Intelligence Report
Office of Resources, Trade, and Technology

Croatia: Using the Gray Market To Beat the UN Arms Embargo

A Research Paper

KEY FINDINGS
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This paper was prepared by Office of Resources, Trade, and Technology, with contributions from Imagery Analysis Group. This paper was coordinated with DIA/PAX. Comments and queries are welcome and may be addressed to the Chief, RTT, or...
Croatia: Using the Gray Market
To Beat the UN Arms Embargo

Key Findings

Croatia has acquired since late 1991 an estimated $300-400 million worth of arms on the international gray market:

• **Artillery and infantry weapons and ammunition compose the bulk of Croatia's military imports.** For example, in one deal, Croatia obtained 60,000 artillery rounds from Belarus in 1993 worth $4-5 million; other imports include assault rifles, rocket-propelled grenades, mortars, machine-guns, and antitank guided missiles (ATGMs). Croatia is seeking additional AT-3, AT-4, and Red Arrow 8 ATGMs from Bulgarian and Russian sources.

• **Croatia's growing air capabilities provide clear evidence of Zagreb's gray-market success.** Since early 1993, Croatia has acquired roughly 25 Mi-8/17 and nine Mi-24 helicopters and up to 25 MiG-21 fighter/ground attack aircraft. Zagreb acquires most of its arms from an extensive network of suppliers in Eastern Europe and the former Soviet Union, where domestic economic pressures and shrinking legitimate arms export markets have created incentives for arms export parastatals and governments to turn a blind eye toward questionable arms sales:

  - It also buys some items from Western suppliers, particularly ammunition for its NATO-caliber artillery and small arms.

  - It supplements these purchases by taking roughly one-third of the arms transiting Croatia for the Bosnian Muslims.

Croatian officials—led by Assistant Minister of Defense Vladimir Zagorec—have become proficient in using a wide array of gray-market concealment techniques to evade the Yugoslav arms embargo:

• The Croatians have established front companies and developed ties to international brokers and corrupt suppliers to assist their acquisition efforts. There are indications that a broker in Cyprus solicited offers from Russian sellers to supply ammunition to Croatia in early 1995.

• Intermediaries working on behalf of Croatia use false end-user certificates (EUCs) to obtain export licenses. In late 1993, for example, the Austrian brokering firm Global Technologies provided a false Nigerian EUC to the Belarusian Government arms exporter Beltechexport to obtain an export license for $18 million worth of arms intended for Croatia.
- Croatia uses back-to-back letters of credit and wire transfers to obscure the financial trail between buyer and seller. Zagreb and foreign brokers routed money to purchase Bulgarian arms in 1992 through Portugal and Chile to hide its origin.

- Croatia uses false shipping documents and declarations to evade scrutiny by supplier and transit country officials and UN maritime interdiction forces stationed in the Adriatic Sea. Hiding arms in containerized seaborne deliveries and flying in diverted materiel are its favored methods of delivery. In March 1994, for example, interdiction forces seized the arms carrier Jadran Express with 133 containers of ordnance hidden among several hundred containers of civilian cargo; shipping records indicate the vessel had made four prior deliveries to Croatia.

Croatian procurement officials have demonstrated an ability to adapt and revise their techniques to overcome new obstacles to their acquisition efforts. Analysis indicates, for example, that they
switched from using small coastal freighters to larger, harder-to-search container vessels after NATO and Western European Union maritime interdiction forces in the Adriatic Sea were empowered by the UN Security Council to search and seize suspected sanctions violators in November 1992.

In the absence of stepped-up enforcement efforts, Zagreb will almost certainly have continued success using the gray arms market to meet its military needs:

- Ammunition will account for the bulk of Croatia's imports as long as the fighting continues. In March 1995, ITM International Trade Marketing in Germany—run by Croat Franz Vidicek—was arranging an $11-12 million deal for 2,000 tons of ammunition from Poland's arms trade firm Cenzin. Most ammunition will probably arrive by sea, presenting some opportunities for interdiction.
- Zagreb will seek opportunities to improve the sophistication of its arsenal. Croatian buyers attended a large arms exhibition in the United Arab Emirates in March to establish contacts to acquire major systems such as aircraft, armor, artillery, and missiles. Some of these items—notably the missiles—probably would be delivered by air, making interdiction almost impossible.

- Zagreb believes its acquisition efforts are sufficient to meet its military needs and is considering the use of military force to retake Serb-held areas in the Krajina. Recent reporting indicates Croatia has stepped up acquisition efforts, probably in preparation for possible military action.