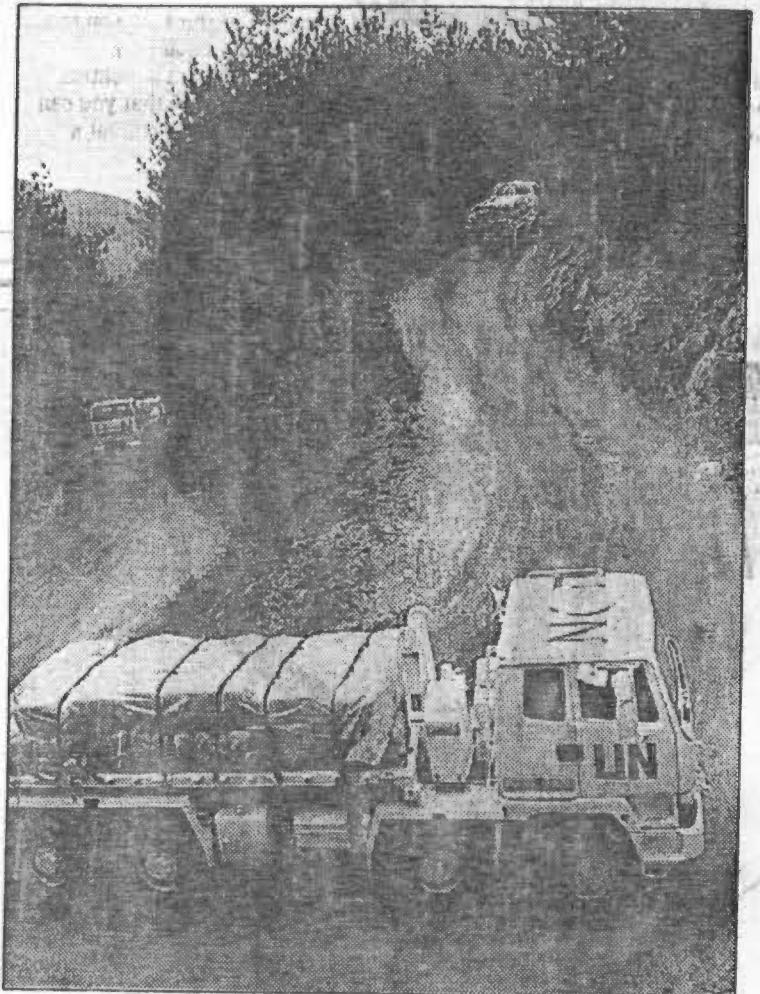


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A U.N. convoy, manned mostly by British troops, negotiates a mountain road to town of Vitez, Bosnia, carrying food and blankets for refugees who fled the Serb capture of the town of Jace last week.

Serb Smugglers Turn Sanctions Into a Boon

Few Profit, Many Face Soaring Inflation

By Blaine Harden
Washington Post Foreign Service

BELGRADE, Nov. 4—An advertisement today in a Belgrade newspaper concisely explains the effect U.N. economic sanctions are having on Serbia.

"People of Belgrade, pamper yourselves," the ad says. "A registered trading company dealing in oil products will bring gasoline to your door. Wherever you want it, as much as you want."

For those who prefer the more traditional method of driving a car to a service station, more than 190 private stations have opened across the republic in the past month. The Serbian government is leasing the state-owned stations to private operators, and it asks no questions about the price or source of the gasoline.

Gas lines are far shorter than they were before May 30, when the United Nations decided to impose sanctions to punish the Serb-dominated Yugoslav federation for armed aggression in neighboring Bosnia-Herzegovina.

Prices are high—about \$7 a

gallon—but supply is abundant. Indeed, so much gasoline is available that market forces have pushed prices down during the past two weeks.

More than five months after the imposition of what was supposed to have been a tough and comprehensive package of sanctions it is becoming embarrassingly clear to Western governments that they are not working.

The sanctions, which include a ban on most trade, have contributed to a growing economic crisis in Serbia, including soaring inflation and a 60-percent drop in production and have caused severe shortages of some products, such as heating oil. But Western diplomats here acknowledge that the sanctions are having the perverse effect of punishing working Serbs with soaring prices while lining the pockets of smugglers who operate with the approval of the Serbian regime led by Slobodan Milosevic.

"These sanctions are enriching those who are responsible for the policies that caused the sanctions in the first place," said

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Porous Sanctions Let Gasoline Flow In Serbia, but Inflation Is Soaring

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one Western diplomat in Belgrade. "This communist government has turned loose the free market, and it is blowing sanctions out of the water."

A single tanker truck of smuggled gasoline can net a profit of between \$40,000 and \$60,000, according to estimates of Western governments.

Hundreds of such trucks are regularly lined up at the Bulgarian border with Serbia, and Western diplomats here say that permission to cross the border is often obtained with gifts of top-brand Scotch whiskey to Bulgarian customs officials.

Besides bribes, there are huge legal loopholes in the sanctions. One allows trucks marked "transit" to enter Yugoslavia, unload and exit the country without systematic checks to verify the whereabouts of the cargo.

Another loophole allows into Yugoslavia trucks carrying goods bound for Bosnia. Since most of that former Yugoslav republic is now controlled by Serb gunmen, the sanctions do not hinder the Serbs, widely regarded as the aggressors in the war, from getting supplies of fuel or food.

"We are doing much better than the West had expected," Serbian leader Milosevic told a congress of

his governing Socialist Party—the renamed communists—last month.

Widespread smuggling is allowing Belgrade to weather sanctions with shops full of everything from Belgian cookies to the latest in Italian designer shoes. But soaring prices have meant a collapse in living standards for all but a favored elite.

Average real income in Serbia has fallen nearly tenfold in the past two years, from roughly \$700 to about \$78 a month. In the meantime, food prices have soared to levels higher than those in much of Western Europe. After a government-ordered price increase today, bread costs slightly more than \$1 a loaf.

Acute heating oil shortages have left many apartment buildings cold. Belgrade's only crematorium had to close last month for lack of butane gas. State hospitals lack basic medicines and X-ray film, and patients are told by doctors to buy anesthetics from private pharmacies before coming to the hospital for surgery.

The economic underpinnings of Serbia's economy are in ruins, with industrial productions down about 60 percent from last year, mass layoffs in the dominant state-owned sector and hyperinflation at such a frenzied pace that bank deposits are now earning an annual return of 31,500 percent.

"If these guys in the government were rational, they would see the

long-term damage to their country," said a Western economist here.

But U.N. sanctions appear to be doing nothing to change the nationalist policies of the Milosevic regime toward Bosnia or Croatia, where Serb fighters have seized large chunks of territory.

What the sanctions have done is trigger explosive growth in the black-market economy, growth that has been accompanied by a doubling in the city's crime rate.

The capital has been flooded with weapons brought in by Serb fighters returning from Bosnia and Croatia. Street shootouts, carjackings, burglaries and muggings are now common in a city that five years ago described itself as the safest in Europe.

Last week, there was a gangland-style murder in the city's best hotel. "People are killed as easily as in the movies. Criminal mafias are rampant in Belgrade, other cities and even some villages," Yugoslav President Dobrica Cosic said last month, in a speech that condemned Milosevic's policies and called for the immediate arrest of paramilitary gangs across Bosnia and inside Serbia.

Cosic was later denounced by Milosevic's loyalists in the Yugoslav parliament. They said the president's comments were inappropriate and insulting to Serbia because Cosic, a well-known novelist, is not an expert on military matters.