

**ARMING SADDAM:
THE YUGOSLAV CONNECTION**

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ARMING SADDAM: THE YUGOSLAV CONNECTION

EXECUTIVE SUMMARY AND RECOMMENDATIONS

The democratic government elected in Belgrade in 2000 did not end the extensive busting of arms sanctions engaged in for many years by its predecessor, the Milosevic dictatorship. The NATO (SFOR) troops who raided an aircraft factory in Bosnia's Republika Srpska on 12 October 2002 found documents that have begun to strip the veils of secrecy from this significant scandal. From ICG's own investigations, as well as from those initial revelations and stories that have appeared subsequently in the Serbian press, it appears that arms deals of considerable monetary value continued with Iraq and Liberia despite the change of administrations.

In the case of Iraq, the international community still needs to ascertain or clarify many important details, but it is already apparent that the Federal Republic of Yugoslavia (FRY) has engaged in transactions respecting missile, aviation and chemical technology and equipment that contravene United Nations sanctions. These transactions may have assisted Saddam Hussein's efforts to develop a primitive cruise missile and to maintain or develop chemical weapons capabilities, as well as to repair or preserve his conventional military capabilities with respect to air defence, artillery, and security of bunkers. Weapons grade nuclear material does not appear to have been involved though the possibility of nuclear technology transfer to third countries requires further exploration. Extensive, though less technically sophisticated, Yugoslav arms have also been sold to Liberia which is likewise under a UN arms embargo.

This activity raises serious questions about how much has changed in Belgrade since Milosevic's day, or even since there was a single, unified

Yugoslavia – specifically with regard to respect for international obligations (commitments under arms control conventions as well as UN sanctions), the power of Communist-era networks linking military, industrial and criminal elites, and the willingness or ability of civilian political leaders to control the security sector.

Significant elements of the arms activity, as the NATO raid indicates, were spread across borders to include not only the Serb entity in Bosnia but also the Federation. Likewise, there was Montenegrin involvement. Top authorities, including President Kostunica, Federal Premier Pesic, Serbian Premier Djindjic, Defence Minister Radojevic, the Chief of the General Staff, and the Federal and Serbian Interior Ministers either knew about the sales and did nothing to halt them – or should have known and acted.

The disclosures open a window on the real power structures inside Yugoslav politics. That the special relationship with Iraq (and with Liberia) continued indicates that civilian control over the military is still absent, that connections between criminal, military and political elements are extensive, and that the two strongmen of the post-Milosevic era, Kostunica and Djindjic, have thus far been impotent or unprepared to assert civilian control over the military or remove Milosevic cronies from top positions.

Belgrade's political leadership and the international community must get to the bottom of the arms scandal itself and attack the fundamental problems it illustrates. The ultimate responsibility for these twin tasks falls on the FRY authorities. The political paralysis produced by the long-running Kostunica-Djindjic power struggle as well as the apparent

convergence of interests between many politicians and arms merchants, however, make it likely that serious remedial measures will only be taken if the international community insists – firmly and consistently.

The stakes are high. Failure to achieve reform would leave the FRY still a potential threat to regional stability. Moving this important Balkan country toward Euro-Atlantic integration will require the international community to use all the diplomatic and economic tools at its disposal to weaken the extensive remnants of the old guard and strengthen reformers in Belgrade. The time for special treatment for Yugoslavia because it has rid itself of Milosevic has passed.

RECOMMENDATIONS

To the governments of Yugoslavia and Serbia:

1. Make full disclosure of all weapons sales and technology transfers to countries under UN arms embargos, especially Iraq, and assist the international community to get to the bottom of the arms transaction scandal by answering such specific questions as:
 - (a) whether chemical munitions were sold to Iraq;
 - (b) what happened to the stocks of chemical munitions removed from Hadzici (Bosnia) in 1992;
 - (c) whether precursors or manufacturing equipment or technology for chemical weapons were sold to Iraq; and
 - (d) whether any nuclear materials or technology were sold to third countries prior to the U.S. removal of remaining nuclear materials in July 2002.

2. Reform the security sector completely and rapidly by:
 - (a) placing the military under control of the Ministry of Defence;
 - (b) making the Ministry of Defence, the military and military industrial relations fully accountable to parliament and under its transparent control;
 - (c) requiring transparent parliamentary approval for all foreign weapons sales; and
 - (d) placing the state-owned arms firm Jugoimport-SDPR under transparent parliamentary control and replacing its entire board of directors.

To the international community:

3. Apply consistent and continuing pressure on Serbian, Montenegrin, and Yugoslav authorities to undertake the requisite reforms, using conditionality in the following areas as a positive tool to help willing politicians:
 - (a) membership of the Council of Europe;
 - (b) membership of NATO's Partnership for Peace;
 - (c) negotiations on a Stability and Association Agreement with the EU;
 - (d) Permanent Normal Trade Relations (PNTR) with the United States; and
 - (e) other financial and economic assistance.
4. Consider, if Belgrade shuns reforms and does not comply with its international obligations, suspending bilateral and multilateral aid, including through the international financial institutions (World Bank, IMF, EBRD).

Belgrade/Brussels, 3 December 2002



ARMING SADDAM: THE YUGOSLAV CONNECTION

I. INTRODUCTION: THE TIP OF THE ICEBERG

This report, like all ICG product, is based primarily on fieldwork, including extensive interviews conducted by ICG personnel. Because of the sensitive nature of some of the subjects and relationships involved, a number of individuals asked that the source of the information they provided be protected, and their requests have been honoured.

In mid-October 2002, following a 12 October SFOR raid on the Orao aircraft factory in Bosnia's Republika Srpska, a NATO member leaked the news that the plant had sold jet engines and spare parts (for MiG21, MiG-23, and possibly MiG-29 planes) to Iraq through the FRY state-controlled weapons export firm Jugoimport-SDPR.¹ Given its limited technical capabilities and inability to manufacture all the needed parts, the Orao factory typically cooperated closely with three factories in Serbia (UTVA in Pancevo, Vozduhoplovni Zavod Moma Stanojlovica in Batajnica, and Vozduhoplovni Tehnicki Institut in Zarkovo).²

The SFOR raid uncovered a letter dated 25 September 2002 on Jugoimport-SDPR stationery, signed by a Yugoslav Army (VJ) Colonel and addressed to the Iraqi Ministry of Defence. The

letter offered Yugoslav assistance for dismantling and hiding unspecified equipment from UN weapons inspectors, and for reassembling the equipment after the inspectors left. It referred to Yugoslav specialists currently working on various military related projects in Iraq and noted that they were housed in Iraqi Army barracks. It also indicated that current weapons purchases from the FRY were being routed through Syria and that a cargo for Iraq was in the Montenegrin port of Bar awaiting Syrian permission before it set sail.³

About the same time (17 October) the U.S. Embassy in Belgrade directed a "non-paper" to Federal President Vojislav Kostunica, Federal Prime Minister Dragisa Pesic, Foreign Minister Goran Svilanovic, Serbian Premier Zoran Djindjic, Jugoimport-SDPR, and the General Staff.⁴ The non-paper asserted that the FRY had sold cruise missile technology to Libya and possibly Iraq and gave details of the companies involved, individual scientists working with Iraq and Libya, and dates that contracts were signed. It also stated that the FRY had sold 200 tons of Yugoslav Army weapons stocks to Liberia, another country under a UN arms embargo.⁵

¹ "U.S. Says Two Serb Firms Are Helping Iraqis", *The Washington Post*, 23 October 2002. The marketing director of the Orao factory is a FRY army (VJ) officer, an indication that Belgrade has yet to sever its military ties to Republika Srpska, a condition established by U.S. law for the provision of U.S. aid to the FRY. See ICG Balkans Report N°126, *Belgrade's Lagging Reform: Cause for International Concern*, 7 March 2002.

² ICG interview with defence analyst. All these factories are located in the vicinity of Belgrade.

³ "Jugoslovenski strucnjaci u Iraku", *Blic*, 22 October 2002; "U.S. Says Two Serb Firms Are Helping Iraqis", *The Washington Post*, 23 October 2002. The letter was widely distributed to the local media, and photocopies appeared in several Serbian and Bosnian newspapers.

⁴ ICG interviews. ICG has seen the non-paper and has verified its contents with several U.S. government sources. See also the later independent verification of the non-paper and its contents in "New Yugoslav-Iraqi ties alleged", *The Washington Post*, 27 October 2002.

⁵ While the U.S. non-paper hedged on whether cruise missile-related technology had been sold directly to Iraq as well as Libya, State Department sources have subsequently told ICG that this was indeed the case.

The FRY government quickly removed the director of Jugoimport and a deputy minister of defence. This may, however, have been primarily a cosmetic effort to persuade the international community of its good will since it did not address the far broader and more comprehensive nature of Yugoslavia's military cooperation with Iraq over the past two years or the nature of involvement or cognisance of more senior officials.

II. YUGOSLAV-IRAQI WEAPONS SALES

It is well documented that until its break-up in 1991 the Socialist Federative Republic of Yugoslavia (SFRY) sold weapons to Iraq, built bunker and military complexes and chemical factories for it, and engaged in joint weapons development with Iraqi scientists and military. Much of this activity occurred with at least the knowledge and tacit approval of Western states that maintained close ties of their own with Saddam Hussein until his invasion of Kuwait in 1990 led to the imposition of a UN arms embargo.

Since the time of the Gulf War, however, all UN member states have been required to prohibit any military exports to Iraq including dual-purpose or multi-purpose items that they have reason to believe will be used for military purposes, and to ensure that contracts with other states or foreign companies contain end-use safeguards against shipment to Iraq. The embargo extends to all arms research and development; military repairs and military-related technology licensing and training.⁶

After 1991, despite the arms embargo, Milosevic's Federal Republic of Yugoslavia (FRY) sold Iraq anti-aircraft systems, military vehicles, artillery, ammunition, and maintenance systems, and conducted maintenance on Iraqi military equipment.⁷ The cooperation included joint development of a

⁶ UN Security Council Resolutions 661 (6 August 1990) and 687 (3 April 1991). The FRY also has relevant international obligations as a party to several arms control treaties, most importantly the Nuclear Non-Proliferation Treaty of 1970 (NPT), the Geneva Protocol of 1925 and the more restrictive Chemical Weapons Convention of 1997 (CWC), and the Biological and Toxin Weapons Convention of 1972 (BTWC). The NPT, which includes safeguard agreements in force with the International Atomic Energy Agency (IAEA), prohibits acquisition, manufacture or transfer of nuclear weapons, nuclear explosive devices or control devices but permits possession of nuclear materials for peaceful uses. The CWC prohibits use, development, production, acquisition, transfer or stockpiling of chemical weapons. The BTWC prohibits development, production, stockpiling or acquisition of microbial or other biological agents or toxins in types or quantities beyond usage for prophylactic, protective or other peaceful purposes and use and development, production, acquisition and transfer of weapons or delivery equipment designed to use these agents and toxins.

⁷ "Mi Jugosloveni izgradili smo podzemne rezidencije za Sadama u 10 gradova Iraka," *Nedeljni Telegraf*, 16 October 2002.

long-range artillery system (the Orkan) and the improvement of SCUD ballistic missiles as well as the joint development of chemical munitions.⁸ It was generally thought, however, that with the overthrow of the Milosevic regime on 5 October 2000, the new Democratic Opposition of Serbia (DOS) government had halted the practice.

Since the Orao affair came to light, however, the Belgrade press has published a series of allegations – based on leaked documents – that indicate a pattern of continuing FRY weapons sales to Iraq. In most instances, the government has grudgingly admitted the veracity of allegations or elected not to comment. From ICG research as well as those accounts, it appears that all ongoing post-Milosevic weapons sales to Iraq operated under the code name Zora (Dawn) and were in fields in which there had been pre-1990 cooperation. Iraqi delegations visited the FRY at least as recently as August 2002, and FRY military and technical personnel remained active in Baghdad until the Federal government ordered the shut-down of the Jugoimport-SDPR office on 23 October 2002.

In addition to weapons and military equipment manufactured in the FRY, the Jugoimport-SDPR office in Baghdad also sold Iraq weapons and equipment originating in Bosnia, Russia, Ukraine, and possibly other countries including Macedonia and Belarus.⁹ It may well prove impossible to ascertain the exact quantities and types of weapons sold by the FRY to Iraq during 2001-2002 and all related activity. However, from press accounts confirmed by ICG interviews and other ICG research, we know at least the following with substantial confidence:

- In July 2002 approximately twenty Yugoslav Navy officers from the Vojni Remontni Zavod (Military Repair Facility) in Tivat, Montenegro, visited Iraq, where they spent two weeks examining Iraqi naval vessels and electronic systems, and making repairs. Yugoslav officers are not permitted to travel outside the country

without express written permission from the General Staff.¹⁰

- The Sloboda factory in Cacak has run a “cash and carry” business with Iraq for various types of weapons, including anti-aircraft artillery shells.¹¹
- On 22 October 2002 Croatian authorities seized a Montenegrin-registered freighter – the Boka Star – that had sailed from the Montenegrin port of Bar to the Croatian port of Rijeka.¹² The Boka Star carried a cargo of 208 tons of nitrocellulose propellant and nitroglycerin, the base for solid propellant rocket fuel, falsely labelled as active coal.¹³ The cargo allegedly belonged to Jugoimport-SDPR and was destined for Iraq via Syria. The U.S. government requested the Croatian government to seize the ship, as it felt the FRY authorities would not do so.¹⁴
- Throughout 2001 and 2002, ships from the Montenegrin ports of Bar and Tivat and the Croatian port of Ploce carried Jugoimport-SDPR cargos bound for Iraq. These ships would sail to Rijeka in Croatia or Koper in Slovenia, where either the cargos were trans-shipped, or the paperwork was “laundered,” so that the FRY would not appear as the country of origin.¹⁵
- According to documents leaked to the Belgrade press and confirmed to ICG by a high-level DOS source, shipments to Iraq from the Montenegrin port of Bar included thousands of tons of smokeless gunpowder, machine guns, ammunition of various calibres, parts for military vehicles, compressors, motors for military aircraft, and other assorted military equipment.¹⁶ FRY sources have told ICG that chemical weapons or their precursors were included in these shipments.¹⁷

⁸ See “The Fate of Yugoslavia’s Military Industry” *Jane’s Intelligence Review*, March 1993. “The Fall and Rise of Bosnia’s War Machine”, *Jane’s Intelligence Review*, January 1997. “Suspicion widens in arms to Iraq probe”, *Janes Defence Weekly*, 6 November 2002.

⁹ ICG interviews with Western defence analyst and with a high-level DOS source.

¹⁰ ICG interviews with VJ officers.

¹¹ ICG interview with a U.S. State Department source. “Iracka veza”, *Vreme*, 31 October 2002.

¹² A high-level DOS member has suggested to ICG that top Montenegrin officials may be shadow owners of the *Boka Star*.

¹³ “Suspicion widens in arms to Iraq probe”, *Janes Defence Weekly*, 6 November 2002.

¹⁴ “Yugoslav Arms Ties to Iraq Draw Scrutiny”, *The Washington Post*, 1 November 2002.

¹⁵ ICG interview with a Western defence analyst. “Boka Star plovi za Jugoimport”, *Blic*, 25 October 2002.

¹⁶ “Boka Star plovi za Jugoimport”, *Blic*, 25 October 2002.

¹⁷ ICG interviews with leading Belgrade political figures. ICG’s U.S. Department of State sources have been more cautious about such assertions.

- ❑ Some of the weapons and material in question, including 200 tons of weapons transferred to Liberia during summer 2002 despite a UN embargo, came from VJ stocks.¹⁸ The administrative centre for VJ stocks is located in the same building as Jugoimport-SDPR.
- ❑ Jugoimport-SDPR weapons shipments passed through the Montenegrin port of Bar under the supervision of Montenegrin State Security forces.¹⁹ They typically went to Iraq through the Syrian port of Tartous or through Lebanon.²⁰
- ❑ Jugoimport-SDPR appears to have contracted for and sold Bosnian-manufactured weapons to Iraq with the cooperation of at least the following: the Bosnian Muslim companies Unis-Pobjeda (munitions) and Zrak (optics), and the Bosnian Croat companies Vitezit (explosives) and BNT (heavy artillery, Orkan systems), as well as the Republika Srpska company Kozmos (maintenance and adaptation of SA-2 and SA-6 anti-aircraft missiles).²¹
- ❑ The head of the Jugoimport-SDPR office in Baghdad – now reportedly closed – was a Yugoslav Army Colonel, Krsto Grujovic.²²
- ❑ The FRY appears to have sold anti-aircraft defence systems to Iraq, including short-range homing radar, artillery, and missiles.²³
- ❑ As of 15 January 2002, the FRY had construction contracts (primarily for defence-related facilities, such as bunkers) with Iraq worth more than U.S.\$120 million.²⁴

According to diplomatic sources, the pace of arms sales to Iraq may have increased during 2002.²⁵ There are also questions regarding the activities of other parts of the FRY defence industry, particularly the Krusik complex in Valjevo.

III. NUCLEAR MATERIALS AND TECHNOLOGY

In 2000 the *Bulletin of Atomic Scientists* asserted that the FRY profile “increasingly resembles that of past proliferators”, and warned specifically of possible FRY nuclear collaboration with Iraq. In 2000 the FRY had approximately 50 kilograms of fresh weapon grade uranium fuel, left over from a nuclear weapons program that had ended in 1987, and ten kilograms of irradiated highly enriched uranium. The fresh fuel was enriched to 80 per cent uranium 235 and consisted of 5,046 fuel elements. Spent fuel could have produced an additional five kilograms of plutonium.²⁶

A number of officials at the Vinca storage facility east of Belgrade apparently expressed concern to the International Atomic Energy Agency (IAEA) over lax security, consisting essentially of a lone guard and a barbed wire fence. Vinca was considered “deficient in modern physical protection, material control, and accountancy measures”.²⁷

In July 2002 the FRY government unexpectedly announced the immediate transfer of the stockpiled fuel rods from Vinca to a Russian storage site, an operation paid for by the U.S. government. The material was moved out in the middle of the night in a heavily guarded convoy. Although local defence analysts speculate that the reason for the sudden action was that some material had either been sold on the black market or offered for sale,²⁸ the IAEA expresses confidence that all the nuclear fuel was accounted for.²⁹

Sources in FRY scientific circles have told ICG that FRY nuclear technicians may have travelled to North Korea. The FRY does have a public record of attempted cooperation with North Korea on developing missile technology. In 1993 Chief of Staff General Zivota Panic announced that FRY would purchase parts from Iraq and North Korea to develop and manufacture missiles with a range of 600-1000 kilometres. Although the program was

¹⁸ “Report of the Panel of Experts appointed pursuant to [United Nations] Security Council resolution 1408 (2002)”.

¹⁹ “Boka Star plovi za Jugoimport”, *Blic*, 25 October 2002.

²⁰ ICG interview with high-level DOS member.

²¹ ICG interview with a defence analyst.

²² “Smenjeni generali Cekovic i Djokic”, *Blic*, 23 October 2002.

²³ ICG interview with Yugoslav defence analyst. “Boka Star plovi za Jugoimport”, *Blic*, 25 October 2002

²⁴ Document of 18 January 2002, from the Yugoslav Federal Ministry of Foreign Affairs, #4773 with attachment 2002/4460 in possession of ICG.

²⁵ ICG interviews in Belgrade.

²⁶ “Tito’s nuclear legacy”, *Bulletin of Atomic Scientists*, March/April 2000, Vol. 56, N°2, pp. 63-70. The number of fuel elements (5,046) was communicated to ICG by the IAEA in November 2002.

²⁷ *Ibid*, pp. 63-70.

²⁸ ICG interviews with local defence analysts.

²⁹ IAEA communication to ICG, November 2002.

never realised, it indicates the close ties that existed.³⁰ Zivota Panic is still actively involved in arms trade through the company Intor.³¹

IV. CHEMICAL WEAPONS TECHNOLOGY

The Belgrade press has published allegations that the FRY sold chemical and biological³² equipment to “the Middle and Near East” (code for Iraq and Libya).³³ FRY politicians with connections to President Kostunica’s cabinet and KOS (military counter-intelligence) have told ICG in off-the-record interviews that chemical munitions and chemical precursors were indeed sold in the last two years. Yugoslavia did have significant stocks of chemical munitions and their precursors, and the Serbian Helsinki Commission for Human Rights claims that the VJ used prohibited chemical agents (Sarin) in 1999 against the Kosovo Liberation Army.³⁴

Yugoslavia possessed a significant chemical manufacturing capacity prior to 1991, and had manufactured Sarin, sulphur mustard gas, BZ and CS psychochemical incapacitants, and Tabun, Soman, and VX nerve agents. Some of these were produced at the Vojno-Tehnicki Institut (VTI) factory in Potoci (which produced 4.5 tons of Sarin) near the Bosnian city of Mostar in the 1980s. Iraqi scientists regularly visited Potoci during that decade for joint research on chemical weapons.³⁵

Prior to the Gulf War, Yugoslavia developed chemical munitions under the “Little Hawk” program, including for artillery (122mm, 152mm, and 155mm) and air-delivered bombs. Under the KOL15 program Yugoslavia developed chemical munitions for the Orkan (multiple-barrel long-range artillery rocket system, produced in cooperation with Iraq and with Iraqi financing).³⁶ These operations

³² As indicated in what follows, there appears to be justification for these allegations in relation to chemical weapons. ICG research has not confirmed any activity in relation to biological weapons. The latter, therefore, are not further discussed in this report.

³³ “Boka Star plovi za Jugoimport”, *Blic*, 25 October 2002

³⁴ “Opasna Bagdadska veza”, *Helsinki povelja*, October 2002.

³⁵ See “The Fate of Yugoslavia’s Military Industry” *Jane’s Intelligence Review*, March 1993. “The Fall and Rise of Bosnia’s War Machine”, *Jane’s Intelligence Review*, January 1997. *Globus* (Zagreb) 16 April 1999. ICG interview with Western defence analyst.

³⁶ See “The Fate of Yugoslavia’s Military Industry” *Jane’s Intelligence Review*, March 1993. “The Fall and Rise of Bosnia’s War Machine”, *Jane’s Intelligence Review*, January

³⁰ Milan Vego, *Jane’s Intelligence Review*, 12/93, pp. 541-546.

³¹ “Koji sve generali Vojske Jugoslavije po svetu trguju oruzjem”, *Radio B92*, 25 October 2002.

took place at the Potoci factory. Given the presence of Iraqi specialists at Potoci, the partnership on developing the Orkan system, the Yugoslav success at manufacturing chemical-capable Orkan rockets, and the export of several thousand Orkan rockets to Iraq in the late 1980s, it is possible that technical cooperation extended to converting Iraqi Orkan rockets for chemical warheads. Whether and how closely pre-1991 cooperation continued in the Milosevic and post-Milosevic era has yet to be answered by Yugoslav authorities.

In 1992 the Yugoslav People's Army (JNA) dismantled the Potoci factory and shipped it to the Milan Blagojevic plant in the western Serbian town of Lucani, where another chemical factory existed.³⁷ Since that time, it appears that the factory has been moved, at least in part, to Krusevac, where it was re-established in the compound of the Trajal tyre factory.

During the 1999 NATO bombardment, the Trajal factory is alleged to have manufactured Sarin.³⁸ The FRY Ministry of Defence claims in an official statement that the Potoci factory first arrived in Lucani and was later reassembled in Krusevac at Trajal for civilian purposes. It also states that the factory never produced chemical weapons and did not have the capacity to fill munitions with such substances.³⁹ FRY officialdom, however, does not have its story straight concerning the factory's whereabouts, what it manufactured, where all its equipment is located, and even whether or not all the equipment is accounted for or whether any of it has been sold. The FRY Ambassador to the Stability Pact, Prvoslav Davinic, has partly contradicted the Ministry of Defence, stating publicly that the FRY never produced chemical weapons or their precursors, that the factory was never reassembled, and that the equipment from Potoci is still sitting in unopened crates.⁴⁰ A U.S. State Department source told ICG that the Potoci equipment is in crates in Trajal and has been shut down and that the FRY is

seeking international assistance to disassemble the equipment, destroy it, and clean up the compound.

In addition to the "Potoci" factory, Serbia has chemical manufacturing facilities that can produce the precursors for chemical weapons in Baric (Prva Iskra), Lucani (Miloje Blagojevic), and Krusevac (Merima). These all manufactured similar agents to those at Potoci. Lucani appears to have turned out at least 50 tons of Sarin and is thought to be a principal storage facility for chemical weapons.⁴¹ A number of unexplained civilian deaths occurred in the Baric area during and after the 1999 NATO bombardment, possibly as the result of a NATO strike on a chemical weapons storage bunker.⁴²

In 1992 the old Yugoslav Army removed its entire chemical weapons depot from the Sarajevo suburb of Hadzici to Serbia.⁴³ These stocks – which included chemical munitions – are unaccounted for, a cause for serious concern given the extent to which other VJ assets have leaked into the international arms market.

Over the past two years the Organisation for the Prohibition of Chemical Weapons (OPCW)⁴⁴ has been visiting the Trajal plant. It appears that the plant has been shut down and that for at least this period, the factory has not manufactured precursors to chemical weapons.⁴⁵ However, there is no accounting for previous activities, including whether precursors that may have been produced are still in the country, have been weaponised, or have been sold. Nor has there been an accounting of the products from the other three chemical factories.

1997. *Globus* (Zagreb) 16 April 1999. ICG interview with anonymous defence analyst.

³⁷ Yugoslav Ministry of Defence open letter published in *Blic News* 16 October 2002.

³⁸ ICG interviews with former FRY chemical industry source and high-level DOS source.

³⁹ Yugoslav Ministry of Defence open letter published in *Blic News* 16 October 2002.

⁴⁰ "SRJ nema bojne otrove", *Poliitka*, October 2002.

⁴¹ Federation of American Scientists, <http://www.fas.org/nuke/guide/serbia/cw/index.html>.

⁴² ICG interview with VJ personnel.

⁴³ See "The Fate of Yugoslavia's Military Industry" *Jane's Intelligence Review*, March 1993. "The Fall and Rise of Bosnia's War Machine", *Jane's Intelligence Review*, January 1997.

⁴⁴ The OPCW is the organisation established by the parties to the 1997 Chemical Weapons Convention to help implement the provisions of that agreement, including by checking and confirming the destruction of such weapons and by monitoring chemical industry activities. Its on-line site can be consulted at www.opcw.org.

⁴⁵ ICG interview with a U.S. State Department official.

V. CRUISE MISSILE TECHNOLOGY

One of the main claims of the U.S. Embassy's October 2002 non-paper is that the FRY assisted Libya and possibly Iraq to construct a "long-range missile". The Embassy specifically referred to a contract signed in February 2000 with Libya, and to the continued presence of FRY missile specialists in Iraq since spring 2001. One Yugoslav scientist involved had worked on the SCUD missile program when the Yugoslavs were helping the Iraqis extend the range of that weapon in the 1980s. It appears that much of the recent assistance was aimed at developing propulsion systems with technologies (involving either solid fuel rocket motors or turbo-jet engines) that are often associated with cruise missiles.⁴⁶

Although FRY officials initially scoffed at the possibility that the FRY had sufficiently high technology to engage in such efforts, the Dean of Belgrade University's Technical Engineering Faculty has claimed that FRY scientists do possess the know-how and technology to build engines for cruise missiles.⁴⁷ Technical sources in Belgrade have told

⁴⁶ It should be noted that neither the October 2002 U.S. non-paper nor subsequent ICG research and press coverage has clarified the range, or potential range, of the systems in question. "Long-range" is not a precise term when applied to either missile or artillery systems. The original SCUD missile system (SCUD B) that Iraq obtained from the Soviet Union in the 1970s and 1980s had a 300-kilometre range. Iraq was able to modify it successfully to achieve a missile (the Al-Hussein) with a range of 650 kilometres, sufficient to reach Tehran during the war with Iran. It also attempted to modify or otherwise utilise the SCUD system to produce missiles of somewhat greater range than the Al-Hussein and with various payload capacities. Security Council resolutions subsequent to the Gulf War have required Iraq to give up for destruction all missiles with a range greater than 150 kilometres. See "Iraq's Missiles: A Brief History", from the Iraq Watch Website, www.iraqwatch.org/wmd/missile. Cruise missiles are not generally regarded as long-range, though the term needs to be considered in relative and geographic contexts. The very sophisticated Tomahawk cruise missile that the U.S. deploys has a range of 1,700 kilometres, considerably in excess of the various less sophisticated cruise missile systems that a number of Middle Eastern states possess. See Monterey Institute of International Studies, "Longest-Range Cruise Missiles Deployed in the Middle East", at www.cns.miis.edu/research/wmdme/ch_crdep.htm. As a general matter, it can be assumed that a long range artillery system (e.g., the Orkan) has considerably less range than a ballistic missile system.

⁴⁷ "Krivušić: Jugoslovenski inženjeri dovoljno stručni, Radio B92, 28 October 2002.

ICG that FRY scientists have developed a model of a turbojet engine with a diameter small enough to fit in a cruise missile.⁴⁸

The FRY has related areas of technical expertise. Prior to the break-up of Socialist Yugoslavia, FRY scientists had a relatively sophisticated Remotely Piloted Vehicle (RPV) program, which had developed a delta-wing pusher-propeller model. Yugoslav scientists were also relatively advanced in microburst radio transmission technology at the time.⁴⁹ The Teleoptik firm in Zemun produces gyroscopes of sufficient accuracy to guide a missile to within one kilometre of its target after approximately 1,000 kilometres of level flight,⁵⁰ a factor of error that could be insignificant if the payload was a weapon of mass destruction.

The Belgrade press has also carried allegations that FRY scientists have helped the Iraqis use RPV technology to turn Iraq's antiquated MiG-21 fleet into pilotless aircraft that could be used as cruise missiles. Although the MiG-21 is an unlikely candidate for such a program, given its difficult control characteristics, the Iraqis do possess Czech Aero Vodochody L-29 and L-39 trainers that can be easily modified and possess the necessary characteristics.⁵¹

The combination of these technologies might enable a country to build a poor man's cruise missile, without a sophisticated guidance system but capable of being flown to the target in the same manner as an RPV, or set on course via gyroscope.

⁴⁸ ICG interview with FRY technical source.

⁴⁹ ICG interview with Western defence analyst.

⁵⁰ ICG interview with Western defence analyst.

⁵¹ See the Central Intelligence Agency Report "Iraq's Weapons of Mass Destruction", October 2002. Also ICG interview with Western defence analyst.

VI. WHO IS RESPONSIBLE?

The Orao disclosures are a window into the true nature of power relations in Yugoslav politics. Today's Yugoslavia consists of two powerful Republic governments – Montenegro and Serbia – and a weak Federal Yugoslav government. The only elements of real strength in the Federal government are the Yugoslav Army (VJ), the customs service, and control over the weapons industry. Kostunica is the President of the Council for National Security, which controls the VJ. He has taken a relatively active interest in the affairs of the VJ and has maintained a close relationship with its counter-intelligence (KOS) chief, General Aco Tomic. Some politicians in the Federal government clearly knew about illegal weapons sales to Iraq as early as summer 2001, yet did nothing to halt them. Others, such as Foreign Minister Goran Svilanovic, apparently did try to take action.

In July 2001 the U.S. government initiated bilateral consultations with the FRY on weapons proliferation. Both the FRY Ministry of Defence and Jugoimport-SDPR had representatives at the meetings. At this time the U.S. made representations to the FRY that Yugoslav firms were engaging in arms exports to Iraq.⁵² As a result of these meetings, Ambassador Prvoslav Davinic was fully aware of U.S. allegations of arms sales to Iraq, as were the Defence Ministry and Jugoimport-SDPR. Apparently to placate the U.S., the Defence Ministry made what now appear to have been purely cosmetic efforts to restrict the export regime while the activity in fact continued.⁵³

In mid-January 2002 the Yugoslav Federal Ministry of Foreign Affairs presented a document to a meeting of the Federal government entitled "Information on certain problems in military-economic cooperation with countries of the Near and Middle East and Africa and their implications for the international position of the Federal Republic of Yugoslavia".⁵⁴ This document stated that the FRY

was involved in arms sales to countries in the Middle East, including Iraq, that the U.S. government had made official representations as early as July 2001 and had already sent a "non-paper" to the Yugoslav government discussing the matter. The document warned that continued trade with Iraq could damage the progress the FRY had made in reintegrating into international institutions since the downfall of Milosevic, as well as affect seriously bilateral relations with the United States.

The Foreign Ministry document made particular mention of the issue of chemical weapon proliferation and recalled that the FRY had undertaken international obligations in this regard. It urged the development of better bilateral relations with the U.S., particularly in the war against terrorism. To avoid having the FRY lumped together with other "risky countries", the document recommended that the "FRY's highest government institutions pay special attention to this problem", so as to "fulfil the foreign policy priorities of the FR Yugoslavia". The foreign policy priorities of the FRY at this point were membership in NATO's Partnership for Peace and the Council of Europe, as well as signing a Stabilisation and Association Agreement with the EU.⁵⁵ This document was adopted at a Federal government session in January 2002 at which most ministers were present.

In spite of this, it does not appear that the responsible Federal ministries or institutions acted on this decision or information. Because no action was taken, on 16 August 2002 the Foreign Ministry sent a circular letter to the Federal Ministry of Internal Affairs, the Federal Defence Ministry, the Federal Customs Authority, the General Staff of the Army, the Serbian Interior Ministry, and the Montenegrin Interior Ministry, in which it warned that as a member of the UN, it was illegal for the FRY to trade in arms with Iraq as well as with several other countries under UN sanctions.⁵⁶ Still, authorities took no action.⁵⁷ It is uncertain at what level this second Foreign Ministry document actually circulated within the various elements of government.

⁵² Document of 18 January 2002, from the Yugoslav Federal Ministry of Foreign Affairs, #4773 with attachment 2002/4460 in possession of ICG.

⁵³ "Drzava se distancira od Jugoimporta", *Danas*, 24 October 2002. "Boka Star plovi za Jugoimport", *Blic*, 25 October 2002.

⁵⁴ Document of 18 January 2002, from the Yugoslav Federal Ministry of Foreign Affairs, #4773 with attachment 2002/4460 in possession of ICG.

⁵⁵ ICG interviews with FRY Foreign Minister Goran Svilanovic.

⁵⁶ Letter of 16 August 2002, from the Yugoslav Ministry of Foreign Affairs, #415148, in possession of ICG.

⁵⁷ ICG interviews with Minister of Foreign Affairs Goran Svilanovic.

Jugoimport-SDPR is controlled by the Yugoslav Federal government. Its board of directors has ties to all the leading political parties in Yugoslavia, and it has been referred to as a “state within a state”.⁵⁸ Serbian Interior Minister Dusan Mihajlovic of the New Democracy Party (ND) is chairman of the board of directors. Board members include Federal Interior Minister Zoran Zivkovic of Zoran Djindjic’s Democratic Party (DS), Federal Minister of Defence Velimir Radojevic of the (Montenegrin) Socialist People’s Party (SNP), and former Federal Minister of Economy Jovan Rankovic, nominated by Kostunica’s Democratic Party of Serbia (DSS). Jugoimport-SDPR was responsible for handling all the deals made with Iraq under the UN Oil for Food program.⁵⁹

The weapons factories in question were not controlled by private owners, nor by the normal Yugoslav system of “social ownership”, whereby the Republic government (or in some cases municipal governments) appoint the board of directors. Rather, they came under the direct control of the Yugoslav Federal government. The weapons stocks of the VJ are controlled both by the VJ and the Federal Strategic Reserve.⁶⁰

Given the extensive and organised nature of the weapons sales, as well as the need for involvement of numerous actors in both the military and government, high levels of the Yugoslav and Serbian political and military establishment would need to have been involved in the “Zora” operation with Iraq, at least tangentially. Radojevic, Mihajlovic, and Zivkovic, as well as FRY Prime Minister Dragisa Pesic and the head of Military Counter-Intelligence, General Aco Tomic, have all claimed that they knew nothing. This is difficult to believe if formal operating procedures were followed.

The FRY Defence Ministry is required to sign off on all foreign arms sales. In fact, five separate signatures from the Ministry of Defence are required for each arms export transaction. These include: 1) the Department for Research, Development and Production; 2) the Department for Procurement; 3) Army Quality Control; 4) Military Intelligence; and 5) the Deputy Defence Minister (then Ivan Djokic, who has since been fired for his role).⁶¹ Many of the weapons passed through the military port at Tivat in Minister Radojevic’s home republic of Montenegro. In addition, the Ministry of Defence requires all VJ staff trips to be approved by the Sector for Military-Economy Activities, of which Djokic was also head.

Each cargo required paperwork from the Federal Customs Authority. High-level DOS and government sources have told ICG that the cargos were usually deliberately mislabelled and incorrectly identified on their customs documents. The Serbian, Federal and Montenegrin Interior Ministries played a role escorting these shipments through the country and to the ports of Bar and Tivat.⁶²

Radojevic – as Defence Minister and board member of Jugoimport-SDPR, and through his close ties inside the military – must have been aware at least of an ongoing drawdown from VJ stocks, the use of VJ ports, and the travel of VJ officers and military scientists to Iraq.

Mihajlovic – given his position as Chairman of the Board of Jugoimport-SDPR, the extensive intelligence network at his disposal as Serbian Minister of the Interior, and indeed his previous participation in Milosevic’s coalition government before mid-1999 – also had ample opportunity to have known of the weapons sales. If he did not, his failure to exercise control over the activities of Jugoimport-SDPR and inform both the Federal and Republic authorities of illegalities raises serious questions about his competence as Chairman of the Board.

The Federal Ministry of the Interior was gutted under Milosevic. Nevertheless, it still maintains an information network that should have enabled it to know about the shipments to Iraq. Zivkovic, as its minister as well as a Jugoimport-SDPR board member, should not have been ignorant of these activities.

⁵⁸ ICG interview with a high-level DOS source.

⁵⁹ “Oprezno sa zakljucima”, *Blic*, 23 October 2002. In theory Jugoimport is only an arms firm but it has branched out into other areas that might have military applications, of which Oil for Food was one. In many cases the Oil for Food program appears to have been used by Jugoimport as a cover for its arms trade with Iraq.

⁶⁰ The Federal Strategic Reserve is a Federal government organisation housed in the same building as Jugoimport. Its purpose is to maintain stockpiles of fuel, food, munitions, weapons, and other materials that the FRY would need in the event of a war.

⁶¹ ICG interview with a high-level DOS source.

⁶² *Ibid*.

Pesic, the Federal Prime Minister, has close ties to the military and close party ties to Radojevic. The probability that he knew of the weapons sales is increased by the fact that they transited his home republic of Montenegro. It is likewise improbable that Rankovic – as a board member of Jugoimport-SDPR – knew nothing or, if he was aware, would have failed to inform President Kostunica, who nominated him to that post.

Given the size and sophistication of his intelligence network, as well as his legal responsibility to sign off on weapons exports, General Tomic likewise should have had knowledge, and it was his duty to inform the General Staff. In addition, Tomic should have informed the President (with whose cabinet of advisers he has exceptionally close relations), the Federal Prime Minister, the Foreign Minister, and the Federal Interior Minister, all of whom claim they knew nothing.

For the aforementioned individuals, the best that can be claimed in their defence would seem to be incompetence and negligence to a degree that should result in their immediate removal at least from the Jugoimport-SDPR Board of Directors and have implications for their political careers. They should be called upon to give a clear accounting as to why they permitted actions to endanger Yugoslavia's national interest and its reintegration into international institutions or, in the alternative, how they could have failed to use their positions to be aware of such actions.

General Jovan Cekovic, who was sacked as operating head of Jugoimport-SDPR as a result of the scandal, has accused Serbian Vice-President Nebojsa Covic of being aware of and involved in Zora.⁶³ The Deputy Minister of Defence fired for his role in the scandal – General Ivan Djokic – has been closely linked to Covic, who indeed continues to support him.⁶⁴ Djokic was required to sign off on all weapons exports as well as permissions for VJ personnel to travel to Iraq.⁶⁵ Although Covic's role in the entire affair remains ambiguous,⁶⁶ he has taken a high profile lead role in pushing the government to clean up the Jugoimport-SDPR mess and halt illegal arms sales.

Given the weight of evidence, including the official internal correspondence, serious questions arise as to what Federal President Kostunica – although now reportedly extremely cooperative with U.S. investigators⁶⁷ – knew and when he knew it. Similar questions must be asked with respect to the knowledge of Kostunica's arch political rival, Serbian Premier Djindjic.

At the least, there is no indication that either the Yugoslav Federal or Serbian Republic governments even attempted a credible investigation into the U.S. charges in 2001 or at any time before the Orao raid. This may represent unwillingness but also possibly impotence on the part of politicians compromised by association with and reliance on criminal elements. Even as of this writing, the parliament has yet to form an investigative committee, and Federal Interior Minister Zoran Zivkovic appears to be discouraging such attempts.

The U.S. government seems to have concluded that important elements of the FRY and Serbian leadership were aware of the arms sales and were unwilling or unable to stop them at least as recently as October 2002, when it turned to Croatia to halt the *Boka Star*.

⁶³ "Avioni, caj i pekmez", *Politika*, 24 October 2002.

⁶⁴ ICG interview with high-level DOS source.

⁶⁵ "Vojni vrh znao za put oficira u Irak", *Blic*, 29 October 2002.

⁶⁶ ICG interview with U.S. State Department source.

⁶⁷ ICG interview with U.S. State Department source.

VII. A COVERUP?

First reactions after the scandal broke suggested FRY authorities were not taking the matter very seriously. President Kostunica called on officials in the Federal government not to “snitch”⁶⁸ on each other, and suggested the affair involved nothing more than obsolete aviation parts. In spite of the several Foreign Ministry and U.S. warnings and representations to the government in 2001 and earlier in 2002, he claimed he knew nothing of the arms sales until they reached the media in late October 2002.⁶⁹ He also stated that some arms smuggling was to be expected, given that the FRY was under sanctions for many years, and asked that the matter be kept in context. He pointed out that his party (DSS) holds no cabinet positions in the Federal government (though a DSS appointee – Rankovic – sits on the Jugoimport-SDPR board) and most recently said there had been no trade with Iraq through official channels since autumn 2000.⁷⁰ A high-ranking DSS member and vice-president of the DSS shadow government claimed it was not the Federal President’s responsibility to oversee the work of public companies.⁷¹

In reaction to the international uproar, the Federal government did immediately remove General Cekovic as operating head of Jugoimport-SDPR, as well as the deputy minister of defence, General Djokic.⁷² It also ordered Jugoimport-SDPR to close its Baghdad office. Cekovic was not actually fired. Rather, he was dismissed as director of Jugoimport-SDPR and reassigned as a special adviser to the new director. Given that Cekovic was in charge of day-to-day dealings at Jugoimport-SDPR, he probably knows more details of the affair than anyone else in the FRY. Only later – after strong U.S. pressure – was he definitively removed from the company.

⁶⁸ “Vojislav Kostunica, Nepotrebno dodatno komplikovati situaciju”, *Blic*, 24 October 2002.

⁶⁹ *Ibid.*

⁷⁰ On 29 November 2002, President Kostunica asserted that “There has been no trade in military equipment with Iraq through official channels since autumn 2000. On the other hand, the FRY did take part in the UN Oil for Food program. And it is known that the FRY government formed a commission to examine economic relations with Iraq, partly at my insistence”. “Yugoslav president says official arms trade with Iraq stopped two years ago”, *Blic*, 29 November 2002, reported by BBC Monitoring European.

⁷¹ “Drzava se distancira od Jugoimporta”, *Danas*, 24 October 2002.

⁷² “Oruzje trese drzavni vrh”, *Blic*, 24 October 2002.

On 29 October 2002, the Federal government formed a state commission to look into the arms-to-Iraq charges. The members include Zivkovic and Radojevic, which raised at once a query about at least the appearance of impartiality. Zivkovic’s initial statement on assuming the chairmanship acknowledged that the FRY was in breach of relevant UN Security Council resolutions, but claimed this was “because of imprecise regulations that resulted in different interpretations”.⁷³ Foreign Minister Svilanovic was later appointed to the commission to make it appear less compromised.

Mihajlovic announced that his Serbian Interior Ministry would investigate the affair and examine all documents and contracts signed by Jugoimport-SDPR over the previous twelve months. Since many of the contracts with Iraq appear to have been signed before mid-2001, they would escape this time frame. Because this effort originates from the Republic of Serbia Interior Ministry rather than the Federal Interior Ministry, it will not necessarily have access to Federal records, nor be able to search the factories in question or subpoena Federal government witnesses or VJ officers, all of whom are under Federal jurisdiction. Although the Serbian Interior Ministry’s investigative arm does have the power to look into most of the private firms involved in the arms trade, as of yet there has been no public indication of such activity.

A U.S. government investigative team arrived in Belgrade in mid-November 2002. Zivkovic, as Federal Minister of the Interior, has the legal authority to open archives and other sources of information for it. The quality of his involvement will in large part determine the ability of these investigators to gain free access to documents and information, especially the military archives at the Vojno-Tehnicky Institut relating to cooperation with Iraq.⁷⁴ As of this writing cooperation – although formally correct – does not appear to be as comprehensive as the U.S. had hoped. Information has reached ICG that some key documents may have been destroyed at the Vojno-Tehnicky Institut prior to the arrival of the U.S. team.⁷⁵

VJ officers were at the centre of Jugoimport-SDPR’s activities with Iraq. The army’s own inventories

⁷³ “Bilo krsenja embarga zbog nejasnih propisa”, *Radio B92*, 4 November 2002.

⁷⁴ ICG interview with military analyst.

⁷⁵ ICG interview.

were reduced by the sales, and its General Staff was required to approve foreign travel for officers. The *Boka Star* used military ports at Bar and Tivat, and numerous current and former generals appear to have some degree or another of involvement with the affair, as do factories under VJ control. Nevertheless, the acting Chief of the General Staff, General Branko Krka has said publicly that the VJ had nothing to do with the weapons sales⁷⁶ and has yet to announce any internal VJ investigation.

Domestically, the arms scandal has become another episode in the struggle between Djindjic and Kostunica. It can be expected that at least their camps will be tempted to approach the issues of full disclosure and remedial measures in the first instance by calculating partisan implications.

The arms scandal also occurs at a time when power is shifting anyway from the Federal to the Republic level. This transformation will have as yet uncertain results for both the military and arms traders. As the Republic is sure to have an increased say in the future operations of Yugoslavia's military-industrial complex, however, the VJ General Staff and the Ministry of Defence appear to be engaged in a bureaucratic war over who will control the profits from weapons sales. As arms traders and their associates seek allies who can help them in the newly fluid situation, old loyalties seem to be disintegrating rapidly. The new ones will be based entirely on the perceived ability of any individual politician to protect financial flows.

The opportunity the scandal has created for the international community is to press for a clear and full accounting and to force the removal from power of those implicated in the affair. If this happens, the old military-criminal nexus in Belgrade will be significantly weakened and reformers within the government correspondingly strengthened. But without significant, sustained pressure from outside, the strong probability is that the government will attempt to maintain the status quo by offering up a few sacrificial lambs such as Djokic and Cekovic, without undertaking substantive structural reforms or punishing those ultimately responsible, whoever they may turn out to be.

VIII. WHY NO ACTION?

Given that at the least many senior FRY political figures either had, or should have had, knowledge about the nature of the problematic arms deals with Iraq and others because of warnings from the U.S. or the Foreign Ministry or as a consequence of their formal positions, the question arises as to why they did not intervene before the scandal became public. The links between suspected arms traders, political parties and politicians may provide a clue.

The state-controlled Jugoimport-SDPR, the leadership of which has been described above, is the most important FRY firm that engages in the arms trade and the one that is central to the present scandal. However, there are approximately 30 other firms in the country, all private, that are engaged in one aspect or another of the arms trade business (though not necessarily with the deals at question in the current scandal). Most are associated with active duty or retired generals or leading politicians.

Another possible partial answer for why the arms deals continued until the scandal broke as a result of outside action is the relationship – some might even say interdependency – between the current Federal and Republic governments and criminal elements left over from the Milosevic regime.

DOS replaced rather than overthrew Milosevic on 5 October 2002, in agreement with key elements that had supported the dictator. These included the thoroughly criminalised Interior Ministry, the partially criminalised Army, and the highly corrupt Federal and Republic bureaucracies and judiciaries. The DOS victory depended on the security forces of the *ancien régime* that jumped ship. To bring them into their camp, DOS politicians were forced to make unpleasant compromises that came back to haunt them. Jovica Stanisic – once secret police boss under Milosevic and the second most powerful man in Serbia – must have played a crucial role in this process, particularly since those people appointed to the intelligence service of the Serbian Interior Ministry (DB) or responsible for questions of state security after DOS came to power – such as Zoran Janjusevic – were all closely associated with him and his so-called DB “Military Line”.

Many Yugoslav security forces, particularly those associated with the DB, were built on the base of paramilitary organisations that engaged in

⁷⁶ “Vojska čista oko Iraka i Haga”, *Radio B92*, 18 November 2002.

significant atrocities during the wars of the 1990s. Many of these were comprised of former criminal elements, and many former paramilitaries used their close ties to these organisations and to the DB to further their own criminal careers. For their parts, the DB found it convenient to use criminals to do their dirty work, the so-called “wet operations.” Entire DB-centred criminal networks arose, based loosely around former paramilitary or DB figures and organisations. These included narcotics trafficking, trafficking of women, auto theft, weapons smuggling, and smuggling of more traditional items such as cigarettes, alcohol and coffee. Army Counter-Intelligence (the KOS) has also been heavily associated with some of these activities.

The unwillingness of DOS to deal with these centres of power is a significant reason why the government may well not be able to deal with the arms scandal without considerable outside assistance and indeed for the broader difficulties Yugoslavia faces in breaking with its past.

IX. WHERE IS THE MONEY?

Another significant and as yet unanswered question is: where is the money? In spite of Cekovic’s claims that Jugimport-SDPR is a wealthy company,⁷⁷ during 2001 it had an official profit of only two million dinars (approximately U.S.\$33,000).⁷⁸ Allegedly Jugimport-SDPR owes money to other arms-trading companies and is being sued by some of them.⁷⁹

Neither the Yugoslav state, nor the Serbian Republic nor the weapons factories in question appear to have been paid for the goods and services rendered.⁸⁰ Some well-informed FRY sources speculate that the sales to Iraq could have reached as high as U.S.\$3 billion, with profits in the range of U.S.\$750 million.⁸¹ The state-controlled firm EnergoProjekt is carrying out a significant portion of more than U.S.\$120 million in contracts with the Iraqis for primarily military-related construction projects.⁸² None of the profits generated by these arms or construction deals appears to have returned to Yugoslavia. As of this writing, there is no sign of where they went.

⁷⁷ “Koji sve generali Vojske Jugoslavije po svetu trguju oružjem”, *Blic News*, 6-13 March 2002.

⁷⁸ ICG interviews with Foreign Minister Goran Svilanovic.

⁷⁹ ICG interview with high-level DOS source.

⁸⁰ “Pomozite oruzarima”, *Politika*, 14 November 2002.

⁸¹ “Dolari i skandali”, *Nin*, 14 November 2002.

⁸² Document of 18 January 2002, from the Yugoslav Federal Ministry of Foreign Affairs, #4773 with attachment 2002/4460 in possession of ICG.

X. CONCLUSION: HOW THE INTERNATIONAL COMMUNITY SHOULD RESPOND

The arms scandal is unusually dramatic and attention-getting because of its connections to events in the Middle East but it tells most about and is most relevant to the serious internal situation of post-Milosevic Belgrade. It developed and flourished for so long, even after the U.S. made initial efforts to address it in 2001, because the political and power infrastructures are, despite surface appearances, too little changed in the dictator's old capital. Now that the affair is in the open, Yugoslav political leaders have their chance to set matters right but initial indications that this will happen are no better than uncertain.

While diplomats welcome the words and some actions they say they are receiving, there has also been considerable public obfuscation, partisan finger pointing and denial. ICG has received indications that sales to Iraq may not have been entirely discontinued even now.⁸³ Certainly many internal obstacles to serious remedial action have yet to be removed.

The FRY and Serbia cannot be permitted the false luxury of a go-slow approach to reforms and satisfaction of international obligations. Belgrade retains too much potential to create difficulties in Kosovo and Bosnia. The prospect that matters will be handled poorly between Serbia and Montenegro as they work out their future relationship, with resultant negative implications for regional stability, also increases unacceptably if Belgrade is unable to put its house in order.

The Milosevic legacy means that relations with neighbours are strained. Too many who created that legacy and still benefit from it, including organised criminal elements, exercise strong influence over political life. As a result, there is little domestic constituency for change or international cooperation.

Unsurprisingly, therefore, Belgrade has been reluctant to undertake any reforms or make any changes without strong outside pressure. Most of the reforms that were launched in Serbia have been

stalled since the Red Beret revolt in November 2001.⁸⁴ Other than some still ongoing macro-level economic and financial measures, little has changed. Milosevic-era structures and *nomenklatura* remain largely intact. Until reforms occur, Belgrade will remain a threat to regional stability, requiring indefinite international community engagement.

The international community's most effective tool to move Belgrade down the path of reform and international cooperation has been conditionality, as witnessed by the frantic last-minute attempts by the FRY to obtain certification that it has satisfied U.S. legislatively mandated conditions for assistance every March.⁸⁵ The U.S. State Department and the EU have both been relatively reluctant to use this tool assertively though the latter appears to be changing its approach and is even considering suspension of aid.⁸⁶

The kind of strong outside pressure that conditionality represents is needed to overcome the internal obstacles to reform. The incentives the international community has thus far held out to the FRY include: membership of the Council of Europe; membership of NATO's Partnership for Peace; negotiations on a Stability and Association Agreement with the EU; and Permanent Normal Trade Relations (PNTR) with the United States. Experience to date has shown that Belgrade is not sufficiently motivated by these alone to undertake real change. Delivery, therefore, should be made only after Belgrade has completed prior performance of the specific terms associated with each incentive.

Should Belgrade continue to shun reforms and not comply with its international obligations, the international community should consider employing some of the sharper tools in its diplomatic arsenal such as suspension of bilateral and multilateral aid, including through the international financial institutions (World Bank, IMF, EBRD).

The issue of governance remains crucial. As long as there are two governments in Belgrade, Yugoslav and Serbian, with overlapping competencies and

⁸³ ICG discussions with FRY businessmen and high-level DOS politicians.

⁸⁴ ICG Balkans Report N°126. *Belgrade's Lagging Reform: Cause for International Concern*, 7 March 2002.

⁸⁵ These conditions are cooperation with the international war crimes tribunal in The Hague, progress on human rights, and cessation of funding to the Bosnian Serb Army.

⁸⁶ See conclusions of the EU External Relations Council, 19 November 2002.

conflicting personalities, there will be opportunities for the unscrupulous to exploit legal loopholes and profit from the sheer difficulty of supervising state resources when it is not clear what the state actually is. As long as the lines of command remain unclear, or in flux, the authorities will have excuses to dodge international obligations.

Since November 2001, the international community has put much energy into securing and then implementing the March 2002 agreement on the future relationship between Serbia and Montenegro, brokered by EU High Representative Javier Solana. While the current ferment in the Yugoslav military community has certainly been stirred by the imminent prospect of a change of management from

Federal to Republic level, the agreement itself remains stuck in the procedural mire, and its benefits in terms of clear and clean government in Belgrade are not yet apparent. International pressure on all levels of government in the FRY to honour their obligations under international law remains key to the stabilisation of the region. The efforts to resolve the narrow constitutional issue are proving a distraction from the more important problems faced by Serbia, Montenegro and their neighbours.

Belgrade/Brussels, 3 December 2002

APPENDIX A

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 80 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York and Paris and a media liaison office in London. The organisation currently operates eleven

field offices (in Amman, Belgrade, Bogotá, Islamabad, Jakarta, Nairobi, Osh, Pristina, Sarajevo, Sierra Leone and Skopje) with analysts working in nearly 30 crisis-affected countries and territories across four continents.

In *Africa*, those countries include Burundi, Rwanda, the Democratic Republic of Congo, Sierra Leone-Liberia-Guinea, Somalia, Sudan and Zimbabwe; in *Asia*, Indonesia, Myanmar, Kyrgyzstan, Tajikistan, Uzbekistan, Pakistan, Afghanistan and Kashmir; in *Europe*, Albania, Bosnia, Kosovo, Macedonia, Montenegro and Serbia; in the *Middle East*, the whole region from North Africa to Iran; and in *Latin America*, Colombia.

ICG raises funds from governments, charitable foundations, companies and individual donors. The following governments currently provide funding: Australia, Austria, Canada, Denmark, Finland, France, Germany, Ireland, Luxembourg, The Netherlands, Norway, Sweden, Switzerland, the Republic of China (Taiwan), Turkey, the United Kingdom and the United States.

Foundation and private sector donors include The Atlantic Philanthropies, Carnegie Corporation of New York, Ford Foundation, Bill & Melinda Gates Foundation, William & Flora Hewlett Foundation, The Henry Luce Foundation, Inc., John D. & Catherine T. MacArthur Foundation, The John Merck Fund, Charles Stewart Mott Foundation, Open Society Institute, Ploughshares Fund, The Ruben & Elisabeth Rausing Trust, the Sasakawa Peace Foundation and the United States Institute of Peace.

December 2002

APPENDIX B

ICG REPORTS AND BRIEFING PAPERS*

AFRICA

ALGERIA**

The Algerian Crisis: Not Over Yet, Africa Report N°24, 20 October 2000 (also available in French)

The Civil Concord: A Peace Initiative Wasted, Africa Report N°31, 9 July 2001 (also available in French)

Algeria's Economy: A Vicious Circle of Oil and Violence, Africa Report N°36, 26 October 2001 (also available in French)

BURUNDI

The Mandela Effect: Evaluation and Perspectives of the Peace Process in Burundi, Africa Report N°21, 18 April 2000 (also available in French)

Unblocking Burundi's Peace Process: Political Parties, Political Prisoners, and Freedom of the Press, Africa Briefing, 22 June 2000

Burundi: The Issues at Stake. Political Parties, Freedom of the Press and Political Prisoners, Africa Report N°23, 12 July 2000 (also available in French)

Burundi Peace Process: Tough Challenges Ahead, Africa Briefing, 27 August 2000

Burundi: Neither War, nor Peace, Africa Report N°25, 1 December 2000 (also available in French)

Burundi: Breaking the Deadlock, The Urgent Need for a New Negotiating Framework, Africa Report N°29, 14 May 2001 (also available in French)

Burundi: 100 Days to put the Peace Process back on Track, Africa Report N°33, 14 August 2001 (also available in French)

Burundi: After Six Months of Transition: Continuing the War or Winning the Peace, Africa Report N°46, 24 May 2002 (also available in French)

The Burundi Rebellion and the Ceasefire Negotiations, Africa Briefing, 6 August 2002

DEMOCRATIC REPUBLIC OF CONGO

Scramble for the Congo: Anatomy of an Ugly War, Africa Report N°26, 20 December 2000 (also available in French)

From Kabila to Kabila: Prospects for Peace in the Congo, Africa Report N°27, 16 March 2001

Disarmament in the Congo: Investing in Conflict Prevention, Africa Briefing, 12 June 2001

The Inter-Congolese Dialogue: Political Negotiation or Game of Bluff? Africa Report N°37, 16 November 2001 (also available in French)

Disarmament in the Congo: Jump-Starting DDRRR to Prevent Further War, Africa Report N°38, 14 December 2001

Storm Clouds Over Sun City: The Urgent Need To Recast The Congolese Peace Process, Africa Report N°38, 14 May 2002 (also available in French)

RWANDA

Uganda and Rwanda: Friends or Enemies? Africa Report N°15, 4 May 2000

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