton range, the hard currency boost that this amount brings in could make a critical difference to the cash-starved Belgrade government. One UN official, responding to this point, claimed that exports by Belgrade were necessary so that the government might import such commodities as infant milk powder. "You don't expect babies to drink some kind of slurry made from wheat flour, do you?" (ICG interview, UN official in Belgrade, March 2000.) However, even the babies' milk comes for free: "A humanitarian delivery of powdered milk, worth 36,000 German marks, took off from Timisoara Wednesday and will be delivered to the Yugoslav Red Cross." Tanjug, 10 February 2000.

¹³¹ The Yugoslav Red Cross (YRC) was the umbrella organisation for its daughter agencies, the Serbian Red Cross and the Montenegrin Red Cross. The Serbian Red Cross was further broken down into Serbian, Kosovo-Metohija, and Vojvodina Red Cross societies. The Montenegro and Kosovo Red Cross societies are no longer directly controlled by the federal unit.

On 28 April 2000 the United States Agency for International Development (USAID), having been alerted to the Yugoslav Red Cross's close ties to the regime, announced the temporary suspension of its direct aid to Serbia, as stated in a "draft Request for Application (RFA)" issued to NGOs: "The Yugoslav Red Cross, which is directly associated with the Milosevic Regime, has a virtual monopoly on the humanitarian aid and distribution in Serbia. Because of this, USAID has temporarily suspended direct humanitarian assistance to Serbia."

http://www.info.usaid.gov/ftp_data/pub/OP/RFA/MOP00980/

those non-Serbs who refused this seemingly benign, free ticket out of their homeland were purged far more brutally by Serbian paramilitary units.¹³²

In the Republika Srpska (RS), the Red Cross, which was run by Ljiljana Zelen-Karadzic, wife of fugitive Radovan Karadzic, was actively assisted not only by the YRC, but by the IFRC, which championed the RS Red Cross throughout the international community and provided the materials, cash, and respectability to support its so-called capacity building.¹³³ The Bosnian Serb Red Cross was involved in numerous instances of ethnic cleansing, rape camps, and the selling of internationally provided humanitarian aid.¹³⁴

While the assistance to the RS Red Cross from the YRC went to prop up the Karadzic and Krajina regimes in Bosnia and Croatia, respectively, these efforts failed, and in the course of Milosevic's military adventures in Bosnia and Croatia, hundreds of thousands of people fled into Serbia. After the failure of each of these campaigns, Milosevic callously turned his back on the Serbs who chose to remain in these regions, while manipulating those who had made it into Serbia. The state organ through which he effected this manipulation was the Commissariat for Refugees, led by Bratislava Morina, a close associate of Mirjana Markovic, Milosevic's wife and Jugoslovenska leвица (Yugoslav Left, or JUL) party president. Their implementing partner was and remains the Yugoslav Red Cross.¹³⁵

Through the mid-1990s this manipulation included:

- enforced settlement of people either to stir up ethnic hatred by altering demographics (as in Kosovo and Vojvodina) or to contain anger against the regime by keeping the displaced out of Belgrade;
- forced return of men to Bosnia and their conscription into the RS army;

¹³² Roy Gutman, *Witness to Genocide*, MacMillan, N.Y., 1993, pp. 20-27.

¹³³ www.ifrc.org/network/dir/rcdir/ba.htm. The IFRC justified the presence of Mrs Karadzic by pointing out that Elizabeth Dole, a US Republican party leader and wife of that party's last standard bearer, held the position of President of the American Red Cross. The difference, of course, is that neither she, her husband, nor the political party they represent has ever been suspected of or indicted for war crimes or genocide.

¹³⁴ *Toronto Star*, 20 September 1997; Human Rights Watch / Helsinki Report (vol.9, No. 1, January 1997), and Final Report of the United Nations Commission of Experts Established Pursuant to Security Council Resolution 780 (1992), Annex IX.

¹³⁵ Both Ms Morina, who sits on the JUL Directorate, and the Secretary of the Serbian Red Cross, Bratislava Cvetkovic, are on the EU visa ban list. Ms Cvetkovic was recently re-elected to the main board of Slobodan Milosevic's Socialist Party of Serbia (SPS). The EU visa ban lists her as "Cvetkovic Radmila, Secretary of the Serbian Red Cross, member of SPS main committee," under the section, "Persons close to the regime whose activities support President Milosevic" (see <http://www.sps.org.yu/eng/explorer.htm> and <http://www.jul.org.yu/indexen.htm> and EU visa ban list).

- insistence that refugees vote in prescribed municipalities and for particular political parties in the fraudulent Bosnian elections of 1996-97.

The regime retains significant leverage over this vulnerable population by virtue of its control of such critical matters as the allocation of apartments, access to health care, employment, and humanitarian assistance. The more desperate and indigent refugees become, the more important become a few kilos of flour and cooking oil.

Milosevic, like the UNHCR and ICRC, recognised the efficiencies afforded by using the Red Cross as the regime's sole distributory mechanism.¹³⁶ His trust was well placed, as in times of crises the Red Cross has marched reliably in step with the regime. During the NATO bombing campaign the Serbian Red Cross appealed to:

"...all people of good will in the world" about "the aggression of the NATO forces," because of which "eleven million citizens of Yugoslavia and 750,000 refugees are exposed to unparalleled genocide at the end of the 20th century."

The appeal ended with the assurance that,

"The Red Cross of Serbia, on its part supports the peaceful and just politics of its country's leadership.... In this way, the Red Cross of Serbia will stay true to its humanitarian principles...."¹³⁷

The Red Cross also took action on the ground. During the bombing campaign, local Red Cross agencies diverted internationally provided aid to the Yugoslav Army and paramilitaries, and, in a haunting reprise of the agency's Bosnian performance, used Red Cross vehicles to transport Kosovo Albanians to the Albanian border.¹³⁸

Late last year, after growing criticism of the Yugoslav Red Cross and its use of EU provided aid to benefit Vojislav Seselj's constituency, the YRC Secretary General issued instructions to all municipal Red Cross branches as to how they should relate to international humanitarian organisations. International organisations would no longer be allowed to set meetings with local Red Cross branches, to receive written information from these branches without permission from the federal or republic level, or to see the lists of beneficiaries for whom their aid was intended.¹³⁹

¹³⁶ The continued use of the local and federal Red Cross societies also furnished the international agencies with the convenient explanation that Western humanitarian aid was not going through the government but through an independent body that adhered to the highest standards of international humanitarian law.

¹³⁷ www.redcross.org.yu.

¹³⁸ Red Cross of Kosovo-Metohija documents in the possession of ICG.

¹³⁹ Letter from Dr Rade Dubaic. Secretary General to Municipal Red Cross Branches.

One can already identify several arenas in which Milosevic is attempting to manipulate the refugee population to achieve his near-term political goals. First, the regime has already reversed course and is now pushing people into Belgrade, in a patent and time-tested attempt to stack voters' lists so as to win Belgrade at all costs in upcoming local elections.¹⁴⁰ Second, the regime appears to be preparing to return some of those displaced from Kosovo to certain communities there so as to secure at least several municipalities with Serb majorities.¹⁴¹

Finally, international agencies continue to funnel hard currency directly into regime coffers in the form of handling fees. In 1994 the IFRC negotiated a handling charge rate, then \$US 45 per ton of aid delivered within Yugoslavia, to be paid by all donors to the YRC. The amount went up as high as \$US 70 per ton and currently sits at \$US 56. While such fees are paid by aid agencies world-wide, they have rightly been called into question in a country where the money goes directly to a state-run agency which itself manipulates and takes advantage of the refugee population. In the course of the decade, aid to Yugoslavia has run in the range of 20,000-100,000 tons per year. Since the end of the NATO bombing campaign, however, this has dramatically increased to nearly 20,000 tons *per month*, yielding a hefty increase in handling fees. The UN's World Food Program (WFP), UNHCR, and the IFRC, along with most of the private volunteer agencies, nevertheless continue to insist that they have no choice, that they work through the YRC or not at all.

However, these discussions rarely include any re-appraisal of the severity of intended beneficiaries' actual need, or any weighing of the potential harm caused by doing nothing, versus the harm caused by supporting the regime. Instead, these agencies have gone out of their way to justify their continued use of this "humanitarian" wing of the regime.¹⁴² With all the large international assistance

¹⁴⁰ *Blic*, 4 February 2000, and ICG interview with UN official in Belgrade, February 2000.

¹⁴¹ This effort requires some fairly sophisticated manipulation of the voter registration process, in which the Red Cross societies have historically played a key facilitating role: if members of the Serb community, who accounted for roughly 10 per cent of Kosovo's pre-war population, were required to vote where they originally came from, their vote would be so diffused as to win only a few towns north of Mitrovica. But should the regulations be drafted so as to permit them to vote where they live now or (as in the Bosnian case), where they "wish to live," then a targeted 10 per cent could have some success in setting the stage, even under the watchful eye of the international community, for the process of ethnic cantonisation or partition.

¹⁴² One key document used to generate donor support, a joint assessment performed by UNHCR and WFP in July 1999, shows just how far these organisations have gone in rationalising the continued use of the YRC and its sister organisations: "The Yugoslav government (Ministry of Labour and Social Welfare) and the Yugoslav Red Cross apply already rigorous criteria for those persons benefiting from the national social support system. . . It is therefore recommended, to allow. . . the local authorities utmost freedom in selecting the most needy beneficiaries, provided that this delegation of responsibilities to local structures is accompanied by a good and independent monitoring system." (Joint WFP/UNHCR Food Aids Needs Assessment, Federal Republic of Yugoslavia [Excluding Kosovo], 7-19 July 1999.)

organisations actively re-affirming their commitments to this "partnership," the Yugoslav Red Cross continues to receive the food, choose the beneficiaries, control the beneficiary lists, be trusted to monitor itself, and enjoy a government-mandated monopoly, while the international community pays it \$US 56 per ton to do so.

The international aid community does have other options. Some non-government organisations (NGOs) have managed to distribute assistance outside the YRC and the regime's direct control. The Serbian Orthodox Church, which has recently spoken out against the regime, has been one such facilitator, and some of the local Red Cross offices in opposition-controlled municipalities have also shown some independence. Although the danger remains that Red Cross beneficiary lists from these municipalities will still be manipulated by the regime for the purposes of election engineering, at least working through opposition-run Red Cross offices that are willing to submit themselves to careful vetting and independent monitoring might afford donors the possibility of mitigating the leverage extracted by the regime.

In addition, international agencies might seek to purchase locally, from smaller sources out of the regime's control. In communities or municipalities where the opposition to Milosevic is in power and which have refugee, displaced, and social cases in need of assistance, it should be much easier to arrange the logistics necessary to avoid the regime's manipulation. However, there are many obvious difficulties with this approach. First, how reliable is any determination that a particular supplier or authority is "regime-free?" Can a money transaction take place without the government taking at least a part of it?¹⁴³ ICG doesn't believe the answer is categorical, but depends in large measure on the due diligence and constant vigilance of organisations that choose to work in Serbia.

While some within the UNHCR, which handles non-food items only, have shown a willingness to look outside the YRC for distribution partners, large aid agencies such as WFP and the IFRC (both of which distribute food) have until very recently been reluctant to explore alternatives for two main reasons. First, setting up alternatives is a complex, labour-intensive process that would involve establishing

The "good and independent" system is found later in the report: "The Yugoslav Red Cross is the principal implementing partner and will continue to carry out monitoring with the support of IFRC. . . Verification of data will be done by WFP staff on a spot check basis during regular field visits and in collaboration with NGOs operating in the relevant geographical areas." It is useful to note here that UNHCR, with 130 staff in Serbia and Vojvodina, deploys fewer than 30 of them outside Belgrade, of whom only three are internationals (see UNHCR-FRY Information Bulletin, January 2000).

The following report reveals that the monitoring capacity of the IFRC has also been weak and heavily dependent on self-monitoring by local staff: "In order to strengthen monitoring, IFRC, from early February, plans to have nine expatriate staff based in various parts of FRY (increased from the current level of three)." (from the Weekly Situation Report, 21-27 January 2000, of the UN's Office for the Coordination of Humanitarian Assistance (OCHA), Belgrade.)

¹⁴³ Whether through handling fees, customs taxes, pure skimming and theft, or the side-benefits gained through manipulation of either the beneficiary lists or the assistance itself.

extensive networks of warehouses and trucking fleets -- a daunting challenge, when the regime controls so much of the essential logistics and resources.

Secondly, at least some agency officials fear that, were they to make a visible attempt to channel distribution away from the regime, their organisation might well be expelled from the country. Three questions arise in response to this point. First, would a regime so destitute of both international favour and local support be likely to expel UN or other international humanitarian agencies? Secondly, if the beneficiary populations were as disadvantaged as it is assumed they would be should the international agencies be forced to leave, would not the regime move in to fill the breach and to reap the political credit for so doing? Finally, if the regime has the resources to do so, the question arises as to why international agencies should be there at all.¹⁴⁴

Over the past few months, largely in response to growing scepticism in the aid community and above all its key donors, some moves have begun to distance agencies from the regime and the YRC. The WFP is moving towards allowing NGOs to distribute up to 10 per cent of its food, and USAID's Bureau of Humanitarian Response, after planning for hefty increases in food aid, has since reversed course and banned all aid that would be coursed through the YRC. Even the IFRC, the biggest proponents and advocates of the YRC, have begun an audit of the YRC.¹⁴⁵

VI. CONCLUSIONS AND RECOMMENDATIONS

Because grain exports are not under international sanctions, they have not attracted the same degree of scrutiny by the international community as explicit financial transactions. Yet, as this investigation has made clear, the Belgrade regime's manipulation of Serbia's grain trade has supplied Milosevic, it is estimated, with close to one-third of the state's fungible asset base.¹⁴⁶

Milosevic has succeeded in exploiting the grain trade to fuel the state's repressive mechanisms by relying on the help of associates with longstanding personal connections to foreign officials, of which some date back to the Titoist era, while

¹⁴⁴ Certainly the protection theoretically afforded by the international presence cannot be cited as a justification, given that international agencies have continued to turn a blind eye to the regime's ongoing abuse and manipulation of the assistance (to wit, the European Union's recent experience in the Belgrade suburb of Zemun, a district controlled by Serbian Deputy Prime Minister and Radical Party head, Vojislav Seselj, where EU and US aid was blatantly diverted from needy beneficiaries to compensate unpaid state employees).

¹⁴⁵ However, this audit, recently initiated in response to repeated allegations against the YRC, is being carried out in co-operation with the YRC itself, and therefore is not likely to give an accurate picture of the situation. Instead, an independent investigation of the YRC's performance should be commissioned by the IFRC and/or other international agencies.

¹⁴⁶ These estimates, made by ICG analysts and endorsed by US government officials, are based on information from the US Department of Agriculture and other US government agencies.

others have forged more recent ties to pariah states in the Middle East. He has also been able to count on legitimate multi-national firms willing to do business, as well as leading international humanitarian agencies. With the energetic and the unwitting co-operation of these various partners, Milosevic has managed to impose strict controls on wheat production, processing, and export; manipulate foreign exchange rates; barter grain for oil and gas; siphon monies from transport and fuel taxes, and control the monopoly on and manipulation of international humanitarian assistance.

If members of the international community responsible for dealing with the consequences of Belgrade's regional destabilisation wish to limit the resources available to Milosevic, they need to pay more attention to this little-noted commodity and its crucial role in the Serbian economy. Far more effort must be put into meticulous sanctions implementation and enforcement, tracking and freezing the assets of Milosevic's associates involved in trading grain, a thorough re-examination of the humanitarian assistance package for Serbia, and the identification of alternative distribution mechanisms that can be used to channel such assistance as is deemed appropriate upon a definitive review.

A. Economic Pressure

The Serbian government in Belgrade continues to maintain tight control over grain exports. Of late, this control has included the constriction of trade with neighbouring republics of the former Yugoslavia, that is, Bosnia, Montenegro, and Macedonia. Only trusted public or private companies receive the requisite authorisations or contracts to deal in Serbian grain.

Several actions can be taken to impede the activities of these companies and individuals. The US Treasury's "Specially Designated Nationals" list, maintained by the Office of Foreign Asset Control, should include all firms and persons dealing in Serbian grain, and the EU's enlarged visa ban list and more carefully targeted financial sanctions should be further extended to include the same firms and persons. Because many of the designated individuals also maintain positions or relationships with other firms, the US and EU should consider making public all relevant financial and trade links of the names on their lists. At present, there is no one place where a multi-national corporation, aid agency, or customs official might check whether a prospective client, partner, or interlocutor has ties to designated names on these lists.

Bosnia, Bulgaria, Croatia, Hungary, Macedonia, and Romania are the neighbouring states through which Serbian grain must travel, and some of these countries are also markets for that grain. A proactive approach by these states would virtually shut down Belgrade's ability to trade grain. However, once again, the front line states would be asked to bear the brunt of the cost of sanctions. While restricting Serbian grain may actually benefit grain producers and marketers in neighbouring states, there are certainly economic sectors, particularly transportation, which are

suffering and will continue to suffer. Neighbouring states should be financially compensated by Western governments for their co-operation in restricting this trade.

B. UN Pressure

The Office of the Secretary-General and the UN's 661 Committee are the chief mechanisms by which the UN sanctions are implemented. While this approach has recently been relaxed somewhat, it is important to remember that this sanctions regime was initiated not only because Iraq was suspected of possessing and capable of developing weapons of mass destruction but because Baghdad has used them. Even as it loosens the control on trade in food and other materials for oil production, the 661 Committee, in consultation with the Office of the Secretary-General (which alone retains the authority to block proposed food contracts under the accelerated procedures now governing the oil-for-food program),¹⁴⁷ must tighten its surveillance over dual-use technology. Jugoimport-SDPR, a company deeply involved in marketing the technology and expertise in these materials, should not be accorded the benefit of the doubt by the Secretary-General when it proposes the sale of wheat to Iraq. Given the Milosevic regime's track record, Jugoimport should not be permitted to share in UN-regulated trade with Iraq.

The US, which has shown the most willingness among member states to block trade of certain items with Iraq, has come under increasingly shrill criticism; Britain, also, has maintained a relatively tough stance. These two nations must, nevertheless, insist on blocking UN-monitored trade between Yugoslavia and Iraq. It would be helpful if other Security Council members would share in shouldering this responsibility.

Improved information flow can also assist in impeding dangerous trade between the Milosevic and Iraqi regimes. First, the contract approval process under the oil-for-food program should be rendered more transparent. The names of companies, their directors, the quantities traded, prices negotiated, and transport arrangements should all be made public. The existence and critical importance of the sanctions regime should outweigh any secondary concerns regarding potential violations of "proprietary knowledge." Second, diplomats handling information regarding sanctioned regimes should make a concerted effort to share this information in a collegial fashion, both between intrastate agencies and internationally.

C. Relief Aid Pressures

¹⁴⁷ That is, under the accelerated approval procedures approved by the 661 Committee and implemented, as regards foodstuffs, on 1 March 2000, the Committee no longer retains the authority to block applications for the export of foodstuffs, which are now to "be notified to the Secretary-General." (See footnote 57 for fuller explanation of the accelerated procedures).

Humanitarian and other relief agencies must develop a more politically informed approach with regard to the government in Belgrade. Their current *modus operandi* involves direct support to the regime with money, food, credibility, and fungible exports. Claims of being neutral and apolitical ignore this reality; aid agencies are going to be held more and more accountable for the political impact of their programs. The Belgrade regime has been indicted by the UN; for UN agencies to continue to treat it as a partner is a self-defeating contradiction.

Aid agencies might consider several approaches when working in the Yugoslav context. They must defend the beneficiaries of their assistance and protect against manipulation by the regime or any other authority. A constant dissemination of people's unencumbered entitlement to assistance is necessary and can be effected both through various media channels and locally at distribution centres. Agencies must also devise a reporting system whereby beneficiaries subject to pressure or manipulation can appeal to the organisations without fear of retribution.

Moreover, agencies should pursue alternatives to government-controlled sourcing and distribution mechanisms. In the past, enterprising relief agencies have found ways to purchase grain on the local market. Now, however, agencies should seek out sources of grain and distribution channels that operate outside the government's control. For instance, the many communities controlled by opponents of the regime harbour reserves of grain and are also host to refugees, displaced, and social cases. Or, where a local Red Cross has demonstrated independence from central control, then not only aid, but the financial backing that accompanies it, should be directed to that local Red Cross society. International agencies need not develop country-wide plans for an alternative distribution network; there are other creative ways of purchasing and distributing locally.

Agencies bold enough to take this course are bound to make some errors. It is often difficult, sometimes impossible, to identify business partners that are not corrupted or susceptible to manipulation by the regime. Working locally, on a smaller scale, and under the advisement of reputable opposition figures can substantially limit any damage from having been taken in by a regime-controlled company.

Finally, to prevent any attempts by the regime to manipulate beneficiary lists for the purposes of election engineering, the UNHCR and OSCE should coordinate closely to devise a fraud-proof civil and electoral registration procedure for those Kosovars currently residing in Serbia who wish to participate in elections in Kosovo planned for later this year.

Unless these measures have been put into play, it will be inaccurate to claim that sanctions do not or cannot work, for they will not have been properly implemented. The international community will continue to undermine its own

stated policies towards Milosevic, by not attending sufficiently to the array of means through which he has succeeded in exploiting the grain trade and humanitarian assistance to sustain his regime, forge international partnerships, manipulate elections, buy the loyalty of associates, and enrich himself.

Washington/Brussels, 5 June 2000

APPENDIX I: THE BOTTOM LINE

How much can Yugoslavia export, and how much money can it make?

Wheat requirements: According to Yugoslav government statistics, the population of Yugoslavia in 1991 was 10,394,026,¹⁴⁸ with the current refugee population at about 500,000.¹⁴⁹ According to the UN's Food and Agricultural Organisation (FAO), the population in the Balkans region consumes, on average, 180 kilograms of wheat per year. For consumption of wheat as food, then, the population of Yugoslavia requires 1.96 million tons per year. To this total must be added wheat consumed by livestock and wheat saved to be used as seed. These two, while fluctuating yearly, total on average 300,000 tons, bringing the overall total of wheat consumed annually to 2.26 million tons.

According to the same Yugoslav government figures, the population of central Serbia and Vojvodina totals 7,822,795. UNHCR's current estimates of the number of refugees from Bosnia and Croatia and the displaced from Kosovo total 700,000.¹⁵⁰ Applying the same FAO calculation, the current human consumption needs in Serbia and Vojvodina would be roughly 1.54 million tons. Due to the events of the past year, Yugoslavia no longer supplies wheat to Montenegro and Kosovo, whose combined needs for feed and seed was roughly 10 per cent of Yugoslavia's total. Therefore, Serbia-Vojvodina's needs remain in the range of 270,000 tons, bringing current total yearly requirements to 1.81 million tons.

Maize consumption: Maize consumption takes place largely on the farm where it is produced; hence figures are more difficult to find. Yugoslavia as a whole consumed, on average, 4.5 million tons annually, in the form of livestock feed and seed,¹⁵¹ while Kosovo consumed roughly 300,000 tons.¹⁵² Figures for Montenegro are not available, but they do not appear to be significant. Therefore the annual domestic consumption in Serbia-Vojvodina remains at about 4.2 million tons.

Wheat production: From USDA and Yugoslav government figures, production through the 1990s ranged from a low of 1.5 million tons from the 1996 harvest, to a high of 3.2 million tons during the 1994 harvest. On average, from 1992-1998, the harvest yielded 2.69 million tons.¹⁵³

To arrive at a figure of the total wheat tonnage available to the Yugoslav government, one must factor in imports. Only once this decade has Serbia commercially imported wheat: in 1997, for a total of 270,000 tons.¹⁵⁴ However, every year humanitarian assistance has been brought into Serbia by international agencies. According to IFRC

¹⁴⁸ www.gov.yu/facts/population.html

¹⁴⁹ <http://www.unhcr.ch/fdrs/ga2000/pdf/fry.pdf>

¹⁵⁰ <http://www.unhcr.ch/fdrs/ga2000/pdf/fry.pdf>

¹⁵¹ USDA Grain and Feed Annual Report: Yugoslavia, March 1997.

¹⁵² Special Report: FAO/WFP crop and food supply assessment mission to the Kosovo province of the Federal Republic of Yugoslavia, 30 August 1999.

¹⁵³ USDA, Serbia and Montenegro's Wheat Production, May 1998.

¹⁵⁴ USDA, Grain and Feed Annual Report Yugoslavia, June 1997.

annual reports, these amounts have varied from 20,000 to 50,000 tons per year. In 1999, in the absence of the Kosovo harvest, the Yugoslavs estimated their wheat harvest at 2.52 million tons.¹⁵⁵ In the course of the current year, aid agencies are planning to deliver some 200,000 tons of flour, the equivalent of 270,000 tons of wheat.¹⁵⁶ This year's total tonnage available to the Yugoslav government should therefore reach approximately 2.81 million tons.

Maize production: From USDA and Yugoslav government figures, production through the 1990s ranged from a low of four million tons in 1993, to a high of 6.5 million tons in 1997. The average was five million tons. In 1999, in the absence of the Kosovo yield, the Yugoslavs estimated their maize harvest at 5.7 million tons.

Strategic reserves: According to USDA estimates, since 1994 Yugoslavia has kept in reserve quantities of wheat ranging from a low of 268,000 tons in 1997 - a low figure, due to having used up the reserves in the wake of the previous year's poor harvest - to a high of nearly one million tons in 1995. Last year Serbia's agricultural minister claimed to have 700,000 tons in reserve and announced that the state intended to maintain this amount for the year 2000.¹⁵⁷ This would appear to be an average figure, as well as Serbia's target. As stocks are rotated from reserve to market, they impinge on exportable surplus only in a bad harvest year.

Available for export: Production minus consumption gives a theoretical notion of maximum exports. For the 1993-1998 period, such a calculation would suggest that the annual acreage of grain available for export would amount to 430,000 tons of wheat and 500,000 tons of maize. For the current year, the maximum is one million tons of wheat and 1.5 million tons of maize.

Export prices: During the decade of the 1990s, world market prices of wheat varied from a low of about \$US 110 per ton in 1999 to a high of nearly \$US 300 per ton in mid-1996.¹⁵⁸ Therefore, from 1993-1998, wheat exports ranged between \$US 50-175 million. This year's maximum is in the range of \$US 100 million. Maize prices ranged from \$US 100-150 over the past decade, and this year it has been around \$US 100 per ton.¹⁵⁹ Maximum annual income from maize exports would have been in the \$US 50-75 million range. This year maize export income could go as high as \$US 150 million.

Bottom Line: Maximum annual exports are in the range of \$US 100-250 million. This year, due to reduced consumption of wheat from the loss of Kosovo and Montenegro and a high maize crop, the maximum is at the higher end, approximating \$US 250 million. As noted in the text the grain is bartered for commodities such as oil and gas, which is then

¹⁵⁵ *New Europe*, July 12-20 1999.

¹⁵⁶ Special Report: FAO/WFP crop and food supply assessment mission to the Kosovo province of the Federal Republic of Yugoslavia, 30 August 1999.

¹⁵⁷ *New Europe*, 12-20 July 1999.

¹⁵⁸ USDA, World Wheat Situation and Outlook.

¹⁵⁹ USDA World Coarse Grains Situation and Outlook.

resold in Serbia. Due to the difference between world market prices for oil and the retail prices at the pump, the government can double or even triple its money.

APPENDIX II: CURRENT SANCTIONS AGAINST SERBIA

Until 6 April 2000, international sanctions on Serbia consisted of the following:

The United Nations:

- An arms embargo on Serbia/Montenegro was established in March 1998 by the UN Security Council, in response to the state-perpetrated violence in Kosovo, and remains in effect.

The United States:

- Most sanctions established by the US Congress during the Bosnian war against Yugoslav and Serbian state-owned assets were lifted following Bosnia's 1996 elections in so far as they pertained to new trade and investment. However, the most basic sanctions initially imposed by the international community during the Bosnian war, commonly referred to as "the outer wall," were written into law by the US Congress.¹⁶⁰ These barred Serbia-Montenegro from membership in the UN, OSCE, NATO's Partnership for Peace, the International Monetary Fund, World Bank, European Bank for Reconstruction and Development, and from access to international lending from these agencies or borrowing by Belgrade on world capital markets.
- On 6 June 1998, in response to Serbia's actions in Kosovo, President Clinton issued President Executive Order 13088, which froze all assets of Serbia-Montenegro held in the US and banned all new investment or economic transactions in Serbia by US companies or individuals.
- After the NATO action, President Clinton stated that no American reconstruction or financial assistance would be given to Serbia until Yugoslav President Slobodan Milosevic was out of power.

The European Union:

- drew up a visa ban list with over 800 names, which entered into force in May 1999 and was most recently updated on 1 March 2000. All those whose names appeared on the list were forbidden entry into EU countries, which were also authorised to track and freeze their assets;
- froze state assets held in EU countries and placed financial restrictions on new investments in firms owned or controlled by the governments of the FRY or Serbia;¹⁶¹ and

¹⁶⁰ Under the Omnibus Appropriations Act of 1998, Section 594, passed by the US Congress on 21 October 1998, the outer wall would remain in effect until 1 January 2000, unless the president certified that Serbia-Montenegro was in compliance with the Dayton Accord for Bosnia and Herzegovina, co-operating with the International Criminal Tribunal for the former Yugoslavia, was implementing internal democratic reforms, and had agreed to and begun implementation on a negotiated settlement regarding the future status of Kosovo.

¹⁶¹ Codified in Council Regulation (EC) No 1294/1999 of 15 June 1999.

- imposed a ban on petroleum products in April 1999 which was eased **in the fall of that year** by the "Fuel for Democracy" program, which supplied opposition-controlled cities with heating oil.

The following fourteen non-EU countries have signed onto the EU sanctions program: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Iceland, Liechtenstein, and Norway.

On 6 April 2000 the General Affairs Council of the European Union passed a regulation amending its earlier EU regulation "concerning a freeze of funds and a ban on investment in relation to the FRY."¹⁶² The more precise targeting of sanctions set forth here came about as a result of EU-US resolve to continue punishing the Belgrade regime while attempting to lighten significantly the burden on the Serbian people.¹⁶³ The amended regulation restricts far more severely any economic activity on the part of EU actors with all companies headquartered in Serbia regardless of ownership, as well as all Serbian or Yugoslav government-owned or -controlled firms based outside Serbia.

An important innovation included in the 6 April regulation is the introduction of a carefully formulated "white list" of Serbian or Yugoslav companies and individuals considered to be untainted by regime manipulations and with which/whom EU companies and individuals are free to conduct ordinary business.¹⁶⁴

To be included on the so-called white list, companies or individuals must satisfy at least one of two sets of conditions. Either the firm or person must demonstrate his ability "to withhold from" the regime any revenues obtained from transactions with European Community partners;¹⁶⁵ or, the firm/person must prove both that none of its/his business falls within a specified list of sectors, *and* that all transactions within the EC do not exceed 100,000 EUR per month. The blacklisted sectors, presumed by EC experts to be closely controlled by the Milosevic regime, are: "banking and financial services, energy and fuel supply, production of or trade in military or police equipment, transport, petrochemicals, iron and steel."¹⁶⁶

¹⁶² Council Regulation (EC) No 723/2000 of 6 April 2000 [published in OJ L 86, 7.4.2000, p. 1-4] amends Council Regulation (EC) No 1294/1999 of 15 June 1999 [published in OJ L 163, 19.6.1999, p. 63]. The new regulation entered into force on 7 April 2000, with the exception of Article 1(3), the article under discussion here, which "shall be applicable as from 15 May 2000," according to Regulation No 723/2000 [p. 86/4]. In fact, the amended regulation has not yet entered into effect, although its implementation is anticipated shortly.

¹⁶³ The EU's lifting on 20 March 2000 of the ban on flights between the EU and Yugoslavia was another part of this effort, the first concrete manifestation of which was the EU's "Fuel for Democracy" program, mentioned above.

¹⁶⁴ This conceptual innovation and the white list itself resulted from close transatlantic collaboration between EU and US specialists.

¹⁶⁵ Article 8/2(a), Council Regulation (EC) No 723/2000 of 6 April 2000, cited above.

¹⁶⁶ Article 8/2(c), Council Regulation (EC) No 723/2000 of 6 April 2000, cited above.