



**Transnational Crime and
Corruption Center (TraCCC)
Georgia Office**

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**SMUGGLING THROUGH ABKHAZIA
AND TSKHINVALI REGION
OF GEORGIA**

**TBILISI
2004**

Smuggling has become a direct threat to the national security of Georgia. The goal of this research was to investigate smuggling through Abkhazia and South Ossetia/Tskhinvali Region, two secessionist regions of Georgia, which after the armed civil conflicts of the 1990s have been transformed into territories with high levels of violence, organized crime, and smuggling networks. With an interdisciplinary approach, the TraCCC research group has investigated general trends and mechanisms of illegal trade, along with the main crime groups involved in smuggling through these territories. The following materials are contained within the report: an analysis of anti-smuggling normative acts of Georgia, an analysis of organizations responsible for the prevention of smuggling, an overview of the general situation in Abkhazia and South Ossetia/Tskhinvali Region, and photographic documents which illustrate different aspects of smuggling, corruption, and criminal cooperation between crime groups, law-enforcement bodies of Georgia, and Russian peacekeepers. The “Rose Revolution” in November 2003 initiated a new political situation and a better environment in which to wage a successful fight against smuggling and corruption in the country. As a result, some conclusions and recommendations included in the report before November 2003 are no longer urgent – such as the need for new elections and a change of political leadership in Georgia. However, there is still much to be done to address this urgent problem.

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This research project was conducted within the framework of the Georgia Office of American University’s Transnational Crime and Corruption Center (TraCCC)’s grants program. Financial support was provided by the Bureau of International Narcotics and Law Enforcement Affairs of the U.S. Department of State, in coordination with the Office of Overseas Prosecutorial Development Assistance and Training (DOJ/OPDAT) of the U.S. Department of Justice. The work was undertaken by Georgian scholars in Georgia, and by Russian scholars in Russia. This report presents the results of research conducted by the Georgian TraCCC research group. The results of the Russian TraCCC research group can be found online at: <http://sartracc.sgap.ru/>.

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Corruption Center (TraCCC) Georgia Office

Printed at Polygraph Ltd.
2, 26 May Sq., Tbilisi

ISBN 99928-0-830-6

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INTRODUCTION

Defining the Problem

Georgia is located in the Caucasus on the eastern coast of the Black Sea. Its total land border is 1,461 km. and its total coastline, 310 km. It borders Russia to the north (723 km), Azerbaijan to the east (322 km), Armenia to the south-east (164 km), and Turkey to the south-west (252 km).¹ Due to armed civil conflicts from 1990-1993, two of its secessionist regions – Abkhazia (or Abkhazeti in Georgian) and South Ossetia (or the Tskhinvali Region) - are outside the jurisdiction of the Government of Georgia leaving the country's borders uncontrolled and transparent. Both of these secessionist territories border Russia. The Abkhaz part of the Georgian border with Russia is 197 km with 200 km of coastline border. The South Ossetian part of the Georgian border with Russia (the Tskhinvali Region has only a land border) is 66 km (please see Map 1).² The goal of this research is a comprehensive investigation into the problem of smuggling through Abkhazia and the Tskhinvali Region/South Ossetia.

Map 1. Georgia including Abkhazia and the Tskhinvali Region/South Ossetia.



In 2003, contraband trade became a very serious problem in Georgia. Its catastrophic growth began in 1998, and in five years it has begun to threaten the very security of the country. It has stimulated corruption, has created powerful criminal clans, and has promoted the collaboration between the criminal world and political groups, central, regional and local authorities, and law enforcement structures of the country. It has also led some parts of the poorer population to become involved in this criminal activity.

The problem of contraband trade through Abkhazia and the Tskhinvali Region is especially important because it is closely connected to the problem of separatism, unresolved armed conflict, violence in these regions, and the transparency of borders.

Armed conflicts took place in the Tskhinvali Region in 1991-92, and in Abkhazia in 1992-93. These conflicts took lives of one thousand and ten thousand persons, respectively. With Russia's military support, separatists of both regions have won wars and declared *de facto* independence, while remaining *de jure*

¹ Georgia. *The CIA World Factbook*. (2003, August 1), from <http://www.odci.gov/cia/publications/factbook/geos/gg.html>

² Interview with representatives from the State Border Guards of Georgia (2003, August).

parts of Georgia. In Abkhazia, more than two hundred thousand refugees and internally displaced persons (IDPs) (mostly of Georgian ethnicity) have been expelled from their homes, while those who stayed pass their days in beggary and nakedness.³ Most refugees and IDPs live in even worse conditions outside Abkhazia.

Self-proclaimed republics created zones with high concentrations of weapons among the population, and first of all among criminals. Smuggling through Abkhazia and the Tskhinvali Region takes place in an atmosphere of rooted violence, innumerable assassinations, kidnappings, hostage takings, and numerous other serious crimes. These problems are difficult to resolve due to the inability of the Georgian and secessionist governments to agree on the political status of these territories. Finding solutions to the varied problems is only aggravated by the spectrum of geopolitical issues, and Russia's intention to use the Abkhaz and Ossetian separatist issues to put political pressure on Georgia, which for the last decade has tried to escape from Russia's sphere of influence and play an independent role in the South Caucasus region. Russia has practically forced Georgia to seek allies elsewhere for security and protection of its national interests; establishing closer relations with the United States and the European Union which were attracted to the South Caucasus by their interest in promoting democracy and in Caspian oil and gas, which transverses Georgia on their way West. For its turn, Georgia's western orientation and its close cooperation with both the USA and NATO became irritating factors for Russia which continued to support separatism in Abkhazia and the Tskhinvali Region by economically integrating these territories, a move that Georgia called "creeping" annexation.

During the war years and in the post-conflict period, both Georgians and Abkhazians did not perceive Russia as neutral mediator. Sergei Shamba, the *de facto* Foreign Minister of Abkhazia, expressed this idea when he said that factually, Abkhazia is under protectorate of Russia.⁴ Most Georgians believe Russia fought against them in Abkhazia. After ten years of Russian-led mediation in conflict resolution, a dead lock situation has ensued.

Despite these attempts at mediation, external factors ultimately do not determine the behavior of the local political clans who would need to be engaged in a serious effort to resolve these conflicts. Unresolved conflicts provide fertile ground for these clans to retain power by means of limiting democracy and using ideologies of militarism and/or revenge to keep the local population in permanent fear of war. In the case of Abkhazia, on both sides of the conflict, there are similar trends of criminal-political clans forming. These clans use power for personal enrichment and capitalize on corrupt law enforcement structures. These corrupt law enforcement officials do not have open and legal direct contacts with colleagues on the other side of the cease-fire line (CFL), but they actively use representatives of the criminal world as "mediators" and use local residents or IDPs as "double agents". In the Tskhinvali Region's case, there is strong collaboration in criminal activity between law enforcement officials on both sides. For instance, the newspaper *Rezonansi* quotes Eduard Kokoity, *de facto* President of South Ossetia, who argues that ministers he has dismissed were conducting criminal activities in coordination with their law enforcement colleagues from Georgia. He also stated that it would be good if Koba Narchemashvili, Georgia's former Minister of Internal Affairs, cleaned-up his own Ministry.⁵

In conditions of miserable salaries and complete irresponsibility with respect to violations of human rights, such "law enforcement" bodies use their power for personal enrichment and the cruel oppression of any protest from the population. The most profitable forms of enrichment in Abkhazia and the Tskhinvali

³ *UN: Abkhazia Within Georgia Still The Basis of Talks, Says Envoy.* By Robert McMahon, from <http://www.rferl.org/nca/features/2002/12/1112200222246.asp>; Radio Free Europe / Radio Liberty, Inc.

⁴ *Abkhazia is Under Actual Protectorate of Russia*, thinks Sergei Shamba, Minister of Foreign Affairs, News from Abkhazia. (2003, June 4), from <http://www.abhazia.com/news/detail.php?id=704>

⁵ Newspaper *Rezonansi*. (2003, July 2). No 177.

Region have become participation with different armed groups (Georgian guerrillas or purely criminal groups), or participation by certain socially vulnerable groups in the contraband trade.

In recent years these events have created efficient smuggling networks enfolded corrupt officials, law enforcement structures, Georgian guerrillas, criminal groups, Russian peacekeepers, and a broad social base of the poor population (IDPs, refugees, and persons that live in the conflict zones).

At the same time, analysis of the problem in terms of economic damage to Georgia shows that the scale of smuggling through Abkhazia and the Tskhinvali Region is small in comparison to the volume of illegal trade through other (non-conflict) parts of the country – the Black Sea port of Poti, the Red Bridge from Azerbaijan, and the Sarpi checkpoint at Turkish border. According to various sources, smuggling in fuel through Abkhazia comprises only 4-5 percent of overall contraband trade in fuel and approximately 13 percent - through the Tskhinvali Region, though some kinds of smuggling are essential – wheat, wheat flour, and cigarettes for example.⁶ What sets these territories apart from other smuggling regions of the country is the dangerous atmosphere of violence, criminal negotiations, and human rights violations in which it occurs, unlike any other region of Georgia.

Analysis of the situation in Georgia and legislation concerning the struggle against smuggling through Abkhazia and the Tskhinvali Region has led to the conclusion that the main reasons for its growth are the absence of initiative among members of the top leadership of the country, and the rampant corruption in governmental and law enforcement bodies. Clearly this has resulted in poor implementation and/or ambiguity of certain laws.

The use of administrative measures to combat smuggling in the conflict zones and adjacent territories is quite a delicate subject. In conditions of ongoing internal political and social tension, targeting socially vulnerable members of smuggling networks could result in a renewal of conflict or destabilization of the whole country.

On the other hand, the use of criminal penalties and administrative methods against large, wholesale smugglers, organized crime groups, and corrupt government and law enforcement officials would be effective. Such methods should be combined with an improvement of tax and customs policy to create a more favorable economic climate for legalization of shadow businesses and stimulation of local production.

Without improved legislation, institutional reforms, training of personnel, implementation of computerized systems of control and information, and a new management paradigm, all criminal penalties and administrative measures will only be near-sighted, temporary anti-smuggling campaigns with no coherent, long-term strategic policy.

Research Methodology

Smuggling is a multidimensional topic requiring an interdisciplinary approach. In this study, the legal, political, economic, and social aspects were investigated and the results included in the conclusions.

Sources of Research

This research is based on both primary and secondary sources, including: Georgian legislation on smuggling, publications in the press, information available on the internet, TV and radio broadcasting programs, investigation files, documents and statistics from local and Supreme courts of Georgia, the National Security Council of Georgia, the Ministry of Internal Affairs, the Ministry of Security, the Ministry of Finance,

⁶ This information is based on interviews with an officer of the Ministry of State Security of Abkhazia in exile (2003, May 29) and experts from the American Chamber of Commerce in Georgia (2003, April 17).

the Ministry of Special Affairs, the Department of Intelligence, the Department of Border Guards, the Chamber of Control, the Anticorruption Bureau of the President of Georgia, the Parliamentary Committee on Taxes and Revenues, regional and local government authorities in the cities of Gori and Zugdidi, the US Customs Service (Georgia Border Security and Law Enforcement Assistance Program), the American Chamber of Commerce in Georgia, the United Nations Observer Mission in Georgia (UNOMIG), the UN Office for the Coordination of Humanitarian Affairs (UN OCHA), the United Nations Volunteers (UNV), European Community Technical Assistance for Commonwealth of Independent States (TACIS), and the Organization for Security and Cooperation in Europe (OSCE). The research group met and interviewed representatives from the above mentioned organizations, independent journalists, business people, as well as those who participate in the smuggling trade – petty traders, Georgian guerillas, and representatives of criminal groups.

Difficulties of Research

Research on smuggling is a delicate process and dictates special attention be paid to the security of both respondents and researchers. In many cases, the research group had contact with participants of smuggling networks, and getting information from them required limited use of established research methods. For example, it was practically impossible to use such methods as sampling and answering questionnaires for respondents selling contraband in the Ergneti and Zugdidi markets.

The research group mostly used methods of interviews and free, one-to-one conversations. In some cases there was a set precondition not to use photo or video equipment, or even a ban on making any written records; such as the case of the interview in Zugdidi with Slava Bigvava, the field commander of the Georgian guerrilla group known as the “Forest Brothers”. In several cases, it was necessary to hide the purpose of the research. For example, imitation of contraband bargaining was employed in conversations with members of one organized crime group, traffic policemen, truck drivers, and Ossetian petty traders in the Ergneti market who are direct participants in the smuggling networks.

In other cases, high-level government officials and representatives from law enforcement bodies formally agreed to meet with the TraCCC research group, but despite many attempts to set up and conduct the interviews, the officials either did not return phone calls or were very rude and not forthcoming with any information.

Another problem in researching smuggling, is the reliability of information from primary and secondary sources. The issues of Abkhazia and the Tskhinvali Region are often very politicized and biased, and very few investigative journalists have tackled the issue. Statistics verified by different sources on smuggling through Abkhazia and the Tskhinvali Region do not exist, and those that do exist are very random and unreliable. No branch of the Georgian government has enough statistical or analytical data on the socio-economic situation in the breakaway republics. The statistical agencies of the self-proclaimed republics also do not possess exact information on economic activities in their region. Another hazard was getting false information from special services and being manipulated by them for different political agendas. Generally, almost all Georgian government sources are considered unreliable when reporting on the ongoing situations in Abkhazia and the Tskhinvali Region, not only because of possible prejudices but also due to the lack of systematic information, especially on inflow and outflow of goods through Psou Bridge and Roki Tunnel.

But the most serious difficulty was to separate information based on rumor and myth from that based on fact and truth. Most academics in Georgia face this difficulty in their research, but investigating smuggling from this point of view is especially difficult due to its latent nature and mistrust between the secessionist and central governments. Therefore, whenever possible, the research group diligently tried to verify infor-

mation. One method of verification was comparative analysis of information from the Abkhaz, Ossetian, Russian, or Georgian sources. Thus, the arguments derived from possibly biased Georgian data are supported by some Russian, Abkhazian and Ossetian sources that make the inference more credible. In cases when such verification was impossible, but information deserved attention, the group has provided footnotes with the names of sources and comments.

Because the research group has used materials and information from different and alternative sources, ultimately, it gave the opportunity to create quite a precise and objective picture of smuggling through Abkhazia and the Tskhinvali Region.

Publications on Smuggling through Abkhazia and the Tskhinvali Region/South Ossetia

There are no publications entirely dedicated to this particular issue though several studies have been done by Parliament's Budgetary Office on the economic situation in Abkhazia and the Tskhinvali Region and the impact of internal conflicts on the economy of Georgia. These give a good understanding of the problems, but only lightly touch upon the question of smuggling.

The publications on smuggling can be categorized in three parts:

1. Publications that are concerned only with specific contraband goods, while not dealing with the problem in general;
2. Publications that are concerned with smuggling in general, though do not involve Abkhazia and the Tskhinvali Region;
3. Publications that are concerned with the situation in conflict zones, criminality, and insecurity in Abkhazia and the Tskhinvali Region, though not specifically related to smuggling through those territories.

First group: These publications give a general idea about specific items of smuggling, such as the Safeworld report on arms in the Caucasus region and the report compiled by experts from State Department of Statistics of Georgia on tobacco goods.

Second group: These documents deal with the general problem of smuggling in Georgia; such as a report done by Polish experts from Baltserovich Consulting Group. The document provides a good review of government activities and legislation, further identifying ways of overcoming the main problems promoting smuggling.

Third group: These documents include reports by UNOMIG on the situation in Abkhazia and UNOCHA leaflets on the Tskhinvali Region and Abkhazia, and a few other Internet publications; for instance, an article by Dodge Billingsley on security across the CFL and articles published by the Institute for War & Peace Reporting (IWPR) on the situation in the Gali and Zugdidi districts.

Academic publications, such as those on war economies and sanctions appear to be helpful for conceptualizing the issue of smuggling through Georgian conflict zones. The econometric model of conflicts has mainly been adopted by a group of researchers from the World Bank, such as Collier, Hoeffler, Malone, Berdal, Keen and Duffield. This research paper appears to be in accordance with theoretical arguments outlined in the book "Greed & Grievance: Economic Agendas in Civil Wars", edited by Mats Berdal and David M. Malone.

SMUGGLING THROUGH ABKHAZIA AND THE TSKHINVALI REGION/SOUTH OSSETIA

General Trends of Smuggling

The current situation demonstrates that the conflicts in Abkhazia and the Tskhinvali Region are not simply in a deadlock. In Abkhazia, the cease-fire line (CFL) has been transformed gradually into a criminal zone with no one exercising full control over it – neither the Government of Georgia, nor the Abkhaz government in exile, nor the Abkhaz secessionist government, nor the international community. Crime happens especially often in the territory of the Gali district and the Kodori Gorge. Frequent assassinations and kidnappings have become standard practice in this region. In the Tskhinvali Region, the criminal world, together with officials of law enforcement bodies from both sides of the conflict have created favorable conditions for a prosperous smuggling trade, unpunished crime, and violence.

Georgian authorities have declared they cannot establish border guards and customs service checkpoints on the Enguri River or establish an administrative border with South Ossetia since secessionists will immediately interpret this as an attempt to establish a new Georgian state border. The border with Russia remains porous for smuggling with Georgia and the movement of criminal groups from one side of the conflict (or CFL) to another.

As in many other conflicts, the criminal world always fills the vacuum in official and legal relations. Criminal groups are flexible and quickly build networks that are often internationalized and include members from both conflicting sides. An examination of the situation in Abkhazia and the Tskhinvali Region confirms this general trend, and any observer can easily see how successfully Georgian, Abkhaz, and Ossetian criminal groups and law enforcement bodies are cooperating in smuggling operations through the territories of Abkhazia and the Tskhinvali Region.

The problem of smuggling is troubling for both the Government of Georgia and the secessionist government of Abkhazia because contraband goods flow in both directions, and both sides are deprived of revenues to boost their small budgets. On May 29, 2003 for example, Mr. Raul Khajimba, *de facto* Prime Minister of Abkhazia, spoke about the flow of smuggled goods from Georgia, and declared that the transportation of contraband goods is possible only due to corrupt deals between policemen and customers.⁷ The *de facto* government of South Ossetia does not even raise the issue of smuggling between Russia and Georgia due to its heightened interest in benefiting from these activities.

Illegal economic activity is evident in Abkhazia and the Tskhinvali Region. The illegal turnover of various goods occurs all along the Enguri River. Non-ferrous metals and illegal cigarettes flow to Zugdidi from Abkhazia, originally shipped to Sukhumi by Russian and Turkish ships. On the other hand, contraband goods flow to Abkhazia from other regions within Georgia. According to the data from the Extraordinary Legion,⁸ approximately 4.5 million packs of cigarettes flow illegally from Abkhazian territory every month (i.e. nine thousand boxes totaling 108,000 boxes per year).⁹ Considering the purchase price of one box (which contains 500 packs) of cigarettes in Abkhazia – approximately 159 USD, funds flowing into smugglers' pockets total 16.2 million USD.

There is also growth of import of goods on the Psou River, on the Russian border, which the government of Georgia defines as smuggling according to a 1996 decision by the presidents of the CIS. According to

⁷ Source: ?? REGNUM, from <http://www.abkhazia.com/news/>.

⁸ On the Extraordinary Legion please see Appendix B of this report.

⁹ *Economic and Social Consequences of Internal Conflicts*. (2003). Tbilisi, Georgia. Parliament's Budgetary Office of Georgia, p. 9, from www.pbo.ge

a statement by Georgia's Ministry of Foreign Affairs, any legal acts and bargains on the sale, purchase, and transfer of goods and services on a paid basis accepted by the separatist regime of Abkhazia, are void and dispossessed of legal force.¹⁰ Other goods smuggled to Russia through Abkhazia and the Tskhinvali Region include: drugs, stolen cars, cigarettes, wine, citruses, and hazelnuts.

Smuggling Routes To and From Georgia

Smuggled goods flow into/out of the country, including through the conflict zones, in numerous ways. Aside from the central roads where customs control and checkpoints are present, smugglers use alternative routes around those posts. The main smuggling flows are:¹¹

1. Ergneti (uncontrolled territory in the Tskhinvali Region bordering Russia);
2. Red Bridge (border with Azerbaijan);
3. Abkhazia (breakaway republic bordering Russia, outlet to sea);
4. Adjara (autonomous republic bordering Turkey, outlet to sea);
5. Poti (Black sea port);
6. Akhaltsikhe (border with Turkey);
7. Kazbegi (border with Russia);
8. Lagodekhi (border with Azerbaijan);
9. Jandara (border with Azerbaijan);
10. Ninotsminda (border with Armenia).

It is clear from the above list that smuggling routes and directions are quite diverse. Various goods inflow and outflow by every kind of transport: small containers and boxes loaded in light cars, buses, trucks, tanks, etc.

Map2. Main Smuggling Routes in Georgia



¹⁰ The Statement of the Ministry of Foreign Affairs of Georgia. (2002, December 6), from <http://www.mfa.gov.ge/cgi-bin/news/viewnews.cgi?category=2&id=1023877169>

¹¹ Please see Map 2

This research is focused on the ways of smuggling through Abkhazia and the Tskhinvali Region. In Abkhazia, they are: 1) the Abkhaz part of the Georgian – Russian land border (Psou River passes through Caucasus Mountains to Russia), 2) the Black Sea ports of Gagra, Gudauta, Sukhumi, and Ochamchira, and 3) the Cease Fire Line (CFL) on the Enguri River in Gali and Zugdidi districts. In the Tskhinvali Region they are: 1) the road through the Roki tunnel from Vladikavkaz (Russia) to Tskhinvali (Georgia), 2) the nearby Ergneti market, and 3) the roads from Ergneti market to Tbilisi and the other areas of Georgia.

An interesting characteristic of the internal conflicts in Georgia is that the conflict zones in Abkhazia and the Tskhinvali Region border Russia. This means that part of the main land routes connecting Georgia to both Russia and Europe transverse these separatist, conflict regions. This unique factor has a clear implication for smuggling trends through these regions.

Russia is the largest illegal trading partner with Georgia followed by Turkey. Goods are mostly illegally transported to Turkey through Abkhazia by the Black Sea. Goods smuggled into the country through the conflict zones create problems for legal import and decrease its volume, thus contributing to the disorganization of the internal market. The illegal inflow and outflow of goods inflicts considerable damage to the financial structure of the country since the state budget receives decreased revenue and local production does not compete fairly on the market. Thus, the conflict zones have, in fact, been transformed into “free trade zones”. An increase in illegal turnover is expected if Russia issues passports to the populations of Abkhazia and the Tskhinvali Region.

Psou River

In 2002, 2.3 million individuals and 500,000 transport vehicles passed through the border checkpoints of the North Caucasus Regional Administration of Russia; more than 800 illegal entrants were detained and around 70 firearms, 55,000 cartridges, 19 kg of explosives, 10 kg of drugs, and 140,000 USD worth of contraband goods were confiscated; nearly 26,000 individuals were refused border crossing privileges because of absent, fraudulent, or false documents; and border guards seized around 20 members of illegal armed groups.¹²

The Abkhazian part of the Georgia-Russian border is guarded by five Russian security detachments with an additional one standing by on reserve. The Russian border guard is also present in the mountains where detachments are delivered by helicopters since these are the most difficult points to reach on the border. During summer, smuggling is not rare across mountain passes. The Psou River is on the border, and as it's slight, trucks can easily cross it. In 2000, this part of the border was granted the status of state border by the administration of the Krasnodar region.¹³

On January 19, 1998 the Government of Russia issued decree No. 60 setting up the checkpoint on the Abkhazian part of Georgia-Russian border. In May 2003, Russia began construction on a new bridge across the Psou River. The old bridge was dilapidated after ten years of disrepair and was nearly impassable in autumn and winter. The new bridge will help to balance the traffic between the new and the old bridge¹⁴ and is scheduled to be completed in the fall.¹⁵

It has been decided by the Abkhaz and Krasnodar regional authorities to allocate around 30 million rubles (approx. USD 990,000) for the normalization of the situation on this part of the border, including the

¹² Olianchuk, V. (2002, August 30). Na rossisko-gruzinskoi granitse zaderzhan grazhdanin Gruzii. *Ria Novosti*.

¹³ Ignatev, R. (2000, June 9). Kontrabandisti ne liubiat shutok. *Rossiiskaia Gazeta*, No. 2475, from <http://www.rg.ru/arhiv/2000/06/09.html>

¹⁴ *Apsnypress*. (2003, May 5). No 085, from <http://apsnypress.narod.ru/>

¹⁵ *Apsnypress*. (2003, May 15). No 093, from <http://apsnypress.narod.ru/>

development of infrastructure projects such as building additional bridges, etc. Funds will be paid from the budgets of the Abkhazia and Krasnodar region.¹⁶ Concerning the Psou-Enguri railway, the de-facto government declared that 18 billion Russian rubles (593 million USD) are needed for its capital reconstruction. This part of the railway is 314 km long and the Federal Service of Railway Troops of the Russian Federation is going to perform the repair activities.¹⁷

The border guard and custom control are present on both sides; the *Tsandripshi* post from Abkhazia and the *Vesioloe* from Russia.¹⁸ During the citrus season, when the traffic across the border is most intense, around 12,000 people and 600 transport vehicles cross the border.¹⁹ Trade on Russian territory is the most important source of income for Abkhazians. The main traffic flow on the border during citrus season is towards Sochi and other cities and regions of Russia for selling citrus fruits (mainly mandarins), hazelnuts, and bay leaf. Russian sources call this time – “Mandarin Boom”.²⁰ Women transport goods on carts and men on their shoulders²¹. An electric train moves once a day with no more than 200-300 people able to cross the border by rail. The traders do not use the train as it is cost prohibitive and takes too much time (around 7 hours). In general, they cross the border around ten times during a 24-hour period.²² Valentin Meteruk, the head of the Russian “Psou” customs checkpoint states that in this peak “Mandarin Boom” season almost 20,000 people cross the border daily transporting approximately 140-150 tons of mandarins per day.²³

Residents of Abkhazia transport hundreds of tons of fruits and vegetables to sale in the markets of Sochi, Krasnodar, and Rostov-on-Don. On the return trip, they bring sacks of flour, sugar, and salt and boxes of industrial products.²⁴

Smuggling is not rare. For instance, in April 2003, the customs officials at the “Adler motorway checkpoints”, together with representatives of the State Custom Committee of Russia, detected sixty packs of contraband cigarettes with a total value of 1000 USD in a *Kamaz* truck with a Russian license plate heading to Abkhazia. As the Agency of Regional News reports, in the first quarter of 2003 contraband goods with a value of one million Russian rubles (approximately 33,000 USD) were seized.²⁵ This means on the Abkhazian part of Georgian-Russian border, the average annual level of detected contraband is valued at approximately 132,000 USD. Several other facts: in December 2002, an icon created in 1896 was illegally being transported to Abkhazia when Sochi customs officers detected it;²⁶ two residents of Vladikavkaz were seized when attempting to smuggle a large volume of gasoline across the border;²⁷ a group of 40 individuals, among them residents of Moscow, were detained when trying to cross the border, allegedly with the intent to volunteer for the Abkhazian army.²⁸

¹⁶ Sizov, I. Normalizatsia situatsii na kontrolno-propusknom punkte Psou. (2002, September 2), from <http://www.yuga.ru/news/11553/index.html>.

¹⁷ Materials from the Ministry of State Security of the Government of Abkhazia in Exile. (2003).

¹⁸ Vozobnovilos zheleznodorozhnoe soobshenie mezhdu Sochi i stolitsei Abkhazii Sukhumi, (2002, December 26), from <http://www.yuga.ru/news/14615/index.html>

¹⁹ Tamozhenniki na Psou tonut v mandarinakh. (2003, January 30), from www.abkhazeti.ru

²⁰ Granitsu s Abkhaziei ezhdnevno peresekaiut 4 tysiachi chelovek. Nekotorie – 10 raz v den. (2003, February 25), from <http://www.anev.ru/archive/300767.html>

²¹ Tamozheniki na Psou tonut v mandarinakh. (2003, January 30), from www.abkhazeti.ru

²² Granitsu s Abkhaziei ezhdnevno peresekaiut 4 tysiachi chelovek. Nekotorie – 10 raz v den. (2003 February 25), from <http://www.anev.ru/archive/300767.html>

²³ Source: Review of media of Sochi. (2002, November 24), from <http://www.yuga.ru/news/13693/index.html>

²⁴ Sizov, I. (2002, September 2). Normalizacia situacii na kontrolno-propusknom punkte Psou, from <http://www.yuga.ru/news/11553/index.html>

²⁵ Source: *Agentstvo Regionalnikh Novostei*. (2003, April 18), from www.uga.ru

²⁶ Source: *Sedmaia Stolica*. (2003, March 14), from <http://www.yuga.ru/news/16828/index.html>

²⁷ Ignatev, R. (2000, June 9). Kontrabandisti ne liubiat shutok. *Rosiiskaia Gazeta*, No. 2475, from <http://www.rg.ru/arhiv/2000/06/09.html>

²⁸ Ibid.

One interesting case of document smuggling occurred in January 2003 when a large quantity of unused identification cards from the Ministry of Internal Affairs and the Federal Service of Security was seized while heading from Russia to Abkhazia. Head of Press Service of North Caucasus Regional Administration of Federal Border Guards reported about this case to *Itar-Tass* news agency. Border guards found the packs of IDs at the “Vesioloe-Motorway” checkpoint when checking a “Volga” car. Itar-Tass adds that the documents could be used for fraudulent activities; furthermore, terrorists and criminals could use them to illegally enter Russia. It is also noted that Tbilisi can fully argue that these contraband documents were intended for criminals in Abkhazia.²⁹ The Ministry of State Security of the Government of Abkhazia in exile reports several cases when Russian criminals changed their names in Abkhazia. Criminals from Russia go to Abkhazia, procure a ‘new’ fraudulent Russian passport and go back to Russia with a different identity. For instance, the deputy to the Chechen terrorist leader Baraev, Ruslan Elmurzaev, was found with a passport identifying him as “Fuad Khunov”, a resident of Sukhumi.³⁰

Conflicts are frequent on the border. For instance, one individual was trying to cross the border with two gasoline cans, though since it is prohibited, he was seized and detained. The smuggler took out a machine gun and a grenade while demanding that they let him pass. The Russians asked the Abkhazian side for help and the latter calmed the smuggler down. In another case, two individuals requested that the border guards let them pass without waiting in queue. When the Russian border guards refused, they were threatened with pistols. Russian sources report that such cases are gradually increasing on the Abkhazian part of Georgia-Russian border.³¹

It is worth noting here that according to various sources there is rampant corruption on the Abkhazian side of the Georgia-Russian border. The Abkhaz news agency *Apsnypress* reports complaints from Gali residents that the guards at the Psou checkpoint extort money. Raul Khadjimba, de facto Prime Minister of Abkhazia, ordered the appropriate perpetrators to be punished.³²

For criminals, and especially for so-called fighters, the barriers of Russian border troops do not pose a substantial obstacle. There is a virtually foolproof system for smuggling goods and people across the border. (News Agency “Prism’s” correspondent can vouch for this on personal experience.) Guides charge 200,000 rubles (about 40 USD) to smuggle someone across the border. These guides told “Prism” that it is most often criminals and fugitives from justice, who feel quite safe in Abkhazia, who resort to their services.³³

Trade Across the Cease Fire Line (CFL) Between the Gali and Zugdidi Districts

The Gali Security Service of the de-facto government, subordinate to the Security Service of Abkhazia headquartered in Sukhumi, implements policing functions as well. There are five checkpoints in the respective villages of: Dikhazurga, Saberio, Samarkvalo, Tagiloni and Enguri main bridge. Two of them, located in Tagiloni and Enguri main bridge, represent district level security sub-units and are custom checkpoints as well. The Security Service illegally demands various payments from those transporting freight. They also extort money from local population.

²⁹ Abkhazskie boeviki torguiut rosiiskimi ksivami MVD i FSB. (2003, January 20). *Gazeta.ru*, from <http://www.abkhazeti.ru/pub/abkhtoday/ksivi/>; See also Spravka, ????, from <http://www.skru.stavkray.ru/press.htm>

³⁰ Source: Ministry of State Security of the Government of Abkhazia in exile. (2003).

³¹ Ignatev, R. (2000, June 9). Kontrabandisti ne liubiat shutok. *Rosiiskaia Gazeta*, No. 2475, from <http://www.rg.ru/arhiv/2000/06/09.html>

³² *Apsnypress*. (2003, June 9). No 112-113, from <http://apsnypress.narod.ru/>

³³ Rotar, I. (1997, June 27). Abkhazia seems set to become a “second Chechnya” for both Russia and Georgia. Prism’s correspondent reports from the region. *Prism, Volume 3, Issue 10*, from http://russia.jamestown.org/pubs/view/pri_003_010_003.htm

Due to general poverty and small quantity of population, Abkhazia market is not big, which creates incentives for transporting agricultural goods across the CFL to the Samegrelo region and to Russia. Smuggling across the CFL mostly started after 1998. The main products smuggled across the CFL are fuel and cigarettes. It appears that fuel smuggling greatly exceeds the illegal trade in cigarettes and is more organized in comparison with petty trade of tobacco products. According to some respondents, the illegal trade in fuel is controlled by law enforcement structures and Georgian guerillas, the former mainly represented by regional and local departments of State Security compared to the smuggling of cigarettes, which is mainly done by police. Gasoline is imported in larger quantities, in 5-10 ton tanks, compared to cigarettes. Petty traders mainly bring the cheap cigarette brands *Astra*, *Nasha Marka*, and *Vigor* to sell at the Zugdidi bazaar. Large quantities of cigarettes smuggling (500-1000 boxes) are not detected and depend on Turkish supplies to Abkhazia. Gasoline comes to Samegrelo region in 20 ton tanks, approximately 2-3 times per week and is distributed to local gas stations.³⁴ This means that smuggled gasoline across the CFL constitutes approximately 160-240 tons per month, although there are different estimates on this figure ranging from 160 to 600 tons per month.

Scrap iron and timber smuggling also occurs. These arrive in the Zugdidi district from Gali, and eventually find their way to the ports of Poti and Batumi for export to Europe. Depending on prices in Zugdidi and Gali, flour and sugar are also traded across the CFL in both directions. Hazelnuts are also traded across the CFL. They are transported from Gali and traded at the Zugdidi market. Despite attempts of Abkhazians to propose standardized prices for hazelnuts in Gali in order to prevent their outflow to the rest of Georgia, the majority still bring hazelnuts to Zugdidi. In 2003, hazelnut prices decreased from 1.5 – 2 GEL per kg to 0.8 GEL. According to Mebrdzol Chkadua, Deputy Regional Prosecutor of Samegrelo-Zemo Svaneti Region, hazelnut traders are often robbed by Georgians when they cross the CFL. Citrus products mainly make their way to Russia rather than to Zugdidi.

Trafficking in cars is also a central problem.

The Deputy Regional Prosecutor mentioned that one solution could be to increase the number of police forces (up to 500) in the Zugdidi district which he claimed would reduce by 50% the smuggling of gasoline and stolen cars. But this solution can not be implemented due to the Moscow 1994 and 1999 agreements between the Abkhaz de facto government and Georgian authorities on the number of armed forces in the security zone – limited to 600 persons from each side in the Gali and Zugdidi districts – 12 kilometers from both sides of the Enguri River. He said that these agreements should be revised because they hinder the successful struggle against criminality. He also noted that residents are afraid to go outside at night in Zugdidi due to the high level of crime.

The Enguri River is 70 km long - quite a difficult border to control. There are different estimations on the number of passes by the Enguri River. There are 6-8 bridges, but when the River recedes, it is possible to cross it anywhere among 70-80 different places. All official bridges are controlled by the de facto Abkhazian customs and border guard, Russian PKF, and Georgians. On the main bridge across the river, there are two PKF checkpoints; one Georgian where law enforcement officials are present and one Abkhazian customs post. It is interesting to note that only petty smuggling occurs on the bridge, mostly by the impoverished residents of the Gali and Zugdidi districts, who are Georgians, as well as Abkhazians. According to Murman Malazonia, Chairman of the Coordination Council of Internally Displaced Persons (IDPs), 15-20 Abkhazians per day may cross into the Zugdidi district. Abkhazians even visit the Lilo market in Tbilisi, buying goods there and going back. Thus, big trucks mainly pass using other bridges or hidden passes.

Through extensive business relations between Abkhazian and Georgian criminals and businesspeople,

³⁴ Source: Ministry of State Security of the Government of Abkhazia in Exile. (2003).

various contraband goods, including sugar and gasoline, are smuggled through the ports of Poti and Batumi for distribution throughout Georgia. In August 2003, 100 tons of sugar were transported to Ochamchire from Poti port and then transported to Zugdidi across the CFL, where guerillas administered the “realization” process.³⁵ One of regional branches of the Ministry of State Security of Georgia managed to monitor the movement of freight and goods on the Enguri river, though later, Georgian authorities argued to stop the monitoring for allegedly two reasons: 1) some high-level officials profit from the activity and 2) all guerilla groups have patrons in the Parliament of Georgia.³⁶

Violence and Smuggling in the Security Zone

It is of paramount importance that violence in the region is directly attributable to the smuggling activities in the Gali and Zugdidi districts. Interestingly, 70 percent of all “terrorist acts” (as defined by Ministry of Interior of the de-facto government of Abkhazia) occur in the Gali district and including several cases of the killing of Abkhazian customs and military officers located along the CFL.

As Dodge Billingsley, a freelance Caucasus security specialist based in New York, reports, turf wars and gang fights between different criminal elements in the region occur for economic rather than political gain. Moreover, many believe that if peace becomes a real possibility, the bandits controlling the smuggling rackets will instigate another cycle of hostilities like those of May 1998 or the reciprocal killings and hostage takings that occur frequently in order to keep their trade alive. The number of incidents reported as simple banditry with no political or strategic value beyond dissuading anyone to return to the security zone, also implies criminal and not political motives. Nineteen of the forty incidents in January 2001 were domestic robberies.³⁷

Mebrdzol Chkadua, the Deputy Prosecutor of Samegrelo-Zemo Svaneti Region, stated that the majority of assassinations and kidnappings are related to the shadow businesses across the CFL. Armed groups and criminals, of Abkhazian and Georgian origin, mostly cooperate, though when they do not agree on the division of spoils, or one side does not pay for goods already delivered, then they confront each other. There are cases when one side kidnaps the representative of another in order to settle a business dispute, than the other side takes similar measures. Killings often occur for similar reasons. In 2002, official statistics show there were 16 cases of kidnapping and 4 cases of assassination from the Georgian side; from the Abkhazian side, there were 46 cases of kidnapping and 8 cases of assassination. According to the Deputy Regional Prosecutor, 90 percent of these criminal cases are related to illegal businesses.

Politically motivated crimes happen as well; for example, Abkhazians arrest people because of “violation of the state border”. In 2002, 4 people were arrested for this reason. In this case, the Deputy Regional Prosecutor managed, with the aid of a Georgian lawyer from Zugdidi, to go to the court in the Gali district and successfully had the detainees released directly from the court hall.

In April 2001, a conflict over smuggling, in particular the illicit traffic of goods, emerged between the “Forest Brothers”, a Georgian partisan group operating in Abkhazia (led by David Shengelia) and Abkhazian separatists. The separatists heisted a vehicle loaded with contraband tobacco belonging to the Georgian partisans and tried to seize the goods. A serious clash took place when the Forest Brothers’ responded, with the Abkhazians killing two Georgians and capturing three hostages. The partisans, in turn, captured five hostages. But the conflict instigated an unpredictable outcome: the people of Gali, exhausted by hard

³⁵ Interview with Ema Gogokhia, a journalist of broadcasting company “Rustavi 2” based in Zugdidi. (2003, August 3).

³⁶ Interview with an officer of the Ministry of State Security. (2003, May 29).

³⁷ Billingsley, D. (2001). Security deteriorates along the Abkhazia-Georgia ceasefire line, from http://www.janes.com/security/international_security/news/jir/jir010906_1_n.shtml

socio-economic conditions, crossed the Enguri Bridge, and interfered with the illicit traffic. The conflicting parties realized that the situation was getting out of their control, and their economic interests dictated they arrive at a solution as soon as possible, leading to a quick agreement and the exchange of hostages thus serving the interests of both parties.³⁸

Local police say that gangsters on both sides of the Enguri River, which separates western Georgia from Abkhazia, are exploiting the border to escape capture. “In most of our investigations of these incidents we’ve come to the conclusion that both Georgian and Abkhaz smugglers are involved,” Gogi Nachkebia, chief of the regional office of the Security Ministry told IWPR. “This business is the main reason for the murders and explosions and unfortunately we have to admit that men in uniform are often mixed up in the smuggling”.³⁹

The Georgian newspaper *Khvalindeli Dge* reported that three Abkhazians were killed and one wounded in December 2003. According to Georgian side, the assassinations are related to criminal business confrontations, since the individuals involved were in the hazelnut and citrus businesses.⁴⁰

The Movement of Ships and Smuggling

Up to 60 or 70 percent of the export-import trade of Abkhazia is done by sea through the ports of Sukhumi, Ochamchire, Gagra and Gudauta. Sukhumi is the most important in terms of its capacity to dock large ships since it once was an internationally recognized tourist destination spot in the region. The movement of freight used to total around 190,000 tons annually. In Soviet times the cargo loading capacity of marine transport in Abkhazia was 24 times less than railway transport and 79 times less than road transport.⁴¹ However, the situation has now changed significantly and as already mentioned, freight mainly moves by sea. The data also depict the great importance that auto and railway transport once had for this region. Today though, these transport routes are blocked.

Despite trade limitations, the turnover in Abkhazian ports is significant. According to operational data of the State Department of Intelligence of Georgia, on average of 3-5 ships pass through the port per week. The Sukhumi seaport, however, is badly equipped; there is no railway access to the port, nor any container loading and unloading facilities. Two storage facilities were built by local commercial interests.

The port at Ochamchire, formerly for military use, is better equipped. The Black Sea has helped the secessionist government to establish contacts with commercial structures of Turkey, Russia, Romania, Moldova, Ukraine, Italy, Spain and others.

Sea exports comprised of fish, ferrous and non-ferrous scrap metals, coal, citrus, and timber. Gasoline, industrial goods, wheat, and flour are the major goods imported by sea. Ships illegally headed to Abkhazia use every trick to avoid navigational rules in order to avoid inspection in Poti port. From 1999-2003, the Coast Guards of Georgia detained more than 40 ships because of various violations of the law. Of these, eleven ships engaged in smuggling in Abkhazia were detained, including timber export from Abkhazia, five cases of illegal fishing, two cases of scrap metal export, one case of contraband cigarettes, one case of

³⁸ Mindorashvili, M. Gangster Wars in Abkhazia. By a Tbilisi-based independent expert. (2001, June 20), *Central Asia - Caucasus Analyst*, from <http://www.cacianalyst.org/>

³⁹ Khubutia N. (2003, February 27). Western Georgia Blighted by Crime Wave. Smugglers and armed gangs flourishing in the border zone between western Georgia and Abkhazia. Zugdidi, Georgia. *IWPR'S Caucasus Reporting Service*, No. 168.

⁴⁰ Newspaper *Khvalindeli Dge*. (2003, December 24). No 249 (408), from <http://www.opentext.org.ge/xdge/default.htm>

⁴¹ *Report on Economic Situation in Abkhazia, Financial and Socio-economic Results of Separatist Regime*. (1998). Tbilisi, Georgia. Parliament's Budgetary Office of Georgia, p. 26, from www.pbo.ge

coal export, and one case of lubricants and fuel import.⁴² Though there is no criminal prosecution if the ship is detained for the first time. As Sergo Gumberidze from the National Security Council of Georgia mentioned, “Legislation confines us to fine the ship and then let them go. If detained for the first time, the fine is GEL 200,000, in case of recurring violation, criminal prosecution is possible”.⁴³

The Coast Guard can fully control the Abkhazian area of the Black Sea coast, though there are fuel problems. According to the Department of Border Guards, only GEL 4 million is needed for fuel, while the overall budget of the department is only GEL 9 million.⁴⁴ Valeri Arshba, Vice-President of self-proclaimed republic of Abkhazia, has stated that if Georgian border guards continue to inspect ships headed to or out of Abkhazia, then Abkhazians will start a sea war with Georgia.⁴⁵ Raul Khadjimba, de facto Prime Minister of Abkhazia, declared that the statistics from the detained ships show, there are only timber, coal, and nutrition products on the ships. He said that if the Georgians found something else, like drugs or arms, they would have informed the whole world.⁴⁶

The de facto Abkhaz government takes similar measures, though without having internationally recognized legal basis for doing so. In April 1999, the crew of the Georgian fishing boat Alioni, from the port of Poti, was detained by Abkhazian border guards for allegedly “violating the sea border of Abkhazia”, and taken to Sukhumi. According to reports received by Amnesty International, the captain and the chief mechanic of the Alioni were to be charged with illegally entering Abkhazian waters, and the remaining crew charged with fishing illegally in a conservation area. It was unclear, however, when and what formal charges were laid, if any.⁴⁷

On July 26, 2003 a motorboat left Sukhumi seaport for Sochi, thus officially restoring sea communication between Abkhazia and Russia. This event received high accolade from the de-facto Abkhaz government and is considered one of the most important events in the history of Abkhazia. As Zaur Ardzinba, general director of the state company Abkhazian Sea Navigation stated, prior to July 2003 Abkhazian motorboats were exploited unofficially by a commercial structure, and registered in the offshore zone. Other officials declare that this is of paramount importance in the tourist season, when transportation of a large number of tourists is a key issue. Other motorboat routes, such as Sukhumi-Gagra and Sukhumi-Akhali Atoni are also planned.⁴⁸

Ergneti Market in Tskhinvali Region

Large volumes of illegal goods arrive in Georgia from Russia through the Roki tunnel and the Ergneti Market in the Tskhinvali Region, situated at the entrance of Tskhinvali, and inflict economic damage upon the country. Georgian individuals, as well as companies, buy goods here to later sell in the internal markets of Georgia without appropriate customs legalization. Sometimes the goods are transported directly to Gori or other neighboring districts without any intermediate change of transport means.

A paradox arises from this situation. On the one hand, goods flow into Georgian territory without having

⁴² Information conveyed by State Department of Border Guards of Georgia. (2003).

⁴³ Interview with Gumberidze, S. (2003, March 11). Newspaper *Rezonansi*, from <http://www.opentext.org.ge/resonance/default.htm>

⁴⁴ Interview with an officer of the Cost Guards of Georgia. (2003, April 15).

⁴⁵ Kontrol akvatorii Abkhazii, Daijest Gruzinskoi pressi. (2003, March 11). *Black Sea Press*, from www.abkhazeti.ru

⁴⁶ Press conference of Prime Minister Raul Khadjimba and his deputies Astamur Tarba and Ema Tania. (2003, July 24). *Apsnypress*, Issue No 150, from <http://apsnypress.narod.ru/>

⁴⁷ Georgia Allegations Of Ill-treatment In Detention, Concerns In The Disputed Region of Abkhazia; Detention Of The Crew Of The Alioni. (1999, January-June). *Amnesty International Bulletin “Concerns in Europe”*, from <http://www.apsny.org/amnesty199906.html>

⁴⁸ Source: Abkhazia; Correspondent: Corr, A. (2003, July 28), from www.apsny.ru

been taxed or paid customs on, which is illegal according to Georgian legislation and therefore, the circulation of these goods directly negatively affects the state. On the other hand, the intermediate buyer of these products has not officially ‘imported’ the goods, as the Tskhinvali Region is officially part of Georgia, and legally the buyer is just moving product from point A to point B within a single country. Thus, existing legislation does not require registering the goods with Customs or paying tariffs.

At the same time, customs and other law enforcement structures cannot (and frequently do not) detain freight entering Georgia from Russia. Representatives from both the Ossetian and Georgian sides (among them criminals) participate in corrupt agreements, and law enforcement bodies use the situation for personal enrichment.

The smuggling of goods from Russia to Georgia mainly occurs through the Ergneti market, rather than vice-versa, consisting mainly of wheat, wheat flower, cigarettes, fuel, and other goods of first consumption (mostly food). Russian customs are allied with peacekeeping forces and together they participate in illegal trade.⁴⁹

According to data from the Extraordinary Legion, approximately 150 light cars move daily from Ergneti market to Tbilisi, bringing contraband goods (among them tobacco products produced in Russia) worth more than GEL 500,000.⁵⁰ It appears that the annual value of smuggled goods from Ergneti “offshore” to Tbilisi is near GEL 200 million (approximately 100 million USD).⁵¹ However, gasoline and diesel transported by tanks to other regions of Georgia are not included in the aforementioned figure. In this case, the cash spent in the Tskhinvali Region, in Ergneti market for contraband goods, should be considered capital flowing out of Georgia.

Ergneti market is divided in two - the Ossetian and the Georgian controlled parts (see Scheme 1. Ergneti Market). The former is controlled by Lokha Chibirov, son of the former President of the self-proclaimed Republic of South Ossetia and the latter by Liangi Chavchavadze, a former official of the Ministry of Internal Affairs.

During fieldwork of the TraCCC research group in Ergneti market in July 2003, it was confirmed that there was an organization just at the end of the market, alongside a traffic police post, called “Express Service LTD”, which purported to offer safe freight delivery. It was controlled by the nephew of the market controller, and consisted of criminals. They offered to escort illegal goods in exchange for money. For example, an escort to Mtskheta (near Tbilisi) cost GEL 800, or less than \$400. Supposedly, part of this payment went to law enforcement officials for letting the escort caravan pass without problems.

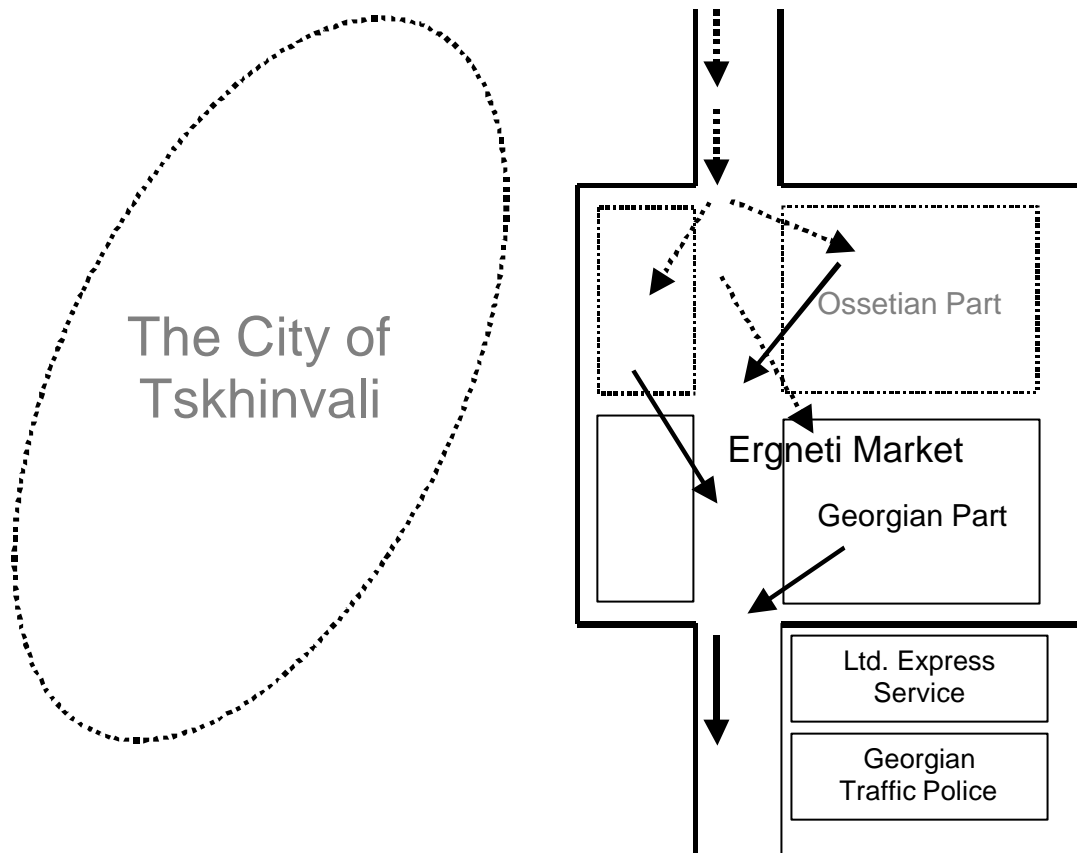
Russian peacekeeping forces in the Tskhinvali Region also take bribes (GEL 20 approx. 10 USD per truck) to let trucks pass, according to a “Kamaz” truck driver interviewed at the Ergneti market. He also claimed representatives of the traffic police, security or Extraordinary Legion also escort goods.

⁴⁹ Interview with officers of State Department of Intelligence of Georgia. (2003, May 30).

⁵⁰ Source: Materials submitted by the Budgetary Office of the Parliament of Georgia. (2003).

⁵¹ Ibid.

Scheme 1. Ergneti Market.



The lucrative and illegal *wheat flour* market in Ergneti requires special mention. According to the estimations of the National Security Council, 70 percent of consumed flour in Georgia is foreign and 35-40 percent is smuggled into the country.⁵² Supposedly, the greatest volume of smuggled flour comes through Ergneti market. Around 16 Russian companies from the Krasnodar and Stavropol regions import flour to the Tskhinvali Region for trade in Ergneti market. According to the National Security Council estimations, the flour illegally flowing from Ergneti market is valued at several hundred million US dollars (no exact figure is given).⁵³ The price difference between Ergneti and the rest of Georgia also makes this business profitable.

There are two options for smuggling flour. The first is to smuggle it without appropriate documents under escort by criminals or law enforcement officials. The second is to smuggle with false documents, and the flour is transported to nearby Georgian mills, re-packed into Georgian sacks (with Georgian labels) from Russian ones and labels affixed identify the flour as domestically produced. In this case, a special convoy is not needed - just smaller bribes for the traffic police on the transport to Tbilisi.

Efforts to Control Ergneti Market

In 1999 a decree by the former President of Georgia Eduard Shevardnadze, concerning the status of the customs “Gori” as a place for payment of customs tariffs for the freights which move from the Tskhinvali Region, had some effect in the three month period after this change. According to a National Security

⁵² Report by the National Security Council of Georgia on anti-smuggling measures, p. 9.

⁵³ Report by the National Security Council of Georgia on Dangerous Scale of Smuggling and fight against it. (2000, January 1 – 2001, May 1), p.18.

Council report, as a result of this decree, and joint efforts of law enforcement bodies, customs tariffs substantially increased. After some time though, due to corruption, these structures ceased to apply their efforts and currently this mechanism is not working at all.⁵⁴

Sometimes special raids have been organized by the Extraordinary Legion, together with other law enforcement structures, in an attempt to control the movement of goods from Ergneti market. However, these raids more often represent the efforts of corrupt law enforcement officials to collect illegal revenues than an attempt to make the freights pay customs tariffs. As a result of one such raid, a group of people from the Georgian villages neighboring the Tskhinvali Region blocked the Tskhinvali-Gori auto way in a protest to stop efforts directed at closing the Ergneti market.⁵⁵ This case points to the fact that not only Ossetians are interested in keeping the market open, but Georgians are as well since it provides a source of income. A large part of the Georgian population neighboring the Tskhinvali Region are in one way or another indirectly affected by the Ergneti market, including: large and small wholesale traders, transport drivers, loaders, and finally the consumers who purchase cheap products at the market.

Smuggling Groups

Abkhaz, Ossetian, and Georgian Groups

Smuggling is impossible if there are no criminal networks that link different crime groups with corrupt law enforcement officers and government officials. Crime groups operate in the Gali district and Kodori Gorge of Abkhazia, and in the Zugdidi district of Samegrelo. There are also Georgian and Ossetian crime groups in Tskhinvali and Gori; part of a smuggling network concentrated on the Ergneti market – a trans-shipment point of smuggled goods. These groups collaborate with each other regardless of their ethnic origins and political orientation. They have different, sometimes paradoxical partnerships with other crime groups, law enforcement bodies, and governmental structures (or individual government officials) in other parts of Abkhazia, South Ossetia, and Georgia. Importantly, all links of this intricate network must be in place, for if smugglers lose even one link, the entire smuggling process stops. Goods flowing in either direction from Russia, Turkey or any other country through the territory of Abkhazia or the Tskhinvali Region into Georgia are protected through a system of bribes, mutual sharing, and “roofs” of influential government officials outside of and within the secessionist territories.⁵⁶ All main actors (law enforcement bodies, crime groups, and Russian peacekeepers) especially in the Gali and Zugdidi regions and in the Ergneti market, along with their links to other groups or individuals, compose a successful smuggling network that operates with near impunity and increasingly expands its influence by involving more and more poor people in the contraband trade.

There are many questions that arise in such circumstances. How dangerous is the criminal situation and smuggling both to the population living on both sides of the Enguri River and for the international community at large? What impact does it have on the economic, political, and military situation? What forms of contraband trade and mechanisms exist, and what are the dominant contraband goods? Which political actors of the conflict benefit from the situation, and, most importantly, are there any possible solutions to the problem?

⁵⁴ Ibid, p.28.

⁵⁵ Naselenie gruzinskikh sel perekrilo dvizhenie po trasse Tskhinvali-Gori. (2003, April), from <http://ossetia-info.narod.ru/9-04-2003-2.htm>

⁵⁶ A “roof” is a personal patron or clan - usually identified with a state organization - which protects criminal activity.

Abkhaz Armed Groups, Georgian Guerillas and Crime Groups

The territory of Abkhazia is divided in four areas controlled by four criminal groups: 1) The Western Abkhazia group controls the transportation of oil, tobacco, and nutritional products, and to a lesser extent is involved in drug smuggling to Russia, and 2) The Gagra group (mainly local Armenians) controls timber exports and is complicit in drug production and trade, 3) The Gudauta group (mainly Abkhazians) is heavily involved in the narcotics business and supervises drug exports, and 4) The Chechen-Abkhazian group controls the Eastern region of Abkhazia as well as goods crossing the CFL, the Sukhumi railway station, transport routes and entrepreneurial activities.⁵⁷ Notably, the distinction among official security and police forces, criminals, and various armed groups is completely blurred.

Abkhaz armed groups operating in the Gali district smuggle various goods across the CFL between the Gali and Zugdidi districts. Some of them have an “official” status, i.e., represent secessionist law enforcement structures. The largest and most powerful group (50 people) is headed by Valmer Butba. The group (10 people) headed by Roza Mirtskhulava operates with Butba’s group. They have the status of Presidential Guard, though it is incomprehensible why they are stationed in Gali instead of Sukhumi. Roza Mirtskhulava, renowned for her acute hatred and cruelty toward Georgians, is Abkhazian by origin and her former husband is an Armenian and former member of the Georgian guerilla group “Forest Brothers”. Various sources report that the Butba group has modern weapons, including anti-aircraft artillery, the Butba enjoys high prestige among criminals, and the de-facto government structures alike.⁵⁸

The second most powerful group is headed by Otar Turnanba, who officially represents the Security Service of Abkhazia. Turnanba is based in the villages of Makhundjia and Shesheleti in the Gali district and is subordinate to General Anua, the commander of the Ministry of Defense, western part.⁵⁹ The group’s main activities are looting and robbery, though his group is also complicit in smuggling. Turnanba often obliges ethnically Georgian residents of Gali district to work on his land, in slave-like conditions. Additionally, there are other, smaller criminal groups in Gali, such as the one headed by Genadi Ashkhacava, which is a typical criminal group.

Armed groups on the Georgian side can be divided into two groups: guerilla groups and so-called *zviadist* groups.⁶⁰ Two major guerilla groups on the Georgian side are the “Forest Brothers”, headed by Dato Shengelia, and the “White Legion” headed by Zurab Samushia. Furthermore, there are people who call themselves guerillas though the guerillas do not recognize them. Moreover, it is difficult to discern who guerillas are and who are not. The field commander of the “White Legion” mentioned that only 5-10 percent of guerillas are *truly* guerillas while the others are impostors.⁶¹ He clustered all guerillas into two groups: “real guerillas” who fight and so-called “asphalt guerillas” that have nice cars, live in Zugdidi rather than in forests, and are complicit in smuggling across the CFL.

But even “real guerillas” are involved in smuggling. As one journalist stated there are no pure and honest guerillas. Hence, there is one armed group stationed in the village of Torsa in the Zugdidi district with the official status of Special Forces of the Ministry of State Security of the Abkhaz Government in exile, headed by Sergo Ubilava, who has no connection with smuggling.

⁵⁷ Report by Valeri Khaburdzania, Minister of State Security of Georgia, on the activities implemented in 2002, from <http://www.sus.ge/#> This information was also confirmed by various Russian internet sources.

⁵⁸ O faktakh narusheni prav cheloveka i kriminogennoi obstanovke na territorii Avtonomnoi Respubliki Abkhaziya (Gruziya). (2002, July 31), from <http://www.abkhazeti.ru/arc/InfoGenotside.zip>

⁵⁹ I bid.

⁶⁰ „Zviadists“ – followers of Zviad Gamsakhurdia, ex-president of Georgia, who was dismissed from his post after the coup d’etat on 6 January 1992 and committed a suicide on 1993, December 31.

⁶¹ Interview with one of commanders of Georgian guerilla group “White Legion”. (2003, August 3).

It is fair to say that the “Forest Brothers” dominate smuggling across the CFL on the Enguri River. Though not complicit in smuggling, “White Legion”, inspires more fear amongst Abkhazians than the “Forest Brothers”. The representative of the former confirms that “White Legion” is not involved in illegal business. Mikheil Machavariani, the former Minister of Tax Revenues, also noted that the “White Legion” did not play a key role in smuggling when he was minister.⁶² Guerilla groups are mostly active in the upper and lower zones of the Gali district. The lower part is considered to be under the “Forest Brothers” control.⁶³

Valeri Khaburdzania, the Minister of State Security of Georgia, accused Davit Shengelia, the “Forest Brothers” leader, of smuggling. At the December 21, 2002 meeting of the National Security Council, Valeri Khaburdzania said that Davit Shengelia is involved in contraband at the administrative border between breakaway Abkhazia and the rest of Georgia. The leader dismissed the accusation and leveled a counter-claim that he has evidence proving that employees of the Ministry of State Security are involved in smuggling.⁶⁴

There are different opinions on the activities of guerillas in the Zugdidi region. People say that the guerilla movement has no patron and people who want to fight must do some type of business in order to survive, support their families, and buy arms for their activities. In contrast to respondents interviewed in Tbilisi, almost every respondent in Zugdidi told us that the guerillas, in particular Dato Shengelia, are patriots who only seek to do good for the country, and only resort to criminality because their government does not care about them. However, the sociological survey results by the ICCN (International Center on Conflict and Negotiation) demonstrate Zugdidi residents have the opposite opinion. In that survey, every fourth respondent from Zugdidi demanded that the authorities stop guerilla activities, while the number of respondents willing to stop them is much lower in other regions. The report argues that “a negative attitude towards guerillas, observed in quite a large part of the residents of Zugdidi, could be caused by the involvement of some leaders of the movements in criminal business having a negative effect on a certain part of the population”.⁶⁵

One of the “Forest Brothers” commanders told the TraCCC research group that he and his people participate in the illegal fuel business across the CFL but they would agree to pay state taxes and legalize their businesses if the Government of Georgia demanded it. He said the Georgian regional police also participate in the smuggling of fuel and cigarettes across the CFL, and they do not bother each other. He also mentioned that the Extraordinary Legion stationed in Zugdidi does not interfere at all in their activities.⁶⁶

According to the Chairman of the Council (in exile) of one of the villages in the Gali district, Dato Shengelia’s share from smuggling, for instance, might not exceed 30 percent. The rest is distributed among law enforcement structures at local, regional, and central levels, including central government structures of the Government of Abkhazia in exile.⁶⁷ All of these are illegal distributions.

Jabba Ioseliani, the former leader of the Georgian paramilitary group *Mkhedrioni* that was active in Abkhazia during the war, claimed that after the end of the war only one guerilla group existed, the “Forest Brothers”. He stated that, “At least 80 percent of them [Forest Brothers] were “Mkhedrioni” members”.⁶⁸

⁶² Interview with Micheil Machavariani, former Minister of Tax revenues. (2003, February 25).

⁶³ Darchiashvili, D. (2003) *Georgia: A Hostage to Arms*; in Safeworld project, Arms and Security in the Caucasus, from <http://www.saferworld.co.uk/CaucasusRep.htm>

⁶⁴ Security Minister Accuses Partisan Leader in Smuggling, (2002, December 23). Tbilisi, Georgia. *Civil Georgia*, from www.civil.ge

⁶⁵ Khutsishvili, G. (Ed.). (2002). The Abkhazia Problem Reflected by Public Opinion. (2001 – 2002). *Findings of the Sociological Surveys in Georgia. ICCN*, pp. 234-235.

⁶⁶ Interview with one of commanders of Georgian guerilla group „Forest Brothers“. (2003, August 5).

⁶⁷ Interview with a Chairman of a village Council in exile from the Gali district, (2003, August 4).

⁶⁸ Billingsley, D. (2001). *Security Deteriorates Along the Abkhazia-Georgia Ceasefire Line*, from http://www.janes.com/security/international_security/news/jir/jir010906_1_n.shtml

The “Forest Brothers” further split up into two groups: Slava Bigvava’s group and Bakuri Buleskeria’s group. One journalist mentioned to our research group in Zugdidi that the field commander of the “White Legion” hates his counterparts in the “Forest Brothers” since they do not allow his group to do business. *Zviadists* are mainly stationed in the Tsalenjikha district and their commanders are Gvazava (last name), and “King Konga” (nickname).

Badri Zarandia led another Georgian armed group in Zugdidi until his assassination by unknown assailants in January 2002. The Internet news site, “www.civil.ge” reported, “Authorities say murder of Badri Zarandia, co-chairman of the “Patriots’ Union” and leader of the armed paramilitary group in the region of Samegrelo, might be linked to arms smuggling. Police rules out version of robbery”.⁶⁹

Georgian guerillas have a dual role: a) a political role that makes them fight against Abkhaz separatism, and b) a criminal role that created an incentive for them to cooperate with Abkhaz militia and criminal groups in smuggling. Thus the armed groups fight for both political and criminal reasons. The latter could be instigated by disagreements over division of spoils. The guerilla activity might be motivated by both criminal and ideological zeal combined in one campaign. Both reasons provide justification to keep weapons and to control smuggling in order to benefit from it.

Georgian and Abkhaz criminals operate collaboratively in robberies, lootings, and most importantly, in smuggling. There are reports from the Gali district that several robberies have been committed by masked robbers that spoke Georgian.⁷⁰

Ossetian and Georgian Crime Groups

The activities of criminal groups in the Tskhinvali Region and the district of Gori are also closely connected to smuggling. There is a very grave criminal situation in these regions, exacerbated by poverty and political instability. The illegal profits from smuggling activities through Ergneti market are significant. There is armed Ossetian security on the territory of the aforementioned market, the function of which is to implement control over the mobilization of incomes for the Budget of South Ossetia. At the same time, according to expert estimations, only 10 percent of mobilized funds are transferred to the budget, the rest going to various branches of the government of the self-proclaimed republic as illegal income.⁷¹

Georgian crime groups are very active and collaborate with Ossetian crime groups.

One of the most prominent is a crime group headed by a Georgian citizen going by the alias *Robota*. In August 2003 within the government’s anti-smuggling framework police arrested two Georgian suspects, Nikoloz Khmiadashvili known by the nickname *Robota* and Giorgi Durglishvili, called *Kokhta*. The official reason for their arrest was illegal possession of arms and drugs (heroin). Koba Narchemashvili, the former Minister of Internal Affairs, stated that a serious criminal group was seized that was escorting cargo from Ergneti market and creating obstacles for entrepreneurs who were trying to do legal business. *Robota*’s group was comprised of 40 criminals, residing in the Georgian-Ossetian conflict zone.

After their arrest, the Gori-Tskhinvali route was blocked by locals who requested their release stating their arrest would result in increased activity by Ossetian criminal groups, as Khmiadashvili had great influence and could control the situation in the conflict zone. Additionally, their lawyer and supporters claimed the

⁶⁹ Murder of Zarandia Might Be Linked to Arms Smuggling - Officials Say. (2003, January 9). Tbilisi, Georgia. *Civil Georgia*, from www.civil.ge

⁷⁰ Interviews with local government officials and officers of law enforcement bodies in Zugdidi. (2003, August 2-6).

⁷¹ *Economic and Social Consequences of Internal Conflicts*. (2003). Tbilisi, Georgia. Parliament’s Budgetary Office of Georgia, p. 24, from www.pbo.ge

police illegally put drugs and arms on them thus creating the reason for their arrest. The Minister also stated that their arrest will prove that the rumors about smugglers receiving protection from the local and central government, in particular from the Ministry of Internal Affairs are groundless. Avtandil Jorbenadze, the former State Minister of Georgia added, “According to some data the detainees have protectors in the State Chancellery as well and I will do everything in order to guarantee a fair investigation and arrest their protector”.⁷² The newspaper *Kviris Palitra* adds that the same government ministry had previously arrested criminals who they used to protect, and if not for the unconditional request by the State Minister, the police would have left them untouched. It went on to claim that the arrest was simply a pre-election performance rather than a true anti-criminal measure.⁷³ Later, Irakli Oqruashvili, the newly appointed governor of Shida Kartli, claimed that the patron in the State Chancellery was Irakli Bochoridze, the head of Regional Policy and Management Service of the former President of Georgia.⁷⁴ According to the *Rezonansi* newspaper, the illegal profits going to patrons in the Chancellery totaled 20,000-30,000 USD monthly, while those to the Ministry of Internal Affairs was substantially more.⁷⁵

Kviris Palitra gives further details on criminals connected to this case. *Robota* was a member of a specially appointed police force (*spetsnaz*) stationed in the town of Gori. In 1997-1998, he lived in Moscow where his criminal activity mainly concentrated on stealing cars and selling them in Central Asia and Georgia. He returned to Georgia in 2001 and allied with his former rival Givi Jalabadze, also a famous smuggler and allegedly a police agent who had ties with Ossetian criminal groups. Both he and *Robota* needed the Ossetians for their successful business in stolen cars. They started to cooperate with another Ossetian criminal group headed by Alan Dzigoev. *Robota*'s group was also engaged in drug trafficking. One member of *Robota*'s group, Guja Chokheli-Khubashvili, (an Ossetian by origin) was selling the drug “Metadon” trafficked from Tskhinvali to the rest of Georgia.⁷⁶

Robota's patron (*krisha* or “roof”) was his cousin, the Deputy Head of the Regional Police of Shida Kartli who is a personal friend of Koba Narchemashvili, the former Minister of Internal Affairs. Additionally, it was believed they had a protector in the State Chancellery. Thus, if any government body began to investigate the activities of *Robota*'s group, and police were not able to stop it, then the Chancellery intervened.⁷⁷

The second suspect, Giorgi Durglishvili (nickname *Kokhta*), had been an active smuggler since 1996. He started cooperation with *Robota* after 2002 and he had a protector (*krisha*) in the State Chancellery. Together they managed the company “Express Service” LTD in the Ergneti market, assuring “safe,” though illegal, delivery of goods to Georgian markets. An anonymous respondent from the newspaper *Kviris Palitra* claimed that if owners of contraband goods do not ask them to escort the goods, they would shoot at or seize the truck or even kill the owner and then blame everything on the Ossetians.⁷⁸

The TraCCC anti-smuggling research group disguised themselves when interviewing the criminals from “Express Service LTD” several days prior to their arrest in the Ergneti Market where their “office” was located. Thinking that the research group members were smugglers wanting to buy one truck of wheat flour, they demanded GEL 800 (less than USD 400) to escort a truck to the Mtskheta district, which is an hour and a half drive. The traffic police officer present even recommended ways to do it better.

⁷² Newspaper *24 Saati*. (2003, August 25). No 228, p. A2.

⁷³ Newspaper *Kviris Palitra*. (2003, August 25-31). No 34, pp. 5, 27.

⁷⁴ Oqruashvili quoted in newspaper *Khvalindeli Dge*. (2003, December 26). No 251 (410), from <http://www.opentext.org.ge/xdge/default.htm>

⁷⁵ Newspaper *Kviris Palitra*. (2003, December 29-January 4). No 52, from <http://www.opentext.org.ge/kvirispalitra/default.htm>

⁷⁶ Ibid.

⁷⁷ Newspaper *Kviris Palitra*. (2003, August 25-31). No 34, pp. 5, 27.

⁷⁸ Ibid.

Robota managed to administer the criminal activities of his group from jail, though he and *Kokhta* were released just after the November 2003 Rose Revolution in Georgia. Their patrons managed to liberate many criminals before the new government could act. According to the newspaper *Kviris Palitra*, *Robota* was transferred to a prison hospital, allegedly because of an illness, and then was subsequently released. In fact, a huge amount of money was paid for this to be carried out. Recently, within the anti-smuggling framework of the newly appointed governor, Mr. Oqruashvili, two other members of *Robota*'s group were detained while two others managed to escape.⁷⁹

The aforementioned group of Alan Dzigoev, a key collaborator with *Robota* in the car trafficking business, also had other illegal dealings as well, notably in the kidnapping business, revealed after his detainment in Zugdidi. The newspaper *Khvalindeli Dge* reported that a criminal group comprised of six people was arrested in Zugdidi by the Ministry of Internal Affairs, among them the former head of Special Forces of the self-proclaimed republic of South Ossetia. The newspaper links his name with the kidnapping of Colonel Zurab Durglishvili in August 2002 (Durglishvili was linked to arms trade in the conflict zones that is discussed in this report).⁸⁰ Additionally, the newspaper *24 saati* states that Dzigoev is charged with kidnapping Teona Bagrationi⁸¹ and *Kviris Palitra* reports one more kidnapping case in which Dzigoev's group was involved.⁸² Thus, the activities of Dzigoev's group consisted of car trafficking as well as kidnapping. Dzigoev committed suicide after he was arrested.

The groups of Marek and Erik Dudaevs are also notable among Ossetian criminals that frequently attack civilians and representatives of law enforcement bodies on Georgian controlled territory. This group is untouchable from the Ossetian side and acts with impunity directly in front of the eyes of peacekeepers and is complicit in drug trafficking. The so-called "Dgvrisi Gang", headed by Nugzar Jioev, and the group, "Nadejda", are the most powerful compared to other groups. In the Java district, the armed group headed by Alan Bagiev oversees control, while the group headed by Slava Tagilov operates in the Znauri district.⁸³

According to Mamuka Areshidze, an expert on the Caucasus and a former Georgian MP, the "black" business of South Ossetia is backed and protected by the "Sport Mafia", headed by Jambul Tedeev, the chief trainer of Russia's free-style wrestling team.⁸⁴ Lokha Chibirov, the former chief of the so-called *Omon* (a special police detachment) of the self-proclaimed republic is on this wrestling team. Jambul's brother, Ibragim Tedeev, directly controls the ongoing political processes in the Tskhinvali Region.

Law Enforcement Structures

It would be a mistake to claim that all law enforcement structures are completely complicit in aiding criminal groups and smuggling networks. These structures have different tasks and responsibilities, and many officers have no connection whatsoever to smuggling. But many facts provide direct evidence that some departments and/or officials of the law enforcement bodies are connected to smuggling, and from this perspective, they represent a smuggling network group.

This evidence is put forth in many chapters of this report, though in most cases, officials of law enforcement bodies deny participation in smuggling networks. Thus, an officer of the Department of State Security of

⁷⁹ Newspaper *Kviris Palitra*. (2003, December 29-January 4). No 52, from <http://www.opentext.org.ge/kvirispalitra/default.htm>

⁸⁰ Newspaper *Khvalindeli Dge*. (2003, August 14). No 155(314), from <http://www.opentext.org.ge/xdge/default.htm>

⁸¹ Newspaper *24 saati*. (2003, July 24). No 201, p. A3.

⁸² Newspaper *Kviris Palitra*. (2003, August 25-31). No 34, pp. 5, 27.

⁸³ Report by Valeri Khaburdzania, Minister of State Security of Georgia on the activities implemented in 2002, from <http://www.sus.ge/#>

⁸⁴ Areshidze, M. (2002). *Konfliktების მიმდინარე ეკონომიკური მიზეზები*. Tbilisi, Georgia, Saqartvelo.

the Region of Shida Kartli denied the allegations that officers of his regional security service escort contraband freight admitting only that it may happen very rarely. Instead, he professed the involvement of Ossetian law enforcement structures in smuggling operations.⁸⁵

Russian Peacekeeping Forces (PKF)

Russian peacekeeping forces are wholly complicit in smuggling activities. In Abkhazia, they control all official bridges and without their say, no truck can pass. They receive bribes from Georgian and Abkhazian smugglers, which allow the latter to pass through checkpoints without problems. Economic reasons, interwoven with political ones, provide incentive for the Russian peacekeepers to engineer conflicts before their mandate runs out, thus enabling them to extend their presence in the region.⁸⁶

According to the Chairman of the village Council of Tagiloni, trucks with the PKF symbols deliver gasoline to gas stations in Zugdidi. The peacekeepers smuggling activities, though not as frequent as the activities of Georgian guerillas and the regional police, are still problematic. In one instance, a Russian tank full of illegal gasoline accidentally overturned in the Gagra district. The Russian press-secretary of peacekeeping forces stated that the gasoline had come from the North Caucasian military base located in Adler, Krasnodar region that supplies gasoline to peacekeepers stationed in Abkhazia. The military does not pay any custom taxes on gasoline in Georgia and the Georgian side does not control the volume of imported fuel. In Armenia however, the Russian military must buy gasoline from local suppliers, thereby reducing this type of illegal smuggling activity seen in Georgia.⁸⁷

Russian peacekeepers participate in smuggling of stolen cars when they allow criminals to cross the CFL on the Enguri River and take bribes for these services. In 2002, the independent Georgian television station “Rustavi 2” documented this illegal activity in a special program devoted to the issue.

On September 29, 2000 the Caucasus Press reported that Bondo Djikia, the former governor of the western Georgian region of Samegrelo-Zemo Svaneti, had sent a letter to Major General Sergei Korobko, the commander of CIS peacekeeping forces deployed along the border between Abkhazia and Georgia, accusing his peacekeepers, all of whom are Russian servicemen, of cooperating with criminal groups in smuggling stolen vehicles. The Major General, in turn, claimed that the Georgian police cooperate with the smugglers.⁸⁸

According to the Ministry of State Security of the Government of Abkhazia in exile, Russian soldiers recruited to peacekeeping forces are sometimes not paid when they finish their military contracts. The aforementioned ministry has conveyed to the TraCCC research group the Russian court cases where soldiers and officers have complained of this treatment. Consequently, with no certainty of being paid, peacekeepers engage in illegal activities to provide income, though this does not necessarily mean that all peacekeepers are complicit in smuggling and corruption by grievance.

Socially Vulnerable Groups of Smugglers

As in many other cases, wholesale smugglers use a broad net of socially vulnerable people including refugees, internally displaced persons, and the poor for whom participation in smuggling is one rare oppor-

⁸⁵ Interview with an officer of the Department of State Security of the Region of Shida Kartli. (2003, July 30).

⁸⁶ Mindorashvili, M. Gangster Wars in Abkhazia. By a Tbilisi-based independent expert. (2001, June 20), *Central Asia - Caucasus Analyst*, from <http://www.cacianalyst.org>

⁸⁷ Mirotvortsi kontroliruiut potok kontrabandi benzina iz Rossii v Gruzii. (2002, August 27), from www.abkhazeti.ru

⁸⁸ Rein, A. Georgian regional officials say Russian peacekeepers engage in smuggling (2000, October 2). *Georgia Daily Digest*. Eurasianet.org, from <http://www.eurasianet.org/resource/georgia/hypermail/200010/0001.html>

tunity to survive in the continuing economic crisis of Georgia. The TraCCC research group spoke to many Georgian petty cigarette traders and Ossetian petty wheat flour, and other smuggled food product traders in the Zugdidi and Ergneti markets. In both markets there are thousands of petty traders who rely on their jobs to support their families, and many have children with them.

Despite the general negative impact of smuggling on any conflict resolution, there may be one positive impact. Unlike Abkhazia with its continuing strong post-conflict hostile perceptions, the Ergneti market in the Tskhinvali Region has played a positive force for economic cooperation between Ossetians and Georgians, despite their participation in smuggling. “Ossetians are smarter than Abkhazians,” said one expert from the American Chamber of Commerce in Georgia, “because they tried to use the Roki tunnel for their economic goals and now both Georgians and Ossetians can freely go to Tbilisi and Tskhinvali, have dinner in restaurants there and more or less safely return to their homes. It is difficult even to imagine the same in any part of Abkhazia”.⁸⁹

Any attempt to eliminate the market through administrative methods may incite new conflict or prove fruitless, as other markets will just show up elsewhere. Smuggling through Abkhazia and the Tskhinvali Region has transformed into a critical social problem and appropriate methods of fighting it need to be carefully selected.

Groups in Power and Clans

The smuggling networks in Abkhazia and the Tskhinvali Region contribute to overall crime, create corrupt economic interests in powerful political groups, and contribute to the prolonged political status quo. Groups in power benefit from smuggling both financially and politically. Smuggling and protracted conflict are two pillars which help political clans both inside and outside Abkhazia and the Tskhinvali Region to control material and coercive resources, limit democracy, and keep political power for an indefinite time. For example, no new elections for the head of the Government-of-Abkhazia-in-Exile have been held for over ten years. In the mean time, the secessionist President of Abkhazia held Soviet-type elections with no competitive candidates and winning 98 percent of the vote. Both leaders of Abkhazia are hostile to each other, but their grassroots level supporters and the state organizations successfully cooperate with each other through the smuggling networks. Sometimes supporters get political orders from their patrons, and then the situation becomes tense, but in periods between orders they are occupied with making money by cooperating in these networks. It is not surprising that many people in Georgia ask the question, “Who are the ‘Forest Brothers’, partisans or smugglers?”. The same concerns exist about the secessionist-supporting Abkhazian paramilitary detachments that frequently carry out “cleansings” against Georgians in the Gali district, while cooperation with Georgian smugglers continues.⁹⁰

The former Government of Georgia has also benefited from the existing status quo. The Constitution of Georgia will not regulate the administrative-territorial divisions within Georgia until the conflict in Abkhazia is concluded and the final status of Abkhazia is determined. The ex-President of Georgia appointed local government administrators, regional governments, and governors instead of holding democratic elections. The justification for these undemocratic measures was due to concerns about aggression from the separatist regimes. Gerrymandering and the interference of local and regional authorities in presidential, parliamentary, and local elections has become an integral part of the electoral process in Georgia.

The limitation of democratic freedoms, especially at the grassroots level, has led to the formation of political clans who dispose of public property in their own interests and keep citizens in extreme poverty. They

⁸⁹ Interview with experts from the American Chamber of Commerce in Georgia. (2003, April 17).

⁹⁰ The last time such “cleansing” took place was in the second part of May 2003 with the participation of 500 gunmen from the so-called “spetsnaz”, from <http://www.abkhazya.org/server/-docs/news/>

use militant ideologies and corrupt, coercive and criminal structures to keep citizens terrorized (for example, through a permanent irrational fear of war) or implant feelings of revenge in their minds. Common ethnic Abkhazians and Georgians are manipulated and victimized by these clans. Any democratic change is a serious threat to the power of the ruling groups. Democratic change can initiate conflict resolution and facilitate the transformation of smuggling activities, hopefully, into legal businesses.

Two Governments of Abkhazia

There are two governments of Abkhazia: the government of Abkhazia in exile headed by Tamaz Nadareishvili and the de facto government headed by secessionist president Vladislav Ardzinba. The first is based in Tbilisi and the other in Sukhumi.

David Shengelia, leader of the “Forest Brothers”, has often been accused of having dealings with Tamaz Nadareishvili. On June 9, 2003, the *Caucasus Press* reported that Tamaz Nadareishvili rejected as “absurd” an allegation by two members of the Parliament of Georgia that he extends protection to individuals engaged in smuggling goods from Abkhazia. Tengiz Jgushia, a MP who represents the western Georgian district of Zugdidi, said that a member of the “Forest Brothers”, which operates in Zugdidi and Gali, is engaged in smuggling with Nadareishvili’s patronage. Nadareishvili said such allegations are intended to discredit him in the eyes of Georgian internally displaced persons (IDPs) who fled Abkhazia in 1992-1993.⁹¹ Earlier, Tamaz Nadareishvili appointed David Shengelia to the position of Deputy Administrator of the Gali district in exile, but in 2003 dismissed him due to suspicions of his involvement in smuggling, though other reasons may have played a role.⁹²

Vladislav Ardzinba, de facto president of Abkhazia, has created his own clan of relatives with informal influence and privileged access to material and financial resources in the region. They dominate the most profitable business sectors, and use different methods of enrichment, including smuggling and other illegal economic activities. Despite the consequences of the 1992-1993 war and anti-Georgian post-war propaganda, which the local political elite have used to divert the local population’s attention from internal social and economic problems, public discussions on corruption and local clans are on the agenda in the current political life of Abkhazia.

A Russian source reports an anonymous representative of the *Amtsakhara* opposition movement as stating, “people close to President Vladislav Ardzinba, such as Levan and Pavel (Pasha) Ardzinbas, Genadi Gagulia, and Ruslan Ardzinba (called *Seryi kardinal* or Power Broker), monopolize power in Abkhazia and enjoy unlimited influence, controlling the entire shadow business in the republic”.⁹³

The most profitable illegal business sectors are distributed accordingly: Ardzinba’s daughter, Madina, controls the tourism industry as the General Director of the Rusal-Tour Travel which was registered in the Russian Federation on April 5, 2002. In violation of the license which was given to her company by the Russian Ministry of Economic Development and Trade only for commercial activities, the company is at the same time the General Representative of the Government of Republic of Abkhazia in Russian Federation on questions of tourism and resorts.⁹⁴ This is also in violation of the Russian government’s own obligations based on the January 19, 1996 agreement of the CIS presidents.⁹⁵ Her husband, Alkhas Argun, is the General Director of the recently introduced cellular company in

⁹¹ Burke, J. (2000, June 9). Georgian security council focuses on smuggling. *Georgia Daily Digest*, *Eurasianet.org*, from <http://www.eurasianet.org/resource/georgia/hypermail/200006/0020.html>

⁹² Interview with Tamaz Nadareishvili, Head of the Government of Abkhazia in exile. (2003, June 24).

⁹³ Tishkin, A. (2003, June 6). *Dobrovolnaia otstavka – edinstvennyi vikhod?*, from <http://www.rusedina.org/mail/?id=3034>

⁹⁴ Travel Agency *Rusal Tour*, from <http://www.abkhazia.ru/main.php>

⁹⁵ Please see in Appendix A the paragraph on sanctions against the secessionist Government of Abkhazia.

Abkhazia, *Akva-fon*, which imports equipment making it possible to cover all the towns and villages on the coast.⁹⁶ He is also the manager of TOK International, a company in Moscow that sells computer equipment. Together, the couple own *Dioskuria Ltd.*, which leases one of the biggest holiday houses, *Nart*, in Gagra.

Vladislav Ardzinba's close relative, Pasha Ardzinba, is mainly engaged in the timber exporting business by Turkish ships. From twenty to thirty thousands cubic meters of valuable timber is exported from Abkhazia annually, with a profit of USD 5-6 million. The Abkhaz opposition movement *Amtsakhara* also accused Pasha of smuggling out ferrous metals with a total value of USD 6 million and in the aftermath of the war illegally exported alloyed sheet steel with a value of USD 1.5 million from the Sukhumi factory of Gas Equipment. The head of Sukhumi port, Zurab Ardzinba, and his brother Aka (assassinated by unknown assailants in Moscow in February 2003) are engaged in oil product smuggling. Zurab imports oil products from Russia by ship and then moves it to the Gali district by tanks belonging to Aka, and then on to the Samegrelo region. Ardzinba's clan also controls the cigarette factory in Gudauta that supplies Georgia and Russia with cigarettes without excise stamps.

The former President's nephew, Levan Ardzinba (also assassinated in September 2003) controlled the cigarette business and participated in all business operations of Pasha Ardzinba. He had extensive links with the Georgian side. He was accused by the opposition movement *Amtsakhara* of having dealings with the leader of the "Forest Brothers". As a journalist of Rustavi 2 mentioned to the TraCCC research group, the Georgian government and law enforcement officials met Levan in Zugdidi at the beginning of August 2003, the last time he visited Batumi and Tbilisi when he met several government officials and businesspeople for business meetings. According to the same source, Givi Agrba, the Minister of State Security of Abkhazian de-facto government, Levan Ardzinba and Elguja Jamburia, the head of the Regional Police of Samegrelo, were doing joint business across the CFL.

South Ossetian Government

The South Ossetian secessionist government is also motivated to control smuggling into Georgia, which is the main source of its official and unofficial income. Micheil Machavariani, as the former Minister of Tax Revenues, suggested that the Ossetian government should legalize trade in the Ergneti market promising them the largest part of the official revenue. But, he was refused and it was explained to him that doing so would cause strong dissatisfaction among many Ossetian interest groups, the local government, police and security forces engaged in smuggling. Machavariani stated that Chibirov feared being turned down by powerful criminals if he attempted to legalize trade in the Ergneti market. On the other hand, the Russians would not allow smuggling into the Tskhinvali Region to continue any longer.⁹⁷

In November 2002, both the Georgian and Ossetian sides expressed their readiness to participate in the joint EU Customs Control project - a joint taxation scheme on transit cargo traffic through the Tskhinvali Region. The program was to be implemented under the aegis of the OSCE. In exchange for agreement on the joint taxation scheme, the EU would also go ahead with a EUR 2.5 million project, mainly for roads.⁹⁸ There were different views on whether this project would work. Later Tskhinvali authorities refused to accept the EU's proposal. Murad Jioev, the Minister of Foreign Affairs of the self-proclaimed republic, stated that only the government of South Ossetia could control the Transcaucasian route.⁹⁹

⁹⁶ Besides, on the territory starting from Psou river to Pitsunda, other Russian GSM operators are working, such as "Kuban - GSM" and "Severo-Zapadnyi GSM", from http://www.apsny.ru/turism/turism.php?page=content/call_to.htm

⁹⁷ Interview with Mikheil Machavariani, MP and former Minister of Tax Revenues. (2003, February 25).

⁹⁸ OCHA-Georgia leaflet on South Ossetia. (2002, December).

⁹⁹ Newspaper *24 saati*. (2003, July 11). No 188, p. A4.

In 2003, the government of South Ossetia was involved in an internal power struggle. The newspaper *24 hours* reported that Eduard Kokoity, the President of the self-proclaimed Republic of South Ossetia, organized a crackdown on his ministers, motivated by their intention to organize a coup.¹⁰⁰ Jemal Gakhokidze, the Secretary of the National Security Council of Georgia, said that the dismissed people were complicit in crime – they controlled smuggling, arms trade, kidnapping and car trafficking.¹⁰¹ Koba Narchemashvili, the former Minister of Internal Affairs, supported Kokoity's measures due to the very alarming situation in the Tskhinvali Region. He spoke about the Tedeev Clan that maintained relations with Georgian criminals and was involved in many criminal activities.¹⁰²

Thus, goods are illegally traded in a custody network by criminal gangs, illegal or legal business groups, law enforcement bodies, the governments of self-proclaimed republics, and powerful clans taking advantage of conflict situations for personal gain and/or financing their virtual independence. The criminal dimension of “personal gain” is of particular importance insofar as elites use profits for patronage to accrue political power, not just enrichment. The conflict situation permits the enrichment of a few at the expense of society. As Paul Collier, director of the Development Research Group of the World Bank wrote, “Conflicts are far more likely to be caused by economic opportunities than by grievance. If economic agendas are driving conflict, then it is likely that some groups are benefiting from conflict and that these groups therefore have some interest in initiating and sustaining it”.¹⁰³ Under weak or destroyed local governance, the greater the opportunity for financial, material, and military accumulation, the more protracted a conflict tends to be. Such opportunities have also encouraged the rapacious exploitation of natural resources.¹⁰⁴

Types and Mechanisms of Smuggling

Radioactive Materials (Potential Threat)

During the Soviet period, Georgia, contiguous to NATO member Turkey, had sophisticated weaponry, including strategic and tactical nuclear weapons, throughout its territory. After the Soviet collapse, and the subsequent withdrawal of nuclear weapons and a majority of troops, there have been 197 discoveries on Georgian territory of radioactive materials abandoned by Russian troops, including both strong and weak sources of radiation.¹⁰⁵ According to new data, there have been 238 detections of radioactive materials.¹⁰⁶ Experts have concluded that there is a real danger for the international community if such radioactive materials are smuggled abroad, making it possible for a “dirty bomb” to be used in potential terrorist attacks both in the West and in Russia. Furthermore, uncontrolled territories are the most effective places for the smuggling of such materials.¹⁰⁷

¹⁰⁰ Newspaper *24 saati*. (2003, July 3). No 180, p. A1.

¹⁰¹ Interview with Jemal Gakhokidze. (2003, June).

¹⁰² Valeri Tedeev was the Minister of Defense of the self-proclaimed republic and Alan Tedeev, the Secretary of Security Council, their group is known as *Diki* (in English *Wild*).

¹⁰³ Collier P., (2000). *Doing Well out of War: An Economic Perspective*. In Berdal M. & Malone D. (Eds.) *Greed & Grievance. Economic Agendas in Civil Wars*. International Development Research Center, Lynne Rienner Publishers, Inc.

¹⁰⁴ *Economic Agendas in Armed Conflict: Defining and Developing the Role of the UN*. Background Paper; prepared by The International Peace Academy and the Fafo Institute for Applied Social Science on the Occasion of a Symposium Sponsored by the Government of Norway. (2002, March 25). New York. UN Millennium Hotel, p.1.

¹⁰⁵ Kolbin, G. (2002, May 27-29). *Environmental Aspects of Former Soviet Military Sites in Georgia*. NATO CCMS Workshop on Reuse and Cleaning of Former Military Sites. Bishkek, Uzbekistan.

¹⁰⁶ Interview with Gogua, L. Deputy Head of the Department of Radiation and Nuclear Security, Ministry of Environment of Georgia. (2003, October 15).

¹⁰⁷ Stier, K. (2002, June 28). *Missing Radioactive Generators in Georgia Raise “Dirty Bomb” Concerns*, from <http://www.eurasianet.org>

Nuclear research began in the Sukhumi area shortly after the end of World War II in two laboratories: at *Sinop* (designated Laboratory A) and *Agudzheri* on the outskirts of Sukhumi, designated (Laboratory G). Work at these two locations was managed by Sukhumi I, the Vekua Institute of Physics and Technology (SIPT), and concentrated on enriching uranium for bomb production and diffusion technologies. It is claimed that two kilograms of HEU (highly enriched uranium), with an enrichment level estimated at 90 percent) were formerly located at SIPT. According to SIPT Director Valter Kashiya, the HEU was stolen by smugglers in the mid-1990s from Abkhazia. Reports indicate that the smugglers, the nuclear material, or possibly both were later seized in Poland. Unconfirmed allegations report that the 2 kg of HEU located at SIPT might have been stolen or diverted, possibly through Belarus. Though the allegations of smuggling were never confirmed, the fact remains that when a Minatom team gained access to the facility to conduct an inventory, they found a deserted facility with no HEU.¹⁰⁸

According to William Potter, nuclear materials' proliferation expert, potentially the most serious and sensitive case involves the possible seizure of individuals this past year in Belarus possessing HEU. Both Russian and Georgian officials believe this material came from SIPT in Sukhumi due to the background of the individuals possessing the material as well as the enrichment level and characteristics of the HEU.¹⁰⁹

Valter Kashia also later alleged that some of the 244 types of radioactive materials, including enriched uranium, stored at SIPT-Sukhumi might have been sold to terrorists or to Iraq. The Georgian Minister of Environmental Protection and Natural Resources Nino Chkhobadze, announced that no credible information about the state of radioactive materials stored at SIPT-Sukhumi is available. According to Chkhobadze, Tbilisi offered to set up a monitoring post at SIPT-Sukhumi with help from Georgian specialists and International Atomic Energy Agency (IAEA) representatives, but Sukhumi authorities had still not replied as of June 2002. In the meantime, SIPT-Sukhumi Director Anatoliy Markolia and Abkhaz Foreign Minister Sergey Shamba, announced that there has never been any uranium in Abkhazia and that radioactive materials stored at SIPT-Sukhumi pose no threat. According to Markolia, Georgia and Abkhazia agreed to transfer the remaining radioactive waste in Abkhazia to Georgia for burial. Markolia also confirmed Abkhazia's willingness to allow inspections by IAEA representatives.¹¹⁰

Weapons

The smuggling of nuclear materials through the territory of Abkhazia is a real possibility, but the smuggling of weapons is already a reality. The scale of the illegal trade in weapons was minimized after the end of military action in 1993, but demand from criminal groups inside and outside of the region continues to fuel supply. In 1997, the criminal police in Moscow discovered a broad criminal network which for two years had supplied illegal weapons (pistols, machine guns, grenades, and grenade-guns) from Abkhazia to organized crime groups in Moscow.¹¹¹

In the summer of 2002, a Russian criminal leader, Artur Liudkov, (*Iasha Astrakhansky*) and Major Mchelidze from the Ministry of State Security of Georgia, were arrested by Georgian law enforcement for transporting anti-tank rocket launchers, known as "Fagots", hollow-charge shells and other weapons, which they claimed to have bought in the Tskhinvali Region from Russian peacekeepers. There were

¹⁰⁸ Georgia: Sukhumi. The Vekua Institute of Physics and Technology (SIPT), from <http://www.nti.org/db/nisprofs/georgia/vekua.htm>

¹⁰⁹ Potter, W. (1997, August). *Less Well-Known Cases of Nuclear Terrorism and Nuclear Diversion in the Former Soviet Union*. Center for Nonproliferation Studies (For a chronology of reported nuclear smuggling cases please see the NIS Nuclear Trafficking Database.), from <http://www.nti.org/db/nisprofs/over/nuccases.htm>

¹¹⁰ Abkhazia Denies Allegations of Selling Uranium to Terrorists. (2002, January 7), from <http://www.nti.org/db/nisprofs/georgia/vekua.htm>

¹¹¹ Strogina, A. (1997, September 30). Banditam privezli iz Abkhazii tselyi arsenal. Moscow. *Kommersant-Daily*.

strong suspicions that these weapons were also transported from the Tskhinvali Region to Chechen separatists in the Pankisi Gorge. David Shengelia, the “Forest Brothers” leader, declared that he had asked for these weapons to defend the Georgian population in the Gali district of Abkhazia. Despite a significant controversy the investigation proved fruitless. Arthur Liudkov insisted he was only an innocent passenger in the Land Cruiser, belonging to the well-known professional criminal Shakro Kalashov, carrying the weapons and was arrested for just three months. In April 2003, Liudkov was killed in Moscow under suspicious circumstances.¹¹²

There are other reported examples of arms trafficking: the Georgian Minister of State Security reported in summer 2002 that Russian law enforcers detained a criminal, Sergei Butenko, in the Zelenograd district of Moscow. Butenko smuggled large quantities of arms, including grenades, machine guns, and bomb launchers for Lubert’s criminal group. Another Russian source reports an *Ikarus* bus was seized with two machine guns and a carbine attached to the underside. A car was detained on the Abkhazian side of the Russian – Georgian border where disguised machine guns, grenades, and ammunition were found.¹¹³ An employee of the Sochi Department of Internal Affairs was arrested attempting to smuggle out a machine gun and ammunition from Abkhazia.¹¹⁴ In another case, a young man was seized at the Psou checkpoint in Sochi trying to smuggle ammunition into Russia.¹¹⁵ The same source also provided some data from the border guard’s check-point that over several months, 11 machine guns, a bomb launcher, more than 30 grenades, 5 pistols, 10,000 cartridges, and 18 cases of drug smuggling had been detected.¹¹⁶

According to interviews with officers from the State Department of Intelligence of Georgia, Russian military supervisors detected a serious arms decrease at the Russian peacekeepers’ storage facilities and believe this to be the main source of the illegal arms trade. Georgian peacekeepers also participate in the illegal arms trade. South Ossetian officials claimed that Georgian Colonel Zurab Durglishvili, who was abducted in Tskhinvali on August 15, 2002 was engaged in criminal activity, including clandestine arms sales. In this respect, the statement by Eduard Kokoity, the president of self-proclaimed republic of South Ossetia, is interesting: “There is big debate in Georgia about the proliferation of arms in the Tskhinvali Region, besides I’m dubbed as a key actor in proliferation. I want to respond – Yes, I buy arms and I buy them in Georgia, from Georgian militaries...”¹¹⁷ The web page “www.cry.ru” reports that representatives of the commander’s office of Georgian peacekeeping forces tried to sell arms, and were detained by police in Gori. Police found one grenade launcher, 10 “Fagots” and 8,000 cartridges.¹¹⁸

In an interview with the Russian internet publication *Vremia Novostei*, Raul Khadjimba, the Prime Minister of the self-proclaimed republic alleged that the, “Abkhazian army buys military ammunitions from Georgian militaries, i.e. the military equipment that is delivered to Georgians by Americans in the framework of “train and equip” program. I can talk about many cases of how Georgian militaries sell NATO military equipment to us”.¹¹⁹

Arms across the CFL. The majority of respondents state that there is very little trafficking in arms across

¹¹² Gangstera rasstreliali za sviaz s “Lesnymi Bratiami”? (2003, April 22). Newspaper *Moskovskii Komsomolets*, p.1.

¹¹³ Ignatev, R. (2000, June 9). Kontrabandisti ne liubiat shutok. *Rosiiskaia Gazeta*, No. 2475, from <http://www.rg.ru/arhiv/2000/06/09.html>

¹¹⁴ Source: *RIA Novosti*. (2002, August 19), from <http://www.yuga.ru/news/11196/index.html>

¹¹⁵ Perekrit put oruzhiu cherez Rossiisko-Abkhazkuiu granitsu. (2002, July 1). Radio *Maiak Kubani*, from <http://www.yuga.ru/news/9728/index.html>

¹¹⁶ Ibid.

¹¹⁷ Interview of de facto President of South Ossetia given to the newspaper “Youth of Ossetia”, from www.kavkazweb.com

¹¹⁸ *V Gruzii za trgovliu oruzhiem zaderzhany predstaviteli bataliona gruzinskykh mirotvorcheskikh sil v zone gruzino-osetinskogo konflikta*. (2001, May 10), from <http://www.cry.ru/text.shtml?200105/20010510094117.inc>

¹¹⁹ Interview published in newspaper *Rezonansi*. (2003, July 4). No 178, from <http://www.opentext.org/ge/resonance/default.htm>

the CFL. Mebrdzol Chkadua, the Deputy Prosecutor of Samegrelo–Zemo Svaneti region, said that demand is very low due to the absence of military action and that both sides are already well equipped. Occasionally, it may happen in cases of criminal agreements (1-2 “Kalashnikov”-type machine guns or pistols may be traded sometimes). According to the Minister of State Security of the Government in exile, guerillas buy arms from peacekeepers.

Until the political conflict in Abkhazia is resolved, there will always be an excuse for the illicit trade in weapons for local crime groups and their political allies under the pretext of either “the struggle against separatists” or “the struggle against terrorist groups.” There are ongoing assassinations, kidnappings, hostage-takings, and abuses of human rights in the region.

Drugs

The illicit trade in drugs is another form of smuggling through Abkhazia and the Tskhinvali Region. During last decade, the scale of the “Narcomafia” significantly expanded, as did the land area for drug cultivation. Raul Khadjimba, the de facto Prime Minister of Abkhazia, stressed the need for fighting against illegal drug trafficking, “Everybody knows where drugs are cultivated in the republic and where they come from. The work of police should be noticeable in this direction”.¹²⁰

On May 26, 2003, Eduard Kokoity, the de facto president of South Ossetia, expressed his concern that it was now possible to buy drugs without difficulty in any Tskhinvali pharmacy. He said that law enforcement officers are passive and protect the drug dealers.¹²¹ The Georgian newspaper *Rezonansi* reported that poppy seed, used for making opium, was seized under the recent anti-drug operations of Giorgi Baramidze, the new Minister of Internal Affairs, with a value of GEL 35,000. According to him, the poppy seed came from the Ergneti market and was intended for Armenia.¹²²

Many means exist to smuggle both into and out of Georgia. Much depends on who is smuggling, where it takes place, what type of drug it is, and how much is being transported. Some narcotics are grown for domestic consumption, especially in the Gali district of Abkhazia. Any country facing economic decline, with very high unemployment and poverty rates among young people, usually faces an explosion in drug consumption. Some of the smuggling routes cross the North Caucasus through mountain passes or across the Psou or Enguri Rivers.

Marijuana and hashish are produced locally, while cocaine and heroin are imported from Turkey for transit to Russia, Spain, or other European countries by Turkish boats. Fishing boats calling on the seaports in Abkhazia facilitate the import of these drugs.¹²³

New drug routes focus on the major drug trafficking centers of Sukhumi and Gudauta. Sukhumi is a major port and Gudauta a former major Russian military base.¹²⁴ According to the State Department of Intelligence of Georgia, the Russian army and navy, which use the military airbase and port in Gudauta are useful conduits for drugs. The Russian air force can easily transport drugs from Central Asia to the Gudauta airbase. After that, the drug route continues to Europe. Abkhaz and Georgian customs officers and law enforcement bodies are not allowed to check Russian military cargos.¹²⁵

¹²⁰ *Apsnypress*. (2003, July 16). No 144, from <http://apsnypress.narod.ru/>

¹²¹ *Narkotiki v Liuboi Apteke*. In Iuzhnaia Ossetia: Sobytiia. (2003, May 22 – June 1). *Regnum Information Agency*, from <http://www.regnum.ru/expnews/172004.html>

¹²² Newspaper *Rezonansi*. (2003, December 18). No 345, from <http://www.opentext.org.ge/resonance/default.htm>

¹²³ Report by Valeri Khaburdzania, Minister of State Security of Georgia on the activities implemented in 2002, from <http://www.sus.ge/#>

¹²⁴ Georgian sources claim there is still a Russian military presence there. (2003).

¹²⁵ Interview with officers of State Department of Intelligence of Georgia. (2003, May 30).

Criminals smuggle drugs from hand-made laboratories in Abkhazia across the Psou River to the Russian Federation through well-elaborated channels and in specially designed concealments in light and heavy trucks. The aforementioned channels are almost totally controlled by Armenians residing in Abkhazia and the southern regions of Russia. The trafficking of drugs across the Psou mainly occurs from the last part of August until the end of February. Supplies from Abkhazia chiefly satisfy the demand for drugs in the southern regions of Russia.¹²⁶ Russian sources report, that in just one day the employees of Sochi customs detained approximately one kilogram of drugs being transported by a woman, as opposed to being hidden in cars or trucks. A woman who sold citrus in Sochi was going back to Sukhumi when a man asked her if she wanted to earn extra money. The woman agreed to transport the drugs in exchange for approximately USD 69.¹²⁷

Another Russian source reports that border guards detained 14 packs, approximately 4 kg of marijuana, on the Abkhazian side of the Russian-Georgian border. A 29-year old resident of Abkhazia threw the bag with marijuana in the river to later be picked up by and taken to Russia by his 43-year old Russian partner in crime.¹²⁸ The Russian television company TBC confirms the trend of drug trafficking across the Psou River.¹²⁹

Representatives of Georgian law enforcement agencies and other respondents report that the movement of large quantities of drugs across the CFL is not happening. Marijuana cultivated in Gali is mainly supplied to the Samegrelo region. According to the Gali administration in exile, opium is also produced. According to Mr. Chkadua, drugs come to Zugdidi in much greater quantities from Western Georgia. For instance, there were 3 cases of drugs arriving from Kutaisi. Though fairly small now, trade in larger volumes across the CFL is certainly foreseeable in the future.¹³⁰

The Abkhazian de-facto government faces a grave situation at the moment, insofar as bandit groups already hold the power to influence events in the region since they have infiltrated all branches of government. It seems that the de-facto government cannot take decisive steps to prevent drug use and fight trafficking and is mainly engaged in collecting operational information.¹³¹ This is particularly alarming, as the transport infrastructure of Georgia was already used for drug transit in the framework of the Eurasian Transport Corridor (a part of the old Silk Road).

Other parts of Georgia are also used for trafficking in drugs including the Tskhinvali Region and the Pankisi Gorge. Trafficking has decreased in the latter since the introduction of the Georgia Train and Equip Program. Additionally; anti-terrorist operations have made it too risky for drug smugglers to use this route.¹³² The Roki tunnel between the Tskhinvali Region and North Ossetia is open for arms and narcotics smuggling as well.¹³³ In past years, heroin has come from the conflict zone into Georgia. Its quality and cost are quite low. Nevertheless, large quantities of drugs come from the Ergneti market into Georgia, though it is half of that coming from Azerbaijan and Dagestan. Little heroine is transported to Russia from the Tskhinvali Region.¹³⁴ Arms and drugs trafficking are controlled by three local Ossetians: Lova Tedeev, Elbrus Jioev

¹²⁶ Source: State Department of Intelligence of Georgia. (2003).

¹²⁷ *V Abkhazii vyrashivaiut narkotiki. Mnogo...* (2003, March 13), from www.abkhazeti.ru

¹²⁸ Agency Ria "Novosti" Moscow; Valerii Olianchuk, *Pogranichniki zaderjali 14 paketov s anashoi obshim vesom okolo 4 kg. na Rossiisko-gruzinskoi granitse*; (2002, January 15), from <http://www.rambler.ru/db/news/msg.html?mid=2207065&s=11>

¹²⁹ TBC quoted in *V Abkhazii vyrashivaiut narkotiki. Mnogo...* (2003, March 13), from www.abkhazeti.ru

¹³⁰ Interview with Mebrdzol Chkadua, Deputy Prosecutor of Samegrelo-Zemo Svaneti Region. (2003, August 4).

¹³¹ Grunin V. F., *Abkhazia: tsena nezavisimosti*. (2002, December), from <http://adgil.narod.ru/cenanezavisimosti.html>

¹³² Ibid.

¹³³ John, B. Russia and the illicit arms trade. In Phythian Mark (Ed.). (2000). *Under Counter and Over the Border. Aspects of the Contemporary Trade in Illicit Arms*, Kluwer Academic Publishers, Dordrechts, The Netherlands. p.91.

¹³⁴ Interview with officers of State Department of Intelligence of Georgia. (2003, May 30).

and Khazbi Chibirov. The main importers and dealers of arms and drugs are Russian peacekeepers. According to local respondents, regional administration and police support this business from the Georgian side. Opium is produced in the Kvaisi and Java districts of the Tskhinvali Region for use in Russia and the rest of Georgia. The main transport route lies across the town of Racha, while small quantities are transported through Gori and other neighboring districts.

Human Trafficking

The Minister of State Security of Georgia stated that there are cases when illegal migrants try to enter Abkhazia. Twelve citizens of Turkey heading to Abkhazia by minivan were detained at the Rukhi Bridge (close to the CFL).¹³⁵ The Ministry of State Security of Abkhazia in exile reports the Turkish citizens declared that they were gathered by the representative of the coal mining company *Okan* (suspected of human trafficking) who promised them work in Abkhazia for USD 700-1000 USD per month.¹³⁶

The Georgian Coast Guard discovered trafficking in persons from Turkey to Abkhazia when it detained a boat with four persons onboard. They had escaped from the coal mine that Turkish smugglers had transported them to one month before in Tkvarcheli, Abkhazia. The smugglers promised them jobs in Russian coalmines and very high salaries, but kept them in slave-like conditions in Abkhazia and did not pay them anything. The court in the city of Kutaisi investigated this case.¹³⁷ Turkish ships are also engaged in the trafficking of women, transported mostly from Russia through Abkhazia to Turkey. Usually these women are trafficked in small groups of five–six.¹³⁸

Cases of servitude also occur. For instance, the Russian information agency “Region Inform” reported on March 28, 2001 that one of the border guard checkpoints seized a man trying to cross into Russia from Abkhazia. He identified himself as Oleg Kalinov from Murmansk and stated that he was working in servitude for Abkhazians since 1993.¹³⁹

Trafficking in Stolen Cars

In the past decade, the criminal business in stolen cars flourished in Georgia. The majority of these cars go to the Tskhinvali Region and Abkhazia. Cars stolen mainly from Tbilisi, Kutaisi, and other cities of Georgia are sold to Russia or in the conflict zones, or criminals return them to the owners after a ransom has been paid. Sometimes cars are exchanged for drugs. Georgian, Abkhaz, and Ossetian criminals successfully cooperate with each other in the trafficking of stolen cars to Abkhazia and South Ossetia from other regions of Georgia. Stolen cars are usually transported to Abkhazia through the two villages of Shamgona and Pakhulani in the district of Tsalenjikha, or by the highway and back roads from Gori to Tskhinvali.¹⁴⁰

There is no cooperation between Georgian and Abkhaz law enforcement agencies creating favorable conditions for crime. Mebrdzol Chkhadua, the Deputy Prosecutor of the Samegrelo – Zemo Svaneti region, said that he raised this point with Abkhaz representatives but was told that Georgians should guard cars better. The only group providing a real chance for cooperation is the *Chuburkhinji* group comprised of Georgian, Abkhaz, UN, and Russian representatives. Unfortunately, it only has a mandate for fact

¹³⁵ Report by Valeri Khaburdzania, Minister of State Security of Georgia, on the activities implemented in 2002, from <http://www.sus.ge/#>

¹³⁶ Source: Ministry of State Security of the Government of Abkhazia in Exile. (2003).

¹³⁷ Based on materials from the Department of the Border Guard of Georgia. (2003)

¹³⁸ Interview with officers of the Department of Intelligence of Georgia. (2003, May 30).

¹³⁹ *Abkhazia gotova dat otpor vsemu miru*. (2002, June 24), from http://www.abkhazeti.ru/news_detail.php?id=147,

¹⁴⁰ Interview with Chkhadua, M., Deputy Prosecutor of the Region of Samegrelo – Zemo Svaneti. (2003, August 4).

finding, and is very often engaged in political debates rather than real investigation of crimes, and thus has been unable to identify criminals.¹⁴¹

In 2002, Beglar Ponia, the head of Zugdidi criminal police, was killed on the Enguri River. A stolen car was stuck in the Enguri River and when police tried to take it, gunfire erupted from the Abkhaz side of the river. Despite demands by the Georgian side, the Abkhaz side and Russian peacekeepers did not allow Georgian investigators to investigate the incident. The Georgian investigators were even prevented from attempting to determine the source of the gunfire.

Georgian and Ossetian law enforcers face similar problems, namely lack of cooperation and /or involvement of their officials in illegal activities causing mistrust of police among crime victims. In spring 2003, one Kutaisi local was carjacked by Georgian criminals, taking his new BMW 700 to Tskhinvali. Later, they tried to demand a USD 7,000 ransom for the car's return but settled on USD 3,000 after bargaining. The owner of the car did not contact the police at all, believing they were complicit in the crime in the first place.¹⁴²

The Georgian newspaper *Rezonansi* reported that two IDPs, former police employees, were detained on the Enguri Bridge while attempting to smuggle a stolen car into Abkhazia. The Georgian side claimed that these individuals were acting in cooperation with Russian peacekeeping forces.¹⁴³

Georgian, Abkhaz, and Ossetian criminals, guerillas, representatives of law enforcement bodies and Russian peacekeepers play their role in the trafficking of cars, a system of bribery that helps criminals achieve their goals. In 2002, the independent Georgian television company *Rustavi 2* documented this activity of criminal networks on its investigative program "60 Minutes".

Oil Products

An additional commonly smuggled good is fuel, the extent of which depends on world prices, but there is a lack of reliable information and statistics are only very approximate. The retail low price on oil products in neighboring Russia and Azerbaijan creates an incentive to smuggle through the Tskhinvali Region (Ergnet market), Abkhazia, Poti port, and Azerbaijan.

Mostly petty importers smuggle fuel from Ergneti market and the CFL on the Enguri River, while larger imports take place from Azerbaijan and the port of Poti. According to the Ministry of Finance, the volume of oil products smuggled from Ergneti is approximately 5,000 tons per month.¹⁴⁴ Based on an average monthly consumption of 65,000 tons (gasoline and diesel together according to estimations of PA Consulting Group) the difference between real consumption and registered imports (based on 2002 figures) is around 460,000 tons per year or 38300 per month.¹⁴⁵ Therefore, the average monthly smuggled fuel from Ergneti market is approximately 7.7 % of consumption and 13 percents of overall smuggled fuel in Georgia. The main smuggled oil product through the conflict zones is gasoline, while diesel mostly comes from Azerbaijan. Gasoline also flows into Abkhazia either by ship or through the bridge on the Psou River and then is transported across the CFL to other regions of Georgia, mostly to the Samegrelo region.

¹⁴¹ Ibid.

¹⁴² Interview with a citizen of Kutaisi. (2003, April 14).

¹⁴³ Newspaper *Rezonansi*. (2003, December 27). No 354, from <http://www.opentext.org.ge/resonance/default.htm>

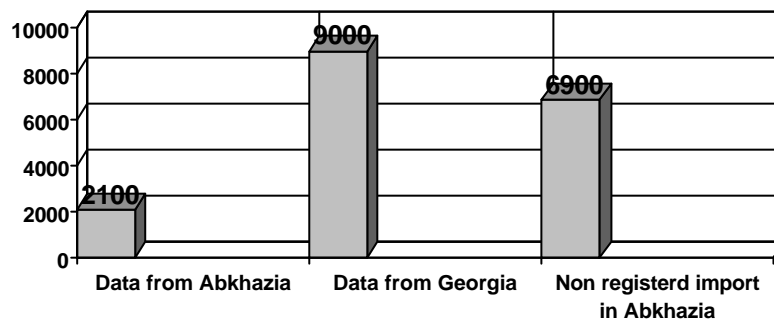
¹⁴⁴ *Economic and Social Consequences of Internal Conflicts*. (2003). Tbilisi, Georgia. Parliament's Budgetary Office of Georgia, p. 10; www.pbo.ge

¹⁴⁵ Calculation based on the research report on the mobilization of revenues from oil products. Ministry of Finances of Georgia and American Chamber of Commerce. (2003, May), pp. 4-5.

According to Georgian sources, the current population of Abkhazia is approximately 170,000 while the secessionist side puts the figure at 320,000. These statistical discrepancies make it difficult to calculate the average level of fuel consumption fuel in Abkhazia. However, it is generally accepted that there is a very small quantity of diesel fuel and some gasoline, which flows into Georgia through Abkhazia mostly for local consumption in the Samegrelo region and sometimes for transport to Kutaisi and other regions of western Georgia. Smuggling from Azerbaijan and from Russia through the Tskhinvali Region, however, is more important in terms of scale. Smuggling fuel from Russia through the Tskhinvali Region is small in comparison to Azerbaijan due to the absence of rail or sea communications. Due to winter conditions, the Roki tunnel between Russia (North Ossetia) and the Tskhinvali Region can only be used for four or five months per year, this obviously limits the smuggling capacity of this route.

According to the State Department of Intelligence of Georgia, Abkhazians import gasoline from the Russian Federation by tanks belonging to Russian peacekeeping forces. Russians say that the peacekeepers require imported gasoline to maintain high-level status, but it is argued that peacekeeping forces cannot consume that much gasoline. The total volume of gasoline imported from the Russian Federation to Abkhazia amounts to 8000 tons, with a portion being sent to the Samegrelo region. Additionally, gasoline is also illegally imported from Turkey to Abkhazia with a volume of approximately 1000 tons monthly.¹⁴⁶

Chart 1. Comparison of Abkhazian and Georgian data on import of fuel (in thousand tons/per month) in Abkhazia¹⁴⁷



Local demand is estimated to be approximately 2500-3000 tons per month, i.e. maximum 35,000-36,000 tons per year that is mainly consumed in Sukhumi, Gagra and Gudauta where most of the population lives.¹⁴⁸ According to various sources the average volume of smuggled fuel from Abkhazia to the rest of Georgia is argued to be 2000-2500 tons monthly, approximately 3-4 percent of overall monthly consumption and 5-6 percent of overall contraband fuel.¹⁴⁹ Thus, total smuggling of fuel within and through the conflict zones does not exceed 18-19 percent of the overall smuggling in Georgia.

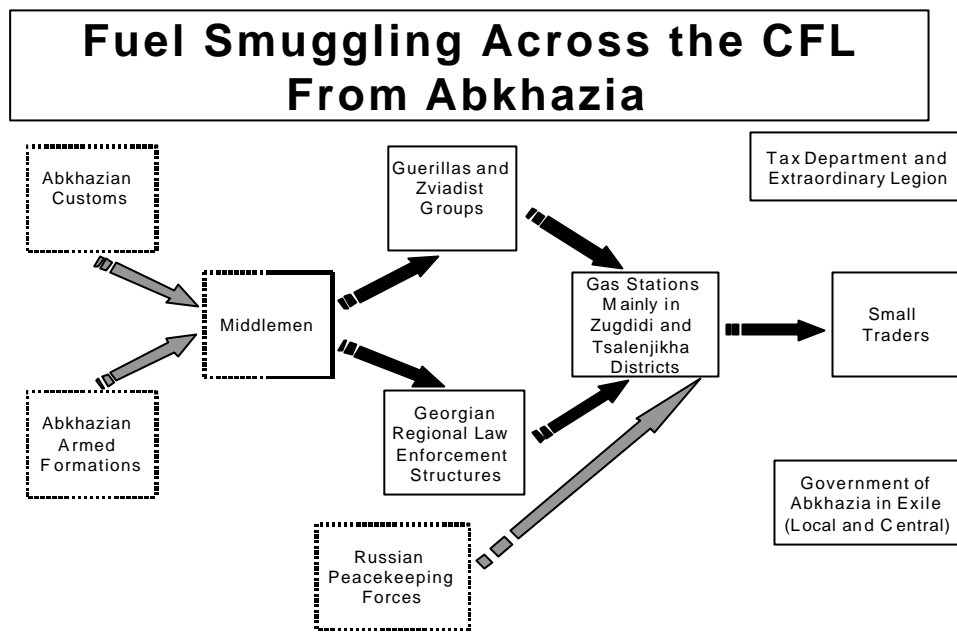
¹⁴⁶ Interview with officers of State Department of Intelligence. (2003, May 30).

¹⁴⁷ Data from Abkhazia is based on Abkhazian internet sources and data from Georgia is based upon estimations of State Department of Intelligence.

¹⁴⁸ Interview with officers of State Department of Intelligence. (2003, May 30).

¹⁴⁹ Interview with an officer of the Ministry of State Security. (2003, May 24).

Scheme 2. Mechanism of fuel smuggling across the CFL between the Gali and Zugdidi Districts.



Changes in the taxation system in Georgia implemented in 1998 aggravated the business environment in Georgia, and the difference between world prices and fixed Russian fuel prices on the domestic market increased after 1999. It created economic conditions favorable for fuel smuggling through Abkhazia and the Tskhinvali Region. In 1998, world prices were very low and smuggling was not as profitable, but the increase in world prices from 1999 led to increased smuggling from Russia.

At the same time, Russia cannot compete against Azerbaijan in current market conditions. Despite the quality of Azeri fuel, it is cheap, close to the Georgian market, and enjoys the advantage of being able to reach Georgia by railway. In addition, psychologically, the business climate between Azeris and Georgians is better; Georgian-Russian relations are extremely tense whereas friendly relations have evolved between the two South Caucasian countries that share similar geopolitical goals. Even if the railway to Abkhazia were to open, it would be very risky doing business due to the hostile post-conflict situation and the high level of crime in the region.¹⁵⁰

Cigarettes

According to expert estimations, 75 percent of tobacco business is not taxed, therefore illegal.¹⁵¹ Due to the decrease of the real exchange rate of the Russian currency in the second half of 1998, the competitiveness of Russian goods on the Georgian market has sharply increased. The competitiveness of the legal import of Russian cigarettes, however, has significantly decreased by the high excise tax on cigarettes imported to Georgia. At the same time, the relatively low excise tax on cigarettes in Russia and the transparency of the economic boundary between Russia and Georgia makes smuggling of Russian tobacco goods (even with Russian excise marks) most profitable. According to the estimations of the State Department of Statistics, Russian excise marks prevail over all excise marks of other countries. Cigarettes with Russian excise marks have 17.6 percent of the total cigarette market even those that are contraband

¹⁵⁰ Interview with Vano Nakaidze, Energy Committee Chairman, Member of the Board of Directors, American Chamber of Commerce in Georgia. (2003, April 17).

¹⁵¹ *Economic and Social Consequences of Internal Conflicts*. (2003). Tbilisi, Georgia. Parliament's Budgetary Office of Georgia, p. 12, from www.pbo.ge

goods illegally imported from Russia, mainly through the conflict zones.¹⁵² Smuggling from Russia occurs through Kazbegi as well.

The volume of smuggling of cigarettes from Ergneti market is quite large. According to unofficial information from representatives of the Ministry of State Security of Georgia, 500,000 packs of cigarettes were brought to the Tskhinvali Region from Russia and were sold out in two days.¹⁵³ Hence, a large quantity of illegal tobacco products from Ergneti market were never officially confiscated. Most smuggled tobacco products consumed in Tbilisi come from this region while others come from Abkhazia and Adjara. Smuggled cigarettes occupy up to 90 percent of the market in the peripheries of Georgia.¹⁵⁴

Contraband goods exported from and locally produced in Abkhazia are under the strict control of high-level officials of the Abkhazian de-facto government, and Vladislav Ardzinba's family members.¹⁶ They control tobacco factories located in Sukhumi and Gudauta that produce Marlboro, Marlboro Medium, and the filterless cigarette, Astra.

Cigarettes are smuggled mostly from Russia (*"Donskoi Tabak"*), and from Turkey (*Parliament* and other kinds). Previously, *Viceroy* was the most commonly smuggled cigarette through Abkhazia, but when a Georgian tobacco factory started producing "Viceroy" in Tbilisi, smuggling of this particular brand practically disappeared.¹⁵⁵

Furthermore, there are several tobacco factories in Abkhazia. The plant in Sukhumi is under state supervision to some extent as the former owner and manager, Levan Ardzinba, is a cousin of Vladislav Ardzinba. The production process is supervised by Revaz Tabagua. The former owns a fermentation plant near Sukhumi providing tobacco factories with raw materials. Raw materials are also supplied from Russia and Turkey. The Sukhumi factory produces mainly "Marlboro" and "Abkhazia" cigarettes, and is a joint venture with the Russian company *Geogravionik*.¹⁵⁶ The second tobacco factory was established in Gudauta in 2001 on the base of fermentation plant. It is equipped with Bulgarian equipment and mainly produces "Marlboro Medium Menthol", and is largely controlled by Pavel and Levan Ardzinbas.¹⁵⁷ In January 2001, the tobacco factory "Leon" was opened on the grounds of the Gudauta Tobacco Plant with ownership divided between the government of self-proclaimed republic and the "LA Company" Ltd, owned by Levan Ardzinba.¹⁵⁸ In a Gudauta suburb, there is one more factory producing "Astra" cigarettes but there is no public information as to who owns it.¹⁵⁹

Locally produced cigarettes ("Marlboro" brand) flow to Turkey and to the rest of Georgia, chiefly to Zugdidi. There are instances when Russians bring their excise stamps to Abkhazia, apply them on locally produced tobacco products and then transport them to Russia.¹⁶⁰ Smugglers in the territory of Abkhazia are closely allied with business people operating in Russia and Turkey, as well as Georgia.

¹⁵² Nadareishvili, M., Pkhakadze, V., & Tsakadze, R. (2002). Supply and Use of Tobacco Goods in Georgia; State. Tbilisi, Georgia. *Department of Statistics of Georgia*, pp. 20-25.

¹⁵³ Interview with an officer of the Ministry of State Security. (2003, May 24).

¹⁵⁴ *Economic and Social Consequences of Internal Conflicts*. (2003). Tbilisi, Georgia. Parliament's Budgetary Office of Georgia, p. 14; www.pbo.ge

¹⁶ Letter of State Department of Intelligence of Georgia to Parliament's Budgetary Office of Georgia. (2002, December 19). No 7/4-10-01766.

¹⁵⁵ Interview with officers of State Department of Intelligence of Georgia. (2003, May 30).

¹⁵⁶ Source: Ministry of State Security of the Government of Abkhazia in exile. (2003).

¹⁵⁷ Interview with an officer of the Ministry of State Security of Georgia. (2003, May 24).

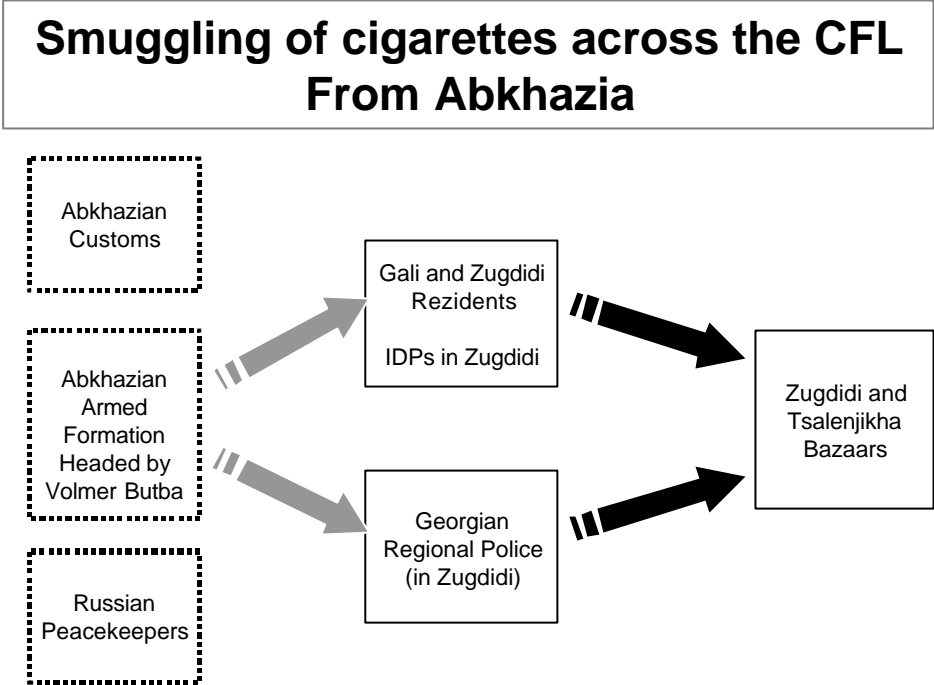
¹⁵⁸ Source: Ministry of State Security of the Government of Abkhazia in exile. (2003).

¹⁵⁹ Interview with an officer of the Ministry of State Security of Georgia. (2003, May 24).

¹⁶⁰ Interview with officers of State Department of Intelligence of Georgia. (2003, May 30).

Exported and locally produced tobacco products go to Gali, and from there to Zugdidi in small quantities. Smugglers use the bridges and passes across the Enguri River (post No. 301 of Russian peacekeeping forces, Shamgona and Nafadu passes in the villages).

Scheme 3. Mechanism of cigarettes smuggling across the CFL.



Usually the smuggled cigarettes stay in the Samegrelo region, while modest quantities go to Adjara and other parts of Georgia. But in 2001-2002, large quantities of “Marlboro” and “Marlboro Medium” were sent to Adjara from the territory of Abkhazia. “Viceroy” was transported to Abkhazia by ships from Turkey, and “Parliament” and “Donskoi Tabak” - in trucks from the Russian Federation.¹⁶¹

Some respondents stated that the trade in cigarettes through Abkhazia is not substantial. Before 1998, it was done through Turkey, across the CFL, to Zugdidi and Tbilisi. The cigarette trade on the Abkhazian side is monopolized by armed groups, headed by Valmer Butba, who sells cigarettes to IDPs. In this way, he has managed not only to make a profit but also has won their hearts and gains everyday intelligence information from them about the situation in Zugdidi.

Mebrdzol Chkadua, the Deputy Prosecutor of Samegrelo-Zemo Svaneti region, said that while local and regional law enforcement bodies and Georgian guerillas participate in smuggling, the local population, mostly refugees and IDPs from Abkhazia, are also involved in the smuggling of cigarettes, but in very small quantities. For example, they might carry up to 500 packs in their bags when they walk across the Enguri Bridge. In conditions where the local population faces massive unemployment, participation in smuggling is an opportunity to survive. He also mentioned that strict attempts to prohibit this kind of shadow business could cause social disorder. Mr. Chkadua expressed his opinion that despite the utilization of punitive methods against approximately 100 persons annually (mostly women), it is not fair in relation with the impoverished people trying to survive. Thus, the cigarette trade is also a social problem delineated by poverty integrated with organized crime.

¹⁶¹ Source: State Department of Intelligence of Georgia. (2003).

Some companies try to use the uncontrolled zone of the Tskhinvali Region for their business interests. After a decree prohibiting selling of goods without excise stamps, a storage facility administered by the Georgian company Omega containing tobacco products without excise marks, valued at GEL 1.72 million, was sealed by the Tax Department. The Customs Department issued a decree by which companies can export surplus production. In documents Omega reported that it had sent cigarettes to Dushanbe, Tajikistan on behalf of “Dansia Corporation” through Roki tunnel in the Tskhinvali Region. It appeared to be a counterfeit operation, and after an investigation by the Extraordinary Legion it was uncovered that: Russian customs agencies did not confirm the crossing of Omega’s freight at the Russia-Georgian border, Tajikistan tax officials could not confirm the existence of Dansia Corporation, and the license numbers of the transport vehicles were falsified. Based on this evidence, the Extraordinary Legion brought a criminal case on April 27, 2001, and six days later the General Prosecutor’s office told the Legion to investigate further.¹⁶² This case points not only to the illicit activities of some well-known Georgian companies, but also to the ineptitude of anti-smuggling law enforcement structures, as well as the overall ineffectiveness of the struggle against smugglers and contraband trade.

Log and Timber Export

Timber smuggling is one of main sources for the budget of the Abkhaz secessionist government, as well as a source for illegal income among local clans.¹⁶³ In 2002, according to sources from Abkhazia, the Abkhazian timber industry was valued at USD 1.723 million; logging making up 82 percent.¹⁶⁴ Currently, the finished commodity of timber production constitutes only 18 percent of the manufacturing. The Government is striving to increase this figure to 25 percent. From the viewpoint of the Minister of Economy of the de-facto government, “it is of paramount importance to develop timber processing industry in Abkhazia, to adopt new technologies. It is not normal, that while wood is exported from Abkhazia, such production as parquet, tables, chairs, furniture are not available here”.¹⁶⁵ Adolph Shamba, General Director of *Abkhazles* (Abkhazwood), agrees with the necessity to develop this kind of industry, so as not to be simply the supplier of raw materials.¹⁶⁶ The tax burden on timber production is quite heavy, as representatives of Gagra, Gudauta and Gulripshi timber farms repeatedly complain.¹⁶⁷ According to Abkhazian sources, the area permitted for chopping wood is 52 thousand hectares and resources of ripe and over mature wood is 17 million cubic meters.

According to a Georgian source, the state company *Abkhazles* produced approximately USD 1.7 million worth of timber, sold the production for roughly USD 1.57 million and paid approximately USD 950,000 to the budget of self-proclaimed republic.¹⁶⁸ According to an Abkhaz source, this company produced 51.7 million cubic meters in 2002, of which finished commodities valued USD 310,000.¹⁶⁹ The volume of timber exported from Abkhazia is gradually increasing. It is particularly disastrous that certain types of precious wood is cut down and exported.

¹⁶² Report by National Security Council of Georgia on Dangerous Scale of Smuggling and fight against it. (The covered period: 2000, January 1 – 2001, May 1).

¹⁶³ This information is based on interviews with officers of the Department of Border Guard, Department of Intelligence, and Ministry of State Security of Georgia. (2003).

¹⁶⁴ I? REGNUM, from <http://www.abhazia.com/news/>

¹⁶⁵ Minister Konstantin Tuzhba quoted in *Apsnypress*. (2003, May 20). No 096, from <http://apsnypress.narod.ru/>

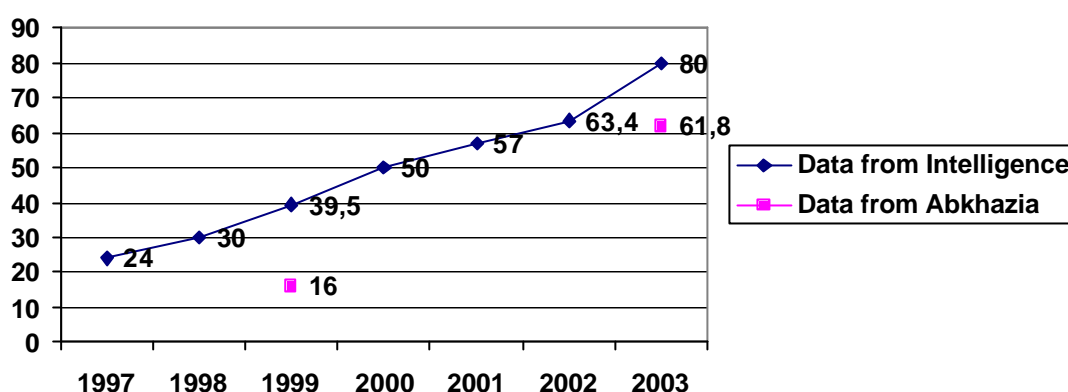
¹⁶⁶ Adolph Shamba quoted in *Apsnypress*. (2003, May 20). No 096, from <http://apsnypress.narod.ru/>

¹⁶⁷ *Apsnypress*. (2003, May 20). No 096, from <http://apsnypress.narod.ru/>

¹⁶⁸ Source: Ministry of State Security of the Government of Abkhazia in Exile. (2003).

¹⁶⁹ *Apsnypress*. (2003, May 20). No 096, from <http://apsnypress.narod.ru/>

Chart 2. Dynamics of timber export from only two districts, Gagra and Gudauta, of Abkhazia (in thousand cubic meters)



The Georgian data was supplied by the State Department of Intelligence. It was difficult to find appropriate data from Abkhazian sources. The only reported export volumes the TraCCC research group has found are from 1999 on the Internet at: <http://adgil.narod.ru/cenanezavisimosti.html> and an estimate for 2003 in the newspaper *Respublika Abkhazia*.¹⁷⁰

The Georgian and Abkhazian data for 1999 significantly differ. This could reflect inaccuracy of the Georgian intelligence data; although, the entire volume of timber export is not recorded by Abkhazians. This implies the existence of a shadow business. Abkhazian officials also state, “Currently the contraband chopping down and smuggling of timber has become a common occurrence and a substantial source of income”.¹⁷¹ The newspaper *Respublika Abkhazia* quotes Prime Minister Gagulia that “three directors of state company “Abkhazles” (Abkhazwood) will not only be fired but also prosecuted because of the damage their dishonest activities inflicted on the budget of Abkhazia”.¹⁷²

The price of one cubic meter of timber is USD 100-125. According to the State Department of Intelligence of Georgia, the main figures complicit in the illegal timber business are Pasha and Aka Ardzinbas (after the assassination of Aka Ardzinba, his brother Kutak took control of Aka’s influence areas). Turkish citizens are heavily involved in the export of timber. They are mostly interested in chopping of precious woods such as the chestnut tree. The processed timber is transported twice a week from Ochamchire and Sukhumi ports to Turkey. A representative of the Ministry of State Security stated that recently a Turkish ship was seized in Poti illegally transporting logs worth USD 250,000. According to estimates of the Department of Intelligence of Georgia, ninety percent of illegally logged timber is transported to Turkey.

Foreign businesses are involved in the timber business as well. For example, a Spanish company processes timber in Bzip Gorge. Spanish investments in timber production in this region amount to USD 4 million. At the moment, five departments operate in the Bzip plant (administered by Pasha Ardzinba) producing high quality parquet (4000 cubic meters monthly), which is mainly exported to Spain and Turkey.¹⁷³ The Bzip plant transferred 30 million Russian rubles (approximately USD 990,000) to the budget of the self-proclaimed republic in 2002.¹⁷⁴ Later on, criminals who could not agree on the distribution of shares among each other burned down this plant, but the Spanish managed to rebuild it.¹⁷⁵

¹⁷⁰ Shulgina, N. (2003, April 19-20). *Lesa Abkhazii: chto ostavim nashim vnukam*. Newspaper *Respublika Abkhazia*. No 41 (1545), pp.4-5.

¹⁷¹ *Ekonomika i biznes, Apsny.ru*, from <http://www.apsny.ru/economic/economic.php?>

¹⁷² Press Conference of Prime Minister G. Gagulia. (2003, March 24-25). Newspaper *Respublika Abkhazia*. No 30(1534), p.3.

¹⁷³ Source: State Department of Intelligence of Georgia. (2003).

¹⁷⁴ Source: Ministry of State Security of the Government of Abkhazia in Exile. (2003).

¹⁷⁵ Interview with officers of State Department of Intelligence of Georgia, (2003, May 30).

According to Georgian as well as foreign experts, illegal logging in Abkhazia disrupts the natural balance. Roman Dbar, head of Service of Ecological Security and Protection of Environment of de-facto government, stated that in 2002, there were 45 cases of illegal logging.¹⁷⁶ During the time of the Soviet Union, logging was prohibited in this area but it is now common and represents one of the main sources of budget revenues for the de-facto government, as well as bringing significant illegal revenues to ruling clans.

Hazelnuts Business in Gali and Zugdidi Districts

Ruslan Kishmaria, the head of the Gali administration, emphasized the great importance of the hazelnut business for the district. He mentioned that last year the price per kg was 20 Russian rubles (approx. USD 0.65), and despite a poor harvest this year it has increased to 25 rubles (USD 0.81433) since the quality is better. According to him, 6,000 tons of hazelnuts were harvested in Gali in 2002 for sale in Georgia as well as Russia, across the Enguri and Psou Rivers accordingly. Kishmaria also reports that the Russian company *Babaevskii* has hazelnut plantations in the Ochamchire district.¹⁷⁷

A candy company, *Babaevskii Ltd* is the oldest business of its kind in Russia.¹⁷⁸ It is the third largest company in the industry in Russia, after Nestle and *Krasnyi Oktiabr* (Red October)¹⁷⁹ and stockholders include the commercial bank Inkombank, Gosinkor Holding and Naouape Holdings Ltd (Cyprus).¹⁸⁰ The controlling shares are owned by Inkombank and according to Arthur Andersen are valued at around USD 40 million. However, there have been on-going disputes in court regarding ownership after Inkombank encountered financial problems. The German bank *Bayerische Landesbank* claimed rights after a Moscow court refused those claims.¹⁸¹ In early 2003, *Babaevskii* won a tender to supply confectionery foodstuffs to Russian armed forces.¹⁸²

Respublika Abkhazia reports that Georgian guerillas, in particular representatives of David Shengelia's "Forest Brothers," have warned the population of Gali not to sell the hazelnut crop in the Gali market but to take it to the Zugdidi region instead.¹⁸³ The Georgian press reports that around 400 fighters of the special security forces of the self-proclaimed republic are stationed in the Gali region and seize the hazelnut crop from Georgian families to sell in Turkey and Sochi, Russia.¹⁸⁴

Recently the Institute of War and Peace Reporting (IWPR) reported that a new crime racket organised by Russian gangsters was introduced in Gali and professional criminals (called "thieves in law") from all over Russia came to Gali. One Moscow-based crime boss gathered some 90 minor local gang leaders, who used to rob local Georgian farmers, and ordered them not to do it again, extorted protection money from the families, and organized which racketeer would be in charge of what land parcels. Thus, on top of the tax paid to the Abkhaz, there is now the protection racket. As a result, the extortion has become less random and more organized and residents feel better since no family will go entirely bankrupt. The criminals make sure that huge quantities of these shipments go back to Gali, and very quickly on to Russia across the

¹⁷⁶ Shulgina, N. *Lesa Abkhazii: chto ostavim nashim vnukam*. (2003, April 19-20). Newspaper *Respublika Abkhazia*. No 41 (1545), p.6.

¹⁷⁷ Interview with Kishmaria, R., by Tsvizhba. Z. (2003, August 8). Newspaper *Respublika Abkhazia*. Newspaper "Respublika Abkhazia", from <http://www.abkhaziya.org/confer/kishmaria.html>

¹⁷⁸ President OAO „Confectionary Concern Babayevskiyi“ Nosenko S. M., from http://www.babaev.ru/about/word_pr.html

¹⁷⁹ Telitsyna, I. *Inkombanku stalo nesladko*. (2000, February 29). No 103, from http://www.ko.ru/document.asp?d_no=1389&p=1

¹⁸⁰ Prezident OAO „Konditerskiy koncern Babayevskiyi“ S. Nosenko osvobodzhdien ot zanimaemoi dolzhnosti. (2002, October 10), from <http://www.konditer.com/article.php3?id=1532>

¹⁸¹ Nemtsam otkazali v prave na concern „Babayevskiyi“. (2002, April 8), from <http://lenta.ru/economy/2002/04/08/babai/>

¹⁸² *Pressa o Babayevskom*, from <http://www.babaev.ru/about/pressa17.html>

¹⁸³ Newspaper *Respublika Abkhazia*. (2003, August 21-22). No 93(1597), pp.1-2.

¹⁸⁴ Newspaper *24 saati*. (2003, August 20). No 224, p. A3.

Psou River. Even with a security escort, this route apparently is cheaper for the illegal nut traders. Shipping costs on the 300-km road north through Abkhazia are three times lower than anywhere in Georgia. The highway has been dubbed the “road of reconciliation” for the Georgian and Abkhaz mafias, with everyone benefiting except the Tbilisi government. All this seems to happen with the open collusion of the Georgian regional police.¹⁸⁵

The Georgian newspaper *Khvalindeli Dge* reports that the Turks are interested in the hazelnuts business in the Gali region. They purchase hazelnuts from Georgians in Gali at low prices and then re-sell them at a higher price. They pay 50 tetri (approximately 0.25 cents) for 1 kg and then sell it for GEL 1.50 (approximately 0.75 cents). In Zugdidi, hazelnut prices increased from 70 tetri to 1 lari.¹⁸⁶ Though it seems that hazelnuts are sold on European markets by Turkish companies as well, as “there is a big demand for this product and the prices are also higher, USD 3 per 1 kg”.¹⁸⁷

Fishing

Some foreign companies have signed agreements with the *de facto* government in Abkhazia for fishing rights. Turkish boats mainly participate in illegal fishing on the coast of Abkhazia. Both the secessionist Abkhaz authorities and the Georgian border guards have made some arrests.¹⁸⁸

Seven Turkish fishing boats catch 700-800 tons of fish annually in the sea area of Abkhazia, including the: 1) Merlanga, 400 tons, 1 kg/0.35 USD, 2) Barabulka, 100-150 tons, 1 kg/ 0.5 USD, 3) Khamasa, 100-150 tons, 1 kg/0.2 USD and 4) Kambala, 30-40 tons, 1kg/3 USD.¹⁸⁹ Additionally, Turkish boats fish in a manner that is not only illegal, but it also inflicts great damage on the flora and fauna of the Black Sea.

The Turkish companies *Konevy Ltd* and *Kiyak Kardes Liyar*, having official contracts with the Ministry of Economy of self-proclaimed republic, dominate fish exports from Abkhazia. There are cases of illegal fishing on the Abkhazian side as well. For instance, in April 2003 representatives of the Prosecutor’s Office of Ecological Control of de-facto government, confiscated 500 kg of plaice and 130 kg of beluga that was seized on a Turkish-Russian boat owned by the fishing company *Altin*. The Prosecutor’s Office brought a criminal case of illegal fishing of precious kinds of fish. *Altin* had a contract with the Ministry of Economy, though fishing is prohibited by foreign boats from April 27 to September 1.¹⁹⁰ Usually up to eight fishing boats work in sea area of Abkhazia.

Scrap Metal

During the last few years, scrap metal has become the number one export item of Georgia. In 2001, its value was USD 56 million comprising 17.6 percent of total exports.¹⁹¹

¹⁸⁵ Shonia, T. (2003, August 21). Abkhazia: Lucrative Farms Attracts Mafia. Hazelnuts farmers in disputed region are grateful to Russian mafia for imposing order on local criminal gangs. *IWPR’S Caucasus Reporting Service*, No 192. *Caucasus News Update*.

¹⁸⁶ Newspaper *Khvalindeli Dge*. (2003, September 6). No 172 (331), from <http://www.opentext.org.ge/xdge/default.htm>

¹⁸⁷ Interview with the representative of World Bank project CERMA, consultant for hazelnuts business in western Georgia. (2003).

¹⁸⁸ *Sotrudniki prokuraturi ekologicheskogo nadzora konfiskovali 300 kg. kambaly i 130 kg. belugi*, from <http://www.abkhazia.com/news/>

¹⁸⁹ Source: State Department of Intelligence of Georgia. (2003).

¹⁹⁰ *Apsnypress*. (2003, April 29). No 080, from <http://apsnypress.narod.ru/>

¹⁹¹ *Economic and Social Consequences of Internal Conflicts*. (2003). Tbilisi, Georgia. Parliament’s Budgetary Office of Georgia, pp. 21-22, from www.pbo.ge

In Abkhazia the majority of factories are obsolete and their major good is exported in the form of scrap iron. According to information provided by the State Department of Intelligence of Georgia, ferrous and non-ferrous scrap metal is exported from the ports of Sukhumi and Ochamchire. Some are trafficked across the CFL to Zugdidi, finding its way to Poti and Batumi seaports for export to Europe via Turkey. The latter part falls under the control of criminals and regional official structures on both sides. As Mr. Gagulia, de facto former Primer Minister of Abkhazia stated, “there are cases of cooperation among law enforcement organizations and criminal structures, in particular several cases are reported of export of illegal scrap iron to Georgia with escort of the employees of Abkhazian militia”.¹⁹²

According to the Georgian newspaper *Resonansi*, a new type of illegal export has started in Abkhazia: the robbing of Georgian cemeteries for the aluminum or other types of scrap iron and/or marble.¹⁹³

Ships containing this scrap metal make around 100 trips annually, mostly to Turkey. The export of ferrous and non-ferrous scrap metals reached a peak in 1999, when 40,000 tons of non-ferrous and 32,000 tons of ferrous metal were exported from Abkhazia.¹⁹⁴ According to representatives of the Department of Intelligence of Georgia resources of scrap iron in Abkhazia are depleted and the Ministry of State Security of Abkhazia reports the continuous robbing of railways for this purpose. Sometimes officials of the self-proclaimed republic are accused in this kind of theft. In January 2002, the branch of the Office of Public Prosecutor which investigates crimes in transport sector of Abkhazian de-facto government, brought a criminal case against B. Kviriaia, the director of the Union of Non-metallic Materials because 13 operable railroad cars and gas tanks were cut down into scrap metal, amounting to USD 33,200 in damage and lost revenue for the de-facto government. The case was brought up through the efforts of Rita Lolua, the head of Railway Administration. Kviriaia accused Lolua’s department of stealing 16 railroad cars from him. The Office of Public Prosecutor uncovered that Kviriaia had sold more than 20 railroads cars in 1996 and 28 gondola cars were cut into scrap metal in 1998. Safarbei Mikanba, Deputy General Prosecutor of de-facto government, comments that an investigation claims that both Lolua and Kviriaia are guilty.¹⁹⁵

Abkhaz sources also confirm the decrease of exportable scrap iron. In February 2003, the de-facto government increased the custom tariffs for export stating, “If in 2002 metal was exported with the price of 55 USD per one ton, now it increased to 110 USD/ton”.¹⁹⁶

Coal Mining and Export

The coal resources in Abkhazia are mainly processed by Turkish companies for export to Turkey. Such companies are *Ada Madencilik San Ltd* that had a contract with de-facto government in April 2002 to mine the coal from the *Khudzga* quarry in Tkvarcheli district. The contract estimated the processing of 100,000 tons of coal.¹⁹⁷ Turkish businesses pay USD 5 per ton of coal to de-facto government of Abkhazia.¹⁹⁸ In 2002, 2500 tons of coal were mined and processed, and 1800 tons of concentrate were exported to Turkey.¹⁹⁹ Coal miners earn USD 50-60 per month.

¹⁹² Gagulia quoted in Newspaper *Respublika Abkhazia*. (2003, March 21-22). No 29 (1533), p.2.

¹⁹³ Newspaper *Rezonansi*. (2002, November 30), from <http://www.opentext.org.ge/resonance/default.htm>

¹⁹⁴ Source: State Department of Intelligence of Georgia. (2003).

¹⁹⁵ Shulgina, N. *Kto otdelit zerna ot plevel? Po povodu odnogo konflikta*. (2003, March 21-22). Newspaper *Respublika Abkhazia*, No 29 (1533), pp.6-7.

¹⁹⁶ *Apsnypress*. (2003, March 24). No 050, from http://apsnypress.narod.ru/2003/03_mar-03/AP03-24-03.htm

¹⁹⁷ News From Regions of Georgia. (2002, April), from http://georgia-gateway.org/index.php3?mw=ENG/Regional/General_Data/news.php3

¹⁹⁸ Report of Valeri Khaburdzania, Minister of State Security of Georgia on the activities implemented in 2002, from <http://www.sus.ge/#>

¹⁹⁹ Source: Ministry of State Security of the Government of Abkhazia in Exile. (2003).

Another Turkish company, *Kara Elmasi Ltd.*, works the Tkvarcheli coal mine. The company signed an agreement with de facto Ministry of Economy of Abkhazia at the end of 2001 and opened a coal concentration mill in Tkvarcheli to process the coal mined from the Khudzga quarry. The Turkish company *Barashan*, headed by the Turk Tushalain, made some investments in the coal mining industry of Tkvarcheli.²⁰⁰

The Turkish company *Tamsash*, a structural unit of the Holding company *Okan*, (the director of which is Bekir Okan), has mined the coal at the *Djigit* quarry since June 2002.²⁰¹ The coal resources of this quarry are estimated to be 4.5 million tons.²⁰²

The de-facto government has experienced some problems with “investors”. During the visit of an Abkhaz government delegation to Tkvarcheli, it was noted that in 2002, the transfers of Turkish companies to Tkvarcheli’s town budget amounted to only 20 percent of planned revenues.²⁰³

Representatives of Turkish companies hope that the de-facto government will allow them to expand their business. In their point of view, after July 2003 when initial arrangements are completed, the daily mining and transportation could reach approximately 1500 tons. The coal is mainly exported through Ochamchire port, where the companies *Okan* and *Tamsash*, together with the Abkhazians, installed necessary equipment that made it possible to load 200 tons of coal in one hour. Turkish companies also demanded that the de-facto authorities guarantee the safety of ships exporting coal that are frequently detained by Georgian border guards.²⁰⁴

Alcoholic Beverages

A winery in Sukhumi was purchased by Russian businessmen who allegedly acted on behalf of the former Prime Minister of Russia, Sergei Kirienko. The company, Wines and Waters of Abkhazia, was opened on the territory of the factory, headed by Valeri Avidzba. The technology was imported from Italy and Russian specialists participated in its installation. The equipment has a production capacity of 50,000 bottles in 24 hours. It should be noted that the winery could not make wine with local materials that were subsequently imported from Moldova. In the future, it is planned to import materials from Italy, Spain, and Argentina. The product is to be sold on the Russian market.²⁰⁵

The brewery in Maikop, Republic of Adigea in the North Caucasus, made investments into the reconstruction of Sukhumi Beer Factory. The factory has been producing beer since June 2000.²⁰⁶

The Abkhaz de facto Ministry of Taxes and Revenues stated that decisive steps are needed in order to tackle alcoholic production without excise stamps. There are eight state factories in Abkhazia that have distillery production licenses. Entrepreneurs, however, are not content with the existing system of central supply of spirits, as a result of which the factories are in debt to the de-facto government for USD 30,000.²⁰⁷

Tourism as a Form of Contraband Service

The government of the self-proclaimed republic considers the development of the tourism industry as an economic priority. It was already mentioned that Madina Ardzinba, the daughter of the de facto President

²⁰⁰ Source: State Department of Intelligence of Georgia. (2003).

²⁰¹ Ibid.

²⁰² *Apsnypress*. (2003, August 11). No 162, from <http://apsnypress.narod.ru/>

²⁰³ *Apsnypress*. (2003, March 31). No 055, from <http://apsnypress.narod.ru/>

²⁰⁴ *Apsnypress*, (2003, August 11). No 162, from http://apsnypress.narod.ru/2003/08_avg-03/AP08-11-03.htm

²⁰⁵ Source: Ministry of State Security of the Government of Abkhazia in Exile. (2003).

²⁰⁶ Ibid.

²⁰⁷ Ibid.

of Abkhazia, actively participates in the tourism business. Since 1999 she has had almost monopolistic control over tourism resources in Abkhazia through her travel agency, Rusal Tour, which tries to attract with low prices, Russian tourists to Abkhazia. She started repairing the resorts with budgetary resources of the self-proclaimed republic. When choosing resorts, Madina prioritized those situated in the Western part of Abkhazia, i.e. near Russia (resorts in Gudauta, Pitsunda, and Gagra) that are considered by Russians to be safer. The following resorts are ready for tourists: *Samshitovaia Rosha Pitius, Pitsunda, Nart, Amra, Energetic, Solnechnyi, Gagra, Dacha Stalina, and Lidziava*. Currently, up to ten Abkhaz tourist companies operate in Moscow. Additionally, 25 percent of the generated revenues from tourism are spent on defense improvements.

Besides the business interests of Madina Ardzinba, Russian companies and government structures are also concerned with tourism in Abkhazia, including those that lease resorts very inexpensively over long periods of time. Among these are: the Ministry of Defense of Russia, the Ministry of Atomic Energy of Russia, Institutes of Metallurgy and Economy in Moscow, State University of Kabardino-Balkaria, City administration of Aqsai in Rostov-on-Don oblast²⁰⁸ of Russia, leading Russian companies such as *Lukoil* and *Gazprom*, etc.. The majority of the leasing contracts are for 25-30 years. Frequently, the leasing of resorts entails conflict situations with Vladislav Ardzinba's family, in particular Madina Ardzinba.²⁰⁹

Beginning in 2000, Russian businesses started to invest extensively in Abkhazia. The *Gladiolus* which owns hotels in Moscow has purchased the hotel *Intourist*. The son of Vladimir Chernomyrdin, the former Prime Minister of Russia, was going to make solid investments in Pitsunda, where he was planning to make a tourist base. He was actively supported by Levan Ardzinba, relatives and people close to the de facto President, who have business relations with Vladimir Chernomyrdin.

According to data of the de-facto government of Abkhazia, approximately 160,000 Russian tourists visited Abkhazia in 2003. The government of Abkhazia actively manipulates the tourism business for political goals. Many Russian government officials visit Abkhaz holiday resorts (frequently free of charge) in order to influence their political decisions.²¹⁰

The de-facto government has experienced some problems with Russian leasers as well. *Apsnypress* reports that the government demonstrated a readiness to take decisive steps against those companies that lease resorts. As a result, the Cabinet of Ministers nullified lease agreements of those who did not make refurbishments.²¹¹

Smuggling of Cultural Valuables

Russian cultural objects are illegally trafficked across Georgia. For instance, the anti-smuggling department of Southern Operational Customs of the Russian Federation (stationed in Rostov-on-Don) uncovered an established channel through Moscow-Stavropol-North Ossetia-self-proclaimed republic of South Ossetia-Georgia for the smuggling of old icons, religious relics, and other valuable religious objects. In 2000, Stavropol custom officials attempted to stop the contraband delivery of 172 items of cultural objects to Georgia by bus.²¹² Russian sources also report one case of cultural objects being smuggled

²⁰⁸ Oblast is administrative-territorial unit of Russia.

²⁰⁹ Report by Valeri Khaburdzania, Minister of State Security of Georgia on the activities implemented in 2002, from <http://www.sus.ge/#>

²¹⁰ Newspaper *Trud*. (2003, June 19-25). No. 11.

²¹¹ Borba klanov vykhodit iz pod kovra. Abkhazia Review of Media, (2003, March 26 – April 6), from http://www.abkhaziya.org/events_comment/regnum/abkhaz_kover.html

²¹² Davletshina O.V. (2001). *Kriminalnyi rynek kulturnykh tsennostei i borba s nim v Iuzhnom federalnom okruge // problemi borbi s kriminalnim rynkom ekonomicheskoi i organizovannoi prestupnosti*. Moscow, Russian Criminologist Association, p. 87.

through Abkhazia: Sochi customs officials uncovered a 19th century icon that was transported by a resident of Rostov-on-Don from Russia to Abkhazia. Russian law enforcement structures brought a criminal case against the perpetrators.²¹³

Irrelevance of CIS Sanctions Against the Secessionist Government of Abkhazia²¹⁴

Some Western experts argue that any sanctions imposed against the secessionist government of Abkhazia contribute to the development of smuggling. Such sanctions, they argue, only help the local authorities in Abkhazia and various political-criminal groups to profit from illegal trade. The sanctions help the regime in Abkhazia increase its power and legitimacy as a result of the “Georgian blockade”.²¹⁵

Davidson and Shambaugh believe that effectiveness should be treated as an indicator of whether or not sanctions achieve the desired substantive or symbolic goal in relation to the target.²¹⁶ Hence, success is when the desired policy change has been brought about in the target country, and it has two components: causing economic damage and having political impact. The most important factor when considering success and effectiveness of sanctions is to look at initial goals and determine to what extent the goals were achieved. In the case of Abkhazia, sanctions failed to bring either economic damage or political impact. Moreover it radicalized the stance of de-facto authorities toward Georgia and sanctions did not prevent an investment increase in the economy. Furthermore, economically, sanctions were instrumental in the development of shadow businesses by foreign companies and politically, the economic blockade pushed the breakaway republic more towards Russia and brought even greater partition between the conflicting parties. Thus, sanctions inflamed nationalist sentiment and generated even greater autarky, rather than causing political integration of Abkhazia into Georgia.

Hazelzet argues that it is important to assess the side effects of sanctions when measuring success²¹⁷; the most important side effects in Abkhazia are the development of smuggling networks and the exploitation of natural resources by Abkhazian clans and foreign companies in conditions where trade was limited. For instance, Turkish companies pay only USD 5/ton for coal,²¹⁸ when the average world price is USD 25-30 per ton.²¹⁹ As mentioned earlier, the price of one cubic meter of timber is USD 100-125 in Abkhazia, though the world price of timber is much higher, USD 150-170.²²⁰

Wallenstein argues that sanctions usually are unsuccessful.²²¹ He identifies two conditions that are of particular importance for a successful outcome: the political isolation of sanctions’ receiver and the government’s position within the receiving state.²²² Thus, if the government, to a large extent, becomes

²¹³ Source: *Sedmaia Stolitsa*. (2003, March 14), from <http://www.yuga.ru/news/16828/index.html>

²¹⁴ On sanctions against secessionist Government of Abkhazia please see Appendix A of this report.

²¹⁵ Interview with Western representative of an international organization working in Abkhazia and based in Tbilisi. (2003).

²¹⁶ Davidson, J. & Shambaugh, G. (2000). *Who’s Afraid of Economic Incentives? The Efficacy-Externality Tradeoff*. In Chan & Drury (Eds.), p. 45.

²¹⁷ Hazelzet, H. (1999). Assessing the suffering from ‘successful’ sanctions: an ethical approach. In Van Genugten, W. & De Groot, G. (Eds.), *United Nations Sanctions: Effectiveness and Effects, Especially in the Field of Human Rights*. Intersentia, Antwerpen, pp. 71-72.

²¹⁸ Report of Valeri Khaburdzania, Minister of State Security of Georgia on the activities implemented in 2002, from <http://www.sus.ge/#>

²¹⁹ IMF primary commodity prices, from www.imf.org/external/np/res/commod/index.asp

²²⁰ Ibid.

²²¹ Wallenstein, P. (2000). *A Century of Economic Sanctions: A Field Revisited*. Department of Peace and Conflict Research. Uppsala University, Uppsala, p. 5.

²²² Wallenstein, P. (1978, September). *Ekonomiska Sanktioner – En studie av tio fall i modern tid*, Uppsala University, Department of Peace and Conflict Research, Report No 16, p. 41.

internationally isolated, while at the same time facing severe legitimacy problems within the state, the outcome is more likely to be successful. Wallensteen argues that a substantial interplay between the sender and the opposition is needed.²²³ Hence, it is important when considering sanctions to pay attention to the internal conditions within the targeted state. The external pressure can bring about a policy change only when combined with internal pressure. In the case of Abkhazia, the breakaway republic is not completely isolated due to its being a de facto protectorate of Russia. Furthermore, despite the presence of opposition, the most popular being the political movement *Amtsakhara*, the government enjoys large support from the population. Furthermore, the opposition has the same stance as that of the government in relation to sanctions. In this case, external pressure might not be quite as successful in terms of bringing about the desired outcome.

Up to now, the blockades and trade restrictions as a crude means of leverage have only proved to generate antagonism between the parties, thus, reducing the inclination not only to compromise but to have any form of contact with Georgians. At the same time, after the aforementioned actions by Russia, the sanctions have only a formal and symbolic significance. Moreover, they created an entire structure comprised of black marketeers, local monopolists, border guards, peacekeepers and militia members who benefit from badly regulated economies across conflict divides.²²⁴ Therefore, sanctions created an extremely favorable background for smuggling through Abkhazia where in effect there were almost no relations and agreements between the secessionist Abkhaz government and the Government of Georgia, as well as the Abkhaz government in exile. Economic poverty and personal relations between ethnic Abkhazians and Georgians who wish to establish economic relations and improve their lives, led many of them to pursue the only means of cooperation left by their governments: participation in smuggling networks. This was the only way for survival and created a broad social base for the smuggling networks, which reach far beyond the border of the demilitarized zone in the Gali and Zugdidi districts from Gagra to Tbilisi. People who live in Gagra and Sukhumi often visit the biggest market in Tbilisi, *Lilo*, another trans-shipment point of smuggled goods, mostly from Azerbaijan, and take them to Abkhazia to sell. Ethnic Georgians also visit Abkhazia for commercial goods.

In summary, sanctions are senseless; prompting antagonism between the parties. They contribute to the cross-border illicit activities that may be lessened through the lifting of the sanctions and the subsequent legalization of trade flows. This line of argument is in accord with Mark Taylor's statement that the problem of having to enforce or regulate activities that contribute directly to conflict is solved by having them formally legalized.²²⁵ The lifting of the sanctions in turn might promote the legalization, to a certain extent, of illegal cross-border economic activities. An intensified economic relationship might prompt fully "legal" cooperation between business groups of Georgia and Abkhazia that in turn could transform a certain amount of illegal trafficking into legal business transactions.

Moreover, the legalization of trade flows will *give criminal interests an incentive to support conflict resolution by creating a common economic interest that could be pursued by both sides.*

²²³ Wallensteen (1978), p. 41.

²²⁴ Cohen J. (2002). *Regional Introduction: Struggling to Find Peace*, Published in: Searching for Peace in Europe and Eurasia, from http://www.euconflict.org/dev/ECCP/ECCPSurveys_v0_10.nsf/vwWebSurveys/380CB331C987C9E5C1256C5D0040611F?opendocument

²²⁵ Taylor, M. (2002). *The Economies of Conflict: Private Sector Activities and Armed Conflict*. Emerging Conclusions. Programme of International Cooperation and Conflict Resolution, FAFO Institute for Applied Social Science, p. 12; <http://www.faf.no/nsp/ecocon.htm>

Prospect of Economic Relations with Self-Proclaimed Republics

The attitudes toward economic relations with the self-proclaimed republics differ significantly in Georgia. They include:

1. A need for close economic relations with the self-proclaimed republics that implies implementation of joint business projects, investing in Abkhazia and the Tskhinvali Region, restoration of railway, air and motorway links, etc.

The supporters of this viewpoint think that after a 10 year period of frozen conflicts, the need for new approaches is needed, implying the development of economic links, development of business partnerships among Georgian, Abkhaz and Ossetian businessmen that might promote common interests for the sake of conflict resolution and political rapprochement of the sides.

Advocates of this idea think that due to the passivity of the Georgian side, the economic space of the post-conflict zones has been occupied by Russian and Turkish businesses. There were some attempts at this kind of relationship, though efforts of Coca-Cola Bottlers Georgia and the beverage-producer Kazbegi were effectively blocked, because of uncertainty concerning political status of Abkhazia as Tamaz Nadareishvili, the Chairman of the Government of Abkhazia in exile, mentioned to the TraCCC research group. Despite interest from businesses on both sides in developing economic relations, businesspeople are obliged to cooperate on an illegal and criminal basis, such as Levan Ardzinba's business links with Georgians.

2. The development of economic links with post-conflict regions and the official lifting of the sanctions and restoration of transport links will result in complete loss of control over those territories and their immediate integration with the Russian Federation. Official support for establishing economic relations by the Georgian side will prompt a massive and fast inflow of Russian capital into Abkhazia. Considering the pro-Russian orientation of the de-facto governments, large parts of the economies of the self-proclaimed republics will be transferred to foreign proprietors, in other words, the Russian economy will overtake those regions and there will be de-facto integration of Abkhazia and South Ossetia with Russia. It is fair to say that this integration process already exists, though covertly. Were a Russian capital to be official established, it would be all but impossible to restore the territorial integrity of Georgia.

Additionally, the opening of railways and motorway links between Russia and Armenia across Georgia might strain relations with Azerbaijan; an undesirable political and economic outcome for Georgian interests.

3. The development of the economies of the post-conflict regions, restoration of trade-economic relations, official lifting of economic sanctions in exchange for settling political relations with the Government of Georgia. For instance:

- Lifting economic sanctions in exchange for the return of IDPs;
- Opening of railway and motorway routes in exchange for the change in the mandate and location of Russian peacekeeping forces;
- Permitting land trade relations between Russia and Turkey in exchange for control by Georgian border guards and customs agencies.

Two points can be summarized based on analysis of the ongoing situation:

On the one hand, illegal economic relations play a positive role in mollifying the conflict situation, rapprochement and cooperation among sides that promise maintenance of the cease-fire and non-renewal of

the conflict (this is particularly true in the case of the Tskhinvali Region). On the other hand, a change in the situation by restricting illegal business, confronts the interest of those complicit in this business, among them criminal authorities and high-ranking officials of the regional and central governments. Those interest groups are more interested in maintaining the *status quo* in Abkhazia and the Tskhinvali Region in order to sustain themselves; otherwise they may lose a valuable source of income.

When analyzing the reasons for failure of economic reforms, an increasing number of experts emphasize that the incomplete reforms work for those who benefit from an unstable situation by creating the opportunity to receive rent (in the form of legal or illegal revenues). Incomplete reforms create high rents and promote the well being of rent-seeking groups. The development of reforms and an institutional arrangement of the country may undermine their incomes. Therefore, those groups of “rent seekers” (that have already established themselves as a distinct social cluster) will do everything to maintain the existing situation.²²⁶ In our view, this argument is reliable enough and can be utilized in analyzing the economic aspects of the conflict.

Interest in settling the conflict diminishes directly with the expansion of illegal business within the post-conflict zones. This becomes more consistent if one looks at the groups complicit in illicit business activities in the post-conflict regions; it is the same representatives of the government that supposedly seek conflict resolution.

Data obtained and interviews conducted by the TraCCC research group show that establishment of official economic ties is not supported by either the central or secessionist regional governments. Moreover, it is not wanted. At the same time, the presence of such strong relations on an informal level seems to be expedient. The economic interests of the population living in areas adjacent (Gori district) to the Tskhinvali Region are closely related with the Ergneti market. As one owner of a poultry farm mentioned, he uses cheap chicken feed available at the Ergneti market on his farm.

The parties could more easily reach political consensus under conditions of common economic interests. Hence, the case of Georgia shows an inverse trend: illegal economic relations are propagated by the unstable situation and the lack of political settlement of the conflict. Therefore, the conflict resolution processes can only be positively affected by economic relations that are officially supported, have a legal basis, and are accompanied by the settlement of political issues.

Conclusions

The negative impact of smuggling through Abkhazia and the Tskhinvali Region on the Georgian economy is insignificant in comparison to the volume of smuggling through other parts of Georgia. It is of much more importance that the smuggling networks in Abkhazia and the Tskhinvali Region raise the crime rate, create corrupt economic interests in powerful political groups, and contribute to the existing political status quo and “frozen conflicts”.

The main causes for smuggling through Abkhazia and the Tskhinvali Region are not open borders or secessionism; they are institutional weakness, corruption in law enforcement bodies, and the absence of political will among leaders of the executive branch of the Government of Georgia to change the situation in the country. Sanctions against Abkhazia have only contributed to the development of smuggling and a shadow economy on its territory.

²²⁶ Please see: *The Challenge of Development*. (1991) World Bank Development Report. Oxford, pp. 131-132; Hellman J.S. (1998). Winners Take All. The Politics of Partial Reform in Postcommunist Transitions. *World Politics*, Vol. 50, No 2; Gotsiridze, R., & Kandelaki, O. (2001). *Influential Groups and Corruption. Threat to National Security of Georgia*. Tbilisi, Publisher Elfi (In Georgian language).

APPENDICES

Appendix A.

Legal Acts on Smuggling through Abkhazia and the Tskhinvali Region/South Ossetia

Contraband (contrabando in Italian, contra - against and bando - government decree) – is the covert movement of goods across state borders through the avoidance of custom control. The term “contraband” is absent in the Criminal Code of Georgia²²⁷. There is instead an Article 214 on “Breach of Customs Procedures”, and in most cases law-enforcement bodies use administrative sanctions instead of criminal prosecution against those who violate these regulations. This tendency is due in part to large wholesale smugglers who use political power for protection, or escape criminal prosecution through bribery; which is due to the rampant corruption within law enforcement agencies. But, this is also partially due to the worsening of living conditions after the 1998 financial crisis in Georgia that caused expansion of poverty among the population and a growth in the number of petty smugglers.

Article 214 defines a breach of customs procedures as:

“Inflow or outflow of a large quantity of movable objects across the customs border of Georgia, done without customs control or in secret, involving deceptive use of a document or customs identification instruments, false data in the declaration or misuse of the official position by a customs officer or a person equal thereto”.

Such breaches shall be punishable by fine or imprisonment for up to five years. The same deed perpetrated in particularly large quantities shall be punishable by fine or imprisonment for up to seven years.²²⁸ The article also criminalizes the inflow or outflow, in contempt of procedures, of poisonous, hazardous, radioactive or explosive materials, arms, explosive devices, fire-gun, ammunition or military equipment, weapons of mass destruction, material or equipment that may be used to manufacture weapons of mass destruction, raw material of strategic importance, art and cultural objects, precious metal, jewelry made of precious metal, jewelry scrap bearing artistic, historic, or archeological value across the customs border of Georgia.

According to this Article, an action perpetrated repeatedly, using professional position, or under violence against the officer exercising customs control, shall be punishable by fine or by prison sentences ranging from five to twelve years in length, while an action committed by an organized group, shall be punishable by prison sentences ranging from seven to fifteen years in length and by a fine.²²⁹

In line with Article 214, the confiscation of the means of a crime is allowable. Though this measure is not obligatory and is not used by courts; thereby, negatively affecting the struggle against smuggling. This “optional” criterion creates the opportunity for corruption in the law enforcement system. In early 2002, a Polish group of experts recommended the introduction of a mandatory confiscation of the means of crime (by court decision) and also to introduce a definition according to which goods imported into the customs

²²⁷ As informed in Ministry of Finances of Georgia, the change in Criminal Code is just being prepared introducing the term “contraband” in Legislature.

²²⁸ Note: for the purpose of this article, large quantity shall mean the value of an object in excess of eight hundred lari and particularly large quantity – exceeding five thousand lari.

²²⁹ *Criminal Code of Georgia*. (2003). Chapter XXVIII, article 214, published by the Legislative Messenger of Georgia, p. 84-85.

territory of Georgia that have not been declared would also represent the means of crime.²³⁰ This is a highly desirable change that could positively affect the struggle against smuggling.

Article 200 of the Criminal Code criminalizes the production, storage, sale or shipment of excisable goods subject to stamping without excise stamps.²³¹ It gives a legal basis for the successful struggle against cigarette smuggling in Georgia – one of the most commonly smuggled goods. Articles 262 and 263 of the same Code criminalize the illegal import to or export from, or international transit shipment across Georgia, of narcotics, analogous or precursor thereof, including in large quantities.²³²

Article 193 of the Administrative Code of Georgia also deals with the breach of Procedures of Customs Control: passing, stopping and parking of vehicles in zone of Customs control; procedures of declaration and other rules, such as non-permitted movement of transport means, goods and individuals in the zone of Customs Control; various violations of storage rules and non-deliverance of goods on the place defined by customs organs; conduction of illegal operations with goods and transport means under certain customs regime, change of their substance, benefit from them without abiding by the rules of customs regime; concealment of goods moving in customs territory of Georgia from customs control, as well as utilization of special hiding places and other means, that make it difficult to detect goods; transportation, storage, purchase and utilization of goods and transport means imported through unfair declaration; inscribing false source of origin that makes it possible to avoid customs taxes or decrease the quantity.²³³

Article 10 of the Customs Code of Georgia defines the time and place of crossing into the Customs Border of Georgia for vehicles and goods: the crossing is only allowed through points defined by the President of Georgia. Article 2 further states that free customs zones and storage facilities may exist in Georgia that are considered outside of customs territory.²³⁴ Thus, the Code implies that the customs borders of Georgia may not coincide with state borders. This creates the possibility to impose customs taxes on those goods that come from the uncontrolled territories of Georgia, such as Abkhazia and the Tskhinvali Region, without acknowledging the independence of the breakaway republics.

A widespread method of smuggling to avoid taxes is the use of transit routes. In this case goods are exempt from taxes but they do not leave the territory of Georgia and are used illegally for local consumption. This kind of smuggling, though, is rarely used for goods which come from conflict zones.

There are various types (ranging from 6 to 14 depending on the product) of numerous documents (various certificates, special permissions of transportation, declarations, invoice etc.) that are to be submitted to customs organs. It is argued that there is too much documentation required by customs; and this creates obstacles that subsequently drive many businesses into shadow arrangements. It would be more effective to use only several documents under strict administrative control. But it is the norm for corrupt governmental structures to create complicated bureaucratic procedures and demand money from business people for document processing or helping them to avoid the cumbersome process altogether.

²³⁰ *Report on the Activities of Governmental Administration of Georgia, Dedicated to the Fight Against Smuggling of Cigarettes and Fuel on the Custom Territory of Georgia.* (2002, March 26). By Polish Experts from Baltserovich Consulting Group working in Georgia, p.5-6.

²³¹ *Criminal Code of Georgia.* (2003). Chapter XXVI, article 200, published by the Legislative Messenger of Georgia, p. 79.

²³² *Criminal Code of Georgia.* (2003). Chapter XXXIII, articles 262, 263, pp. 105-106.

²³³ *Administrative Code of Georgia.* (2002). Article 193. In *Custom Legislation*, Tbilisi, Georgia. Published by the Business Currier, pp.205-206.

²³⁴ *Custom Code of Georgia,* (2003). Chapter I, article 2; chapter II, article 10, pp. 5, 10.

Legal Acts on Tobacco Products

A presidential decree states that the import of tobacco products to Georgia is only permissible by special license granted by the Ministry of Trade and Foreign Economic Relations²³⁵ (after dissolving this structure, this function was integrated into the Ministry of Economy). In addition to this license, presidential and ministerial decrees state that in order to restrict the illegal import of excisable goods, the Ministry of Tax Revenues (now a department within the Ministry of Finance) must grant special permission for tobacco import (in case of transit and re-export as well) together with a “card of Importer of Tobacco Products” to allow the import and transportation of tobacco products.²³⁶ Furthermore, Ministerial decree No. 90 states that special permission for transportation and goods are only allowed to move with this permission. The same decree defines special “excise routes” along which tobacco products are required to be transported. Other regulations state that transit of excisable goods is only possible along “excise routes”.

Legal Acts on Oil Products

According to presidential decree, Special Freight-Customs Declarations (SFCD) have been imposed to improve taxation and registration activities of light, medium, and heavy distillates of oil. Since August 1999, these goods can only cross into the country with a SFCD granted by the Customs Department of Georgia. Moreover, since August 29, 1999 the transportation, storage, and sale of imported and locally produced light, medium and heavy oil distillates without a SFCD has not been permitted.²³⁷ Thus, it is illegal to transport gasoline without a SFCD to the Ergneti market or Abkhazia. According to subsequent regulations by the Customs Department, the import of oil distillates to Georgia from North (Russia) is only permitted at the checkpoint at *Kazbegi* (the neighboring Russian Customs checkpoint is *Zemo Larsi*). The checkpoint at Gori was later also added by the decree of the Minister of Tax Revenues.²³⁸ Supposedly with this measure, the former Minister, Mr. Machavariani, was trying to prohibit the smuggling of oil products and to legalize their inflow from Russia through the Tskhinvali Region. However, according to the information of the Extraordinary Legion,²³⁹ which was verified by data from the Customs checkpoint at Gori, in 2000-2001, only one light vehicle (Opel) loaded with smuggled gasoline was detained and brought to the Customs *Transterminal* in Gori. There were no cases of diesel smuggling.

Difficulties of Enforcement

According to Article 145 of the Customs Code of Georgia, the violation of customs regulations is punishable by criminal or administrative means,²⁴⁰ and it mandates the imposition of customs taxes on goods transported from the conflict zones to the rest of Georgia. Nevertheless, representatives of law enforcement structures claim that there are obstacles preventing them from enforcing the law, because they cannot control the import of goods from abroad to Abkhazia and the Tskhinvali Region, and do not have documented evidence of it. But when goods are in Abkhazia and the Tskhinvali Region (which are regions of Georgia) they become local property and their further sale/purchase and delivery to other regions of Georgia cannot be considered a breach of customs procedures and cannot be qualified as criminal behavior. It may qualify only as a violation of trade regulations in that these may be goods and vehicles moving without appropriate documentation and permission. In which case, violators can only be subject to administrative punishment. Certainly, the majority of goods from Ergneti market and those which cross cease fire

²³⁵ Presidential Decree No 391. (1998, June 28).

²³⁶ Presidential Decree No 10. (2001, January 15); and Decree No 90 of the Ministry of Finances. (1998, September 30).

²³⁷ Presidential Decree No 434. (1999, July 12).

²³⁸ Ministerial Decree No 105. (2000, June 19).

²³⁹ This armed unit was created at the Ministry of Tax Revenues specially to prevent smuggling to Georgia.

²⁴⁰ *Custom Code of Georgia*. (2003). Chapter 28, article 145, p. 61.

line in Abkhazia, are of foreign origin, but usually the smugglers claim that the goods are not purchased abroad, and it is difficult to identify the country of origin of a particular product.²⁴¹

Article 214 of the Criminal Code²⁴² is only applicable in such evident cases as cigarettes without excise marks bought in Russia or Turkey and transported through Abkhazia or the Tskhinvali Region, and moving to other regions of Georgia without payment of appropriate taxes.

Criminal cases arising from the breach of customs procedures are rare in courts in Gori and are completely absent in Zugdidi. There are only 3 court cases in Gori where three people were fined according to Article 214 (two people for GEL 400 each and the third for GEL 700). Two of them were importing refrigerators from Russia and the other wheat.

According to several decrees of the President of Georgia on strengthening the fight against smuggling and increasing State revenues, Customs Gori is temporarily responsible for implementing customs regulations on goods and transport means from the Russian Federation through the Tskhinvali Region.²⁴³ The transportation of related goods and vehicles is permitted only along the special route Tskhinvali-Ergneti-Tkviavi-Gori. Decree No. 234 gives direction to the Ministry of State Security, and the Customs and Tax Departments to prepare a joint plan in order to take decisive measures for restricting the import and movement of freight along numerous routes from the Tskhinvali Region that are used to avoid Customs. According to this decree, the State Minister, together with the Ministry of Justice and the head of the Department of State Border Guard, should initiate negotiations with respective structures of the Russian Federation in order to organize the trade of goods from Russia, and from Georgia to Russia on the Buron-Roki pass. However, no plan was ever developed and smuggling has only expanded.

Concerning the outflow of excisable goods to the Russian Federation, a decree by the head of Customs Department of Georgia states, "Despite joint operations with law enforcement agencies, there is still illegal movement of excisable goods among them spirits, tobacco products, oil products and other goods in Shida Kartli region, in particular in the Gori-Tskhinvali-Roki direction²⁴⁴. In this respect, the movement of these goods in any customs regime (transit, export, re-export, import and other) in the Gori-Tskhinvali-Roki direction toward the Russian Federation is restricted".²⁴⁵ Thus, by this decree the movement of goods from Georgia through the Tskhinvali Region to Russia is illegal. Dmitri Abesadze, the former Deputy Head of the Customs Department and the person responsible for monitoring the execution of this decree, commented that this measure was taken in order to divert the outflow of goods to a controlled territory i.e. to Kazbegi customs, where it would be much easier to control.²⁴⁶

International Agreements

There is an agreement on free trade between the Government of Georgia and the Government of the Russian Federation dated May 10, 1994, and ratified by Parliamentary Verdict No. 146 on February 11, 2000. By this agreement the parties agree to cooperate in the field of trade and do not impose customs taxes for exported or imported goods originating from the customs territory of Georgia or Russia. In Article 3, the countries agree not to use the measures of quantitative limitation on import and export. Such

²⁴¹ Interview with Jemal Gakhokidze, Deputy Secretary of the National Security Council of Georgia and former Minister of State Security of Georgia, June, 2003.

²⁴² *Criminal Code of Georgia*. (2003). Chapter XXVIII, article 214, pp. 84-85.

²⁴³ Presidential decrees No 234. (1999, May 5), and No 221. (2000, May 31).

²⁴⁴ Later on, by Ministerial Decree No 105. (2002), light, medium and heavy distillants of oil are eliminated from these goods.

²⁴⁵ Decree No 156 of the Department of Customs of Georgia. (1999, August 12).

²⁴⁶ Interview with Dmitri Abesadze, Former Deputy Head of Customs Department of Georgia, Vice-president of Chamber of Commerce of Georgia. (2003, March).

limitations can be imposed unilaterally, reasonably and for a strictly defined period of time only in rare cases. Russia and Georgia also agreed to allow the free transit of goods across the territory of either side intended for another country. This agreement was ratified by the resolution of Parliament of Georgia No. 146 on February 11, 2002. It does not cover the territory of Abkhazia, as decided by the head of the CIS countries, as there are sanctions imposed on the breakaway republic.

Another notable agreement is the Checkpoints on Customs Borders agreement between the Government of Georgia and the Government of the Russian Federation dated May 31, 1994.²⁴⁷ By Article 1 of the agreement, the parties agree to open the following checkpoints on the border between Georgia and the Russian Federation: *Gantiadi*²⁴⁸ (Georgia), *Adler* (Russia); *Roki*²⁴⁹ (Georgia), *Nizhnii Zaramag* (Russia), *Mamisoni* (Georgia), *Nizhnii Zaramag* (Russia), *Kazbegi* (Georgia), and *Verkhonii Lars* (Russia).

Some law enforcement bodies such as the Department of Counter-sabotage and Economic Counterespionage of the Ministry of State Security of Georgia have no legal basis for cooperation with similar structures in foreign countries, except the CIS. There are agreements with Russia and other CIS states, which are very helpful, but there are no agreements ratified by the Parliament of Georgia with the USA, Turkey, and other Western countries. The Department cooperates with structures of the USA only in the exchange of information. It is difficult to obtain valuable documents without an agreement between Georgia and other countries.²⁵⁰

Sanctions Against the Secessionist Government of Abkhazia and Related Decrees of the CIS, Russian, and Georgian Governments

Three years after the end of the war in Abkhazia a decision by the Council of the Heads of States of the Commonwealth of Independent States on “Measures for Settlement of the Conflict in Abkhazia, Georgia” January 19, 1996 declared, that:

“Confirming that Abkhazia is an integral part of Georgia, the member-states of the Commonwealth of Independent States, without consent of the Government of Georgia:

will not exercise trade-economic, financial, transport or other operations with the authorities of the Abkhaz side; and will not permit the functioning of representations of the authorities of the Abkhaz side in their territories, or the persons in a capacity of official representative of those authorities.”²⁵¹

According to this, all import-export operations, which are not agreed upon by the Georgian government, or did not get governmental approval, are illegal by definition and represent contraband trade. This decision seriously hinders the ability of the secessionist government to develop official foreign economic relations and as a result, instead of respectable international companies, shadow businesses with possible money laundering schemes, have established links with the territory of Abkhazia. The Russian state and private companies are often directly involved in business operations in Abkhazia. This is in violation of the Russian government’s own obligations based on the January 19 agreement. Thus, on November 7, 1997 the Russian Prime-Minister signed a decree on importation of citrus and some other agricultural products to the Russian Federation.

²⁴⁷ *Custom Legislation of Georgia*. (2002), pp.350-351.

²⁴⁸ In Autonomous Republic of Abkhazia, currently not controlled by central government of Georgia.

²⁴⁹ In the Tskhinvali Region, currently not controlled by central government of Georgia.

²⁵⁰ Interview with an officer of the Ministry of State Security of Georgia, May 24, 2003.

²⁵¹ Diasamidze, T. Regional Conflicts in Georgia – the Autonomous Oblast of South Ossetia, the Autonomous Republic of Abkhazia (1989-2002). (2003). In *The Collection of Political-Legal Acts*. Tbilisi, Georgia, p. 170.

There have been two decrees by the Russian Duma attempting to lift sanctions against the secessionist regime in Abkhazia; dated June 24, 1997 and June 24, 1998 respectively.²⁵² The first decree proposed to reverse current sanctions against the poverty-stricken population of Abkhazia. The second decree proposed the following:

1. To submit the proposal to the President of the Russian Federation and the Council of the Heads of States of CIS on abolishment of restrictions regarding Abkhazia established under the decisions taken by the Council;
2. To recommend to the Government of Russian Federation to declare null and void the decree issued on December 19, 1994 N 1394 “On Measures for Temporary Restriction of Border Crossing”;
3. To advise the Russian Federation to intensify the process to conclude agreements on economic and cultural cooperation with Abkhazia. (Signed by Chairman of the State Duma of the Federal Assembly of the RF, G. Seleznyov)²⁵³.

After all of the efforts by the State Duma, the Government of the Russian Federation issued a decree signed by Vladimir Putin on September 9, 1999²⁵⁴ that nullifies all decrees concerning measures of temporary restriction of the crossing of the state border of the Russian Federation with Georgia. The decree stated that the State Customs Committee of the Russian Federation, the Ministry of Communications and the Ministry of Transport shall take appropriate measures towards preparation of checkpoints “Adler-motorway” and “Adler-railway”.

Since then, the Government of Russia has started a new strategy aimed at economic integration of Abkhazia into the Russian Federation. This strategy includes the development of economic relations with the secessionist regime, the introduction of a non-visa system for the secessionist territories of Abkhazia and the Tskhinvali Region, but the introduction of a visa system enforced in other regions of Georgia, the granting of Russian citizenship to the populations in the secessionist parts of Abkhazia and the Tskhinvali Region, and the opening of the railway between Sochi and Sukhumi. These policies were instated without consultation with the Government of Georgia, which aggravated Georgian-Russian relations. It furthermore gave the secessionist government of Abkhazia incentive to proclaim independence in 1999 after a referendum on independence in which the Abkhazian population in exile (mostly ethnic Georgian) took no part. Further negotiations with the Government of Georgia on the political status of Abkhazia were effectively blocked.

From this respect Russia may be considered as a complicit neighbor in smuggling activities whose “actions are contributing to the illegal exploitation of natural resources and the consequent fuelling of conflict”.²⁵⁵ In contrast to Russia, the Government of Georgia has adopted several presidential decrees dealing with the limitation of trade in Abkhazia:

- A presidential decree on border and custom regimes on the Abkhaz part of Georgia-Russian border states that due to the heightened criminal situation in the Caucasus in general, and in Abkhazia in particular, that promotes the inflow of arms, drugs, and smuggled goods that endangers state security and the vital interests of Georgia and disrupts amicable relations with neighboring countries and in order to provide the implementation of the embargo imposed by the Heads of CIS countries, the port of Sukhumi, marine space, and Abkhazian part of the Georgian-Russian border are closed to every international trade transaction besides the movement of humanitarian assistance freight.²⁵⁶ Another presidential decree states that all ships heading to Abkhazia are required to undergo inspection at Poti port. Additionally, the owners of the

²⁵² Ibid, p.p. 195, 216.

²⁵³ Ibid, p. 217

²⁵⁴ Ibid., p.236.

²⁵⁵ *Economic Agendas in Armed Conflict: Defining and Developing the Role of the UN*. (2002). Background Paper by the International Peace Academy and the Fafo Institute for Applied Social Science.

²⁵⁶ Presidential Decree No 140. (1996, January 31).

ships, organizations sending freight or private companies are required to provide the ships' details to consulates and embassies of Georgia.²⁵⁷

-An additional presidential decree adopted on, January 10, 2001 deals with the illegal outflow of wood/timber from Abkhazia. Respective structures are required to work more intensively for the fulfillment of presidential decree No. 328 and the Ministries of State Security and Internal Affairs, and the Supreme Council of Abkhazia are required to prepare a plan of activities to combat the illegal outflow of wood.

The Parliament of Georgia is also attempting to stop smuggling from Russia. One of these attempts was a declaration on December 5, 2002 in relation to possible membership in the WTO of the Russian Federation. Parliament urged the Government of Georgia not to support Russian membership in the organization if the country still violates norms of international agreement, including; illegal cooperation with separatist regimes of Abkhazia and South Ossetia, utilization of closed sea ports of Abkhazia in violation of international regulations, discriminatory use of its visa regime in Georgia, violation of Georgian-Russian agreement on border checkpoints and subsequent smuggling that inflicts economic damage on both sides, creation of artificial trade barriers for Georgian and transit products at the only legitimate custom post between Georgia and Russia (Kazbegi - Zemo Larsi), and illegal detention of transit cargos en route to Georgia.

Conclusions

It is staggering the number of “prohibiting” decrees and instructions different Georgian government agencies issued after 1998. Most of these legal acts use limitations by means of administrative-legal enforcement rather than economic incentives. Officially they are aimed to prohibit and to minimize smuggling, but in fact they have caused the rapid growth and development of shadow businesses in conjunction with corrupt governmental structures. Government officials and law enforcement bodies supplement the absence of “living-wage” salaries with bribery and complicated bureaucratic procedures for business (export–import operations, ways of transportation, etc). Such legal acts have created obstacles for business people and thus influenced them to conduct business illegally. As a result, profits go into the pockets of corrupt bureaucrats instead of the state budget, while the requirement to get additional permissions and licenses from central government authorities (such as ministries of Finance or Economy, for example) causes centralization and monopolization of smuggling and therefore stimulates participation in smuggling networks of high- level government officials. The last point makes the fight against contraband trade in Georgia especially difficult.

Such administrative-legal enforcement measures are only effective in conjunction with other steps such as a “living-wage” salary for customs and law enforcement employees, and harmonization of excises and taxes with neighboring countries. Borders are porous and can always be used for smuggling if economic incentives, barriers, and balance do not exist.

The situation is similar concerning the decisions made by the Governments of Georgia and the Russian Federation on relations with the Abkhaz part of Georgia. It is clear that the Russian government has attempted to adopt legal acts aimed at the use of economic measures to integrate Abkhazia into the Russian Federation, while the Government of Georgia still prefers old methods of bans, administrative-legal enforcement, or the criminal persecution of foreign companies and boats which violate Georgian and CIS decisions on sanctions. Such administrative-legal methods are effective if the state is strong, but this is not the case in present day Georgia. The Government of Georgia should concentrate its efforts on a strategy of economic cooperation and integration with Abkhazia, though the latter is also difficult due to limited resources and the low level of development in the rest of Georgia.

²⁵⁷ Presidential Decree No 328. (1999, May 19).

Improvement of Georgian legislation in the framework of which smuggling should be fought, and its practical enforcement might be considered to be creating substantial conditions for taking decisive steps. This is especially true concerning cigarettes and fuel, the most smuggled goods through Abkhazia and the Tskhinvali Region. The main problem lies in the non-enforcement of existing laws and other legal acts due to corrupt law enforcement bodies and lack of initiative on the part of the previous Government of Georgia.

Appendix B

Organizations Responsible for Prevention of Smuggling through Abkhazia and the Tskhinvali Region/South Ossetia

In Georgia several structures are legally responsible for law enforcement against smuggling. The structures, which are directly responsible for inquiry in this respect, are the Ministry of Finance, the Ministry of Internal Affairs, and the State Department of the Border Guard. The main investigative structures are the Ministry of Finance and the Ministry of State Security while investigations are supervised by the General Prosecutor's Office.

The Department of Counter-sabotage and the Economic Counter Intelligence and regional branches of the Ministry of State Security, and the newly created Investigation Department of the Ministry of Finance have the right of inquiry and operational activity against smuggling. Though the Ministry of Internal Affairs has no right to do the same according to law, it still implements appropriate measures through its Department of Struggle Against Corruption and Economic Crime, and Regional Structures.²⁵⁸ State Border Guards also have the right to perform operational activities against smuggling; however, this report is not concerned with this agency, as there are no border troops in Abkhazia or the Tskhinvali Region. These structures have no right to investigate smuggling crimes; only the Department of Investigation at the Ministries of State Security and Finances, and the General Prosecutor's Office possess this right. The latter is the main institution carrying out criminal prosecution as well as implementing and supervising legal guidance at the stage of preliminary (pre-trial) investigation. Additionally, there are several departments in the Ministry of Finance, the Parliamentary Committees and the National Security Council that have no law enforcement responsibilities though are largely concerned with smuggling.

Nevertheless, until June 2003 there was no agency to coordinate anti-smuggling activities that could substantially improve the fight against illegal trafficking of various goods. The TraCCC research team was informed by various respondents and representatives of the aforementioned agencies that there was little if any inter-agency cooperation and coordination of activities did not happen at all.

Ministry of Finance of Georgia

Extraordinary Legion

The Extraordinary Legion (or Special Legion) was created on June 30, 2000 by Decree of the President of Georgia. Initially, the staff was 290 people and later increased to 450 people. It should be noted that considering the fact that there are no Georgian Border Guards or Custom posts on the Enguri River or in the Ergneti market, the Legion was the main structure responsible for the struggle against smuggling from the conflict zones and throughout Georgia.

The Legion was a militarized, law enforcement, special task structure. Its functions were: the detection and prevention of the violations of customs rules, performing inquiry function in the framework of its compe-

²⁵⁸ *Criminal Process Code*, Article 66, Part I, Point E, from http://www.parliament.ge/LEGAL_ACTS/sarsis.htm

tence, getting operational information on and fighting against illegal stock circulation, combating illicit trade on the territory of Georgia and individuals who participate in these activities, observing the conditions that promote the breach of custom procedures, systematizing the acquired information, creating databases and conveying appropriate information to law enforcement structures, customs and tax departments.²⁵⁹ Until 2002, the Legion, the Department of Customs and the Department of Taxes were a part of the Ministry of Tax Revenues. After the aforementioned Ministry was disbanded, all these structures were integrated under the Ministry of Finance.

According to the Ministry of Finance, representatives of the Legion experienced significant problems because of loopholes in legislation. There was no law that outlined specifically the role of the Legion, which was a significant legislative gap. Its activities were regulated by the law on police. There was no action plan or officially accepted and elaborated document on its rights and responsibilities. When the Legion started to check storage facilities suspected of housing smuggled goods, a court made the decision that it had no jurisdiction to carry out such activities. A regional court managed to clarify the case and allowed the Legionnaires to carry out their activities, though one month had elapsed by then. Certainly such facts negatively affected the anti-smuggling operations.²⁶⁰

The organizational structure of the Legion was as follows: Administrative Department, Department of Informational Support, Department of Inquiries, Department Against Tax Law Violations, Department Against Violations of Customs Regulations, Department of Technical Support, Department of Analysis of Economic Activity of Tax-Payers and Methods of Detection of Tax Evasion, and Task Force.

According to the February 9, 2002 report by Levan Dzneladze, the former Minister of Tax Revenues, the Legion could not fulfill its functions, and the report issued by the Chamber of Control made this argument more consistent. The main reason, in Dzneladze's point of view, was that the Legion did not have any concrete plans or programs; neither in relation to particular branches of the economy nor in relation to specific goods. The Legion had no strategy for guaranteeing economic security, especially relating to the conflict zones. The absence of such strategies resulted in uncoordinated operations with other structures of the Ministry of Finance, as well as with other government institutions. The main problems identified were untargeted use of human resources, low qualifications, and inefficient structure. Systematization of the information on custom violations and individuals complicit in these crimes and further creation of databases did not happen at all. Regarding inquiries, there was no effective coordination with the General Prosecutor's Office. The Legion had no results of investigation on the majority of the 425 criminal cases that were conveyed to the Prosecutor's Office in 2001-2002.²⁶¹

There were problems of cooperation between the Legion and Customs as well. A letter issued by the head of the Legion dated April 6, 2001 condemns the Department of Customs saying that the Legion had no timely and appropriate information on the movement of goods in the customs territory of Georgia which was an impediment to its work.²⁶² No further information was available on the department's activities in relation to the identification of the conditions sustaining violations of customs regulations and identification of people complicit in criminal offenses. Most likely the work done in this respect was extremely poor.²⁶³

Additionally, there were problems not only with the Legion's cooperation with other agencies, but internal problems within the Legion as well. From 2000-2002, the General Inspector of the Ministry of Tax Revenues reported 13 cases of punishment of the Legion's employees.²⁶⁴ However, Minister Dzneladze

²⁵⁹ Statute of the Ministry of Finances, from <http://www.mof.ge/en/about/policy/>

²⁶⁰ Report of Mirian Gogiashvili, Minister of Finances, on the Government Meeting. (2002, July 31).

²⁶¹ Report of Levan Dzneladze, Minister of Tax Revenues. (2002, February 9).

²⁶² Report of Chamber of Control on Activities of Extraordinary Legion in 2001-2002.

²⁶³ Ibid.

²⁶⁴ Website of General Inspectorate of the Ministry of Finance, from <http://www.ig-trm.gov.ge/>

reported different figures, 23 employees fired and 68 punished in line with administrative regulations.²⁶⁵

After these all of these numerous and glaring problems, the Government re-examined the Legion's tasks and goals. As a result the Government of this re-examination, they had planned on creating the Financial Police, which would be a prototype of the Legion complemented with an investigation function.

Disbanding of the Extraordinary Legion and creation of the Investigation Department at the Ministry of Finance

During the anti-smuggling campaign that started in June 2003, the Extraordinary Legion came under particular criticism from the side of the government Commission and officials of the Ministry of Finance as well. Lasha Jvania, the Deputy Minister of Finances stated that, "Kakhniauri, head of the Legion, did not bring any charges against 4900 employees of Ministry of Finance during 6 months; it means that he conceals and protects crimes."²⁶⁶ The Legion could have detained 340 smugglers in one month of an anti-smuggling campaign, though "women with bags" (as some of the impoverished elderly female population that lives in the conflict zone and relies on smuggling to survive) might have constituted the majority.²⁶⁷

Finally, it was decided that after October 15, 2003, the Department of Investigation would be created at the Ministry of Finance based on the premise of the Extraordinary Legion complemented with the function of investigation of economic crimes. The Department of Investigation will cooperate with appropriate departments of the Ministry of State Security and the Ministry of Internal Affairs, that keep their investigative and inquiry functions. The first so-called "Italian Version" which was elaborated by the Ministry of Finance implied that only structures of the Ministry of Finance should have rights of operational-investigative activities against economic crimes, among them crimes that were investigated or inquired by Ministries of State Security and Internal Affairs, though the latter greatly opposed this proposal. Afterwards this project was changed. The Deputy Minister of Finance avowed that "currently the Ministry of Finance is not ready for independent conduction of operational-investigative activities". As a result, in September 2003 it was decided to disband the Extraordinary Legion though up to seventy percent of its employees continued working in the new Department. The Custom and Tax Departments acquired operational function, i.e. they may inquire into economic crimes and then convey materials to the Department of Investigation that may address to court. The supervision of the Department of Investigation is done by the General Prosecutor's Office. Though one thing remains unchanged, inquiry and investigation of economic crimes can still be done by a structure that first detects the crime.²⁶⁸

Department of Customs

The Department of Customs was established in 1992, and since then, there have been several attempts at reorganizing of this structure. The functions of the Department of Customs are, protecting the economic security of Georgia, organizing customs activities, and implementing customs policy.²⁶⁹ Its structures include: the Chairman's office, Unit of Organizing Custom Control, Finance-Tariff Unit, Special Assignments Unit, Human Resources, Material-Technical Support, Central Accounting Office, Custom Statistics and Informatics Unit, Excise Goods Unit, Legal Unit, Western Regional Customs, Eastern Regional Customs, Northern Regional Customs, Southern Regional Customs, Regional Customs of Abkhazia, Regional Cus-

²⁶⁵ Report of Levan Dzneldze, Minister of Tax Revenues. (2002, February 9).

²⁶⁶ Kvividze, N. Why Extraordinary Legion Was Disbanded: Law Enforcers Have Awakened Ministry of Finances. (2003, September 22). In Newspaper *Khvalindeli Dge*, No 176 (335), from <http://www.opentext.org.ge/xdge/default.htm>

²⁶⁷ Newspaper *Khvalindeli Dge*. (2003, August 12). No 153 (312), from <http://www.opentext.org.ge/xdge/default.htm>

²⁶⁸ Kvividze, N. Why Extraordinary Legion Was Disbanded: Law Enforcers Have Awakened Ministry of Finances. (2003, September 22). In Newspaper *Khvalindeli Dge*, No 176 (335), from <http://www.opentext.org.ge/xdge/default.htm>

²⁶⁹ Statute of the Ministry of Finance, from <http://www.mof.ge/en/about/policy/>

toms of Adjara, Regional Customs of Energy, Railway Regional Customs, and Custom Laboratory. In total, there are more than 1000 people working in the Customs Department.²⁷⁰

The Georgian government awarded the British company ITS Group (ITS) a contract to manage the Georgian Customs Service on June 1, 1999. ITS prevailed over six other companies that participated in the international tender, including Societe Generale Surveillance (SGS) of Switzerland. ITS was responsible for purchase controlling transaction conditions of products imported into Georgia, confirming the accurate completion of customs declarations, and forecasting import volumes. According to the newspaper *Izvestiya*, the contract could result in the resolution of operational problems by training Georgian customs officials how to operate at international standards, decreasing the amount of corruption, and increasing revenue.²⁷¹ The firm's employees declared that customs officials themselves stymied much of their effort. "We were treated as the enemy", said one former employee.²⁷²

ITS refused to take responsibility for the control of trafficking of illegal goods such as arms and drugs from the very beginning. ITS also was not responsible for the protection of the customs borders of Georgia. It only inspected those goods that were requested to be checked by their owners or by demand of the Customs Department. Thus, ITS took over only those duties that were easy to perform. The Chamber of Control reports several facts that indicate the low efficiency of ITS activities and in some cases even corruption, negligence, and disrespect of state interests.²⁷³ Later on, the Georgian government opted not to renew the agreement and in the beginning of 2002, ITS left Georgia. After being a part of the Ministry of Tax Revenues, the Customs Department was transferred to the Ministry of Finances when the former was dissolved.

The Parliamentary Committee on Taxes and Revenues reported that the revenue collection of Customs in 2002 was not even at 1997 levels. The report of the Chamber of Control says that the activities against the violation of customs' regulations and administrative infringements are not efficient. Dishonest behavior and negligence of managers promoted illicit export of strategic resources and uncontrolled and illegal circulation of goods within Georgian territory. Various sources acknowledge amateurishness, mismanagement, misappropriation of state funds and other law violations in customs structures.

The responsibility of the Department of Customs is to enforce the regulations for the movement of goods, especially those that have strategic importance for Georgia (the valuable items of cultural inheritance for instance) and to implement these regulations. Thus, the Department of Customs gathers information on the movement of goods and vehicles and on the basis of this information, the Legion performs operational activities. According to a decree of the Ministry of Tax Revenues, if the Department of Customs detects a violation of Article 214 (smuggling) of the Criminal Code of Georgia and if customs tax evasion exceeds GEL 800, the Department of Customs should convey the information to the Legion within three days for further investigation.²⁷⁴ Despite the existence of this decree, cooperation was still inefficient.

Representatives of the Department always used the handy excuse of blaming other structures in facilitating smuggling. Levan Chrdileli, the Deputy Minister of Finance, mentions that functions of various government structures in terms of fighting smuggling is not clearly divided and/or formulated, further complicating the problem and creating an opportunity for the representatives of those structures to blame each other. Cus-

²⁷⁰ Web-site of Customs' Department of Georgia, from <http://www.customs.ge/>

²⁷¹ Novoprudskiy, S. British 'Trick Riding': Georgian Customs To Be Turned Over to British Management Effective June 1. (1999, April 27). In Newspaper *Izvestiya*, p. 5; In *British Firm to Manage Customs Work*. FBIS Document FTS1999042900283.

²⁷² Eurasia Insight (2003, March 21). *Entrenched Corruption Begins at Georgia's Border*, Ken Stier, June 27, 2002.

²⁷³ Report of the Chamber of Control of Georgia on the activities of Department of Customs. (2002, December).

²⁷⁴ Decree of the Ministry of Tax Revenues, No 532. (2000, December 18).

toms officials claim that the agencies that should take the main burden of responsibility are the Special Legion and the Bureau of Excise Goods Monitoring. However, this is not the case. The direct function of the Customs Department is to monitor the movement of goods on Georgian territory. Regional custom sub-units are the structures that have to secure taxes on imported goods.

One of the factors adversely affecting the efficiency of Customs Department activities is the rapid turnover of its managers. In the period from January 1, 2000 until now, nine directors were assigned. It should be noted here that the newly appointed Head of the Department is characterized as an honest person and his initial activities in this position seem to be effective. As a result, revenue to the state budget from the Department of Customs has increased.

According to an opinion poll conducted by the World Bank Institute for Economic Development and the World Bank's European and Central Asian regional sector, the Georgian Customs Service ranks third among those agencies voted most corruptible, following the Georgian Tax Inspectorate and the Ministry of Internal Affairs.²⁷⁵ Despite this corruptibility, it appears that only 50 employees of customs and tax organs were punished for malfeasance in office by the Ministry of Internal Affairs. However this number seems to be very modest in comparison with the rampant corruption. On the other hand, in 2000-2002, General Inspection of the Ministry of Tax Revenues reports 44 facts of punishment of employees of the Customs Department.²⁷⁶

Concerning the Regional Customs of Abkhazia, there is no instruction and/or regulations that define the functions and responsibilities of this structure and as other branches of legitimate government of Abkhazia, its existence has only a formal and political nature. However, it is beyond our understanding why Customs of Abkhazia is implementing customs duties for goods moved from Azerbaijan and even check activities of companies registered with the Tax Department of Kakheti region.²⁷⁷

Bureau of Excise Goods Monitoring

Bureau of Excise Goods Monitoring was created by presidential decree and was finally established by decree of the Minister of Tax Revenues as a "coordination analytical group" and "commission".²⁷⁸ The functions of the Bureau are: monitoring of delivery, registration and tax administration of excise goods, as well as monitoring of protection of custom and tax law in the framework of its competence, implementation of certain activities in order to improve the registration, taxation and legal realization of excise goods, coordination and analysis of registration and taxation, preparation of proposals on main directions of tax policy.²⁷⁹ Its structures consist of: Excise Goods Monitoring Unit (comprising four sub-units - Oil Products Monitoring Department, Tobacco Products Monitoring Department, Alcohol Products Monitoring Department, Other Excise Goods Monitoring Department); Unit for Information Processing, Analysis and Forecast (comprising four sub-units - Department of Strict Registration Documentation, Information Processing Department, Analysis and Forecast Department, and Regional Coordination Department).

The creation of structures with the aforementioned functions was delineated by the low level of declared import of oil products. After April 2001, when the Bureau started to operate, the official import of gasoline increased by 83,500 tons and diesel by 34,000 tons, though these figures are still modest in

²⁷⁵ *Opinion Poll Reveals Most Unscrupulous Civil Services in Georgia*. (Entered 1999, March 9). Lexis-Nexis Academic Universe, from <http://web.lexis-nexis.com/>

²⁷⁶ Website of General Inspectorate of Ministry of Finances, from <http://www.ig-trm.gov.ge/>

²⁷⁷ This facts are reported in the inspection documents by Chamber of Control on Custom's Department of Abkhazia, (2000-2002).

²⁷⁸ Presidential Decree No 475. (2000, November 2).

²⁷⁹ Statute of the Ministry of Finances, from <http://www.mof.ge/en/about/policy/>

comparison with 1998 figures. The Parliamentary Committee of Taxes and Revenues reported that there is a continuous failure to meet the parameters of planned revenues from excise goods, resulting from uncoordinated activities and un-professional attitudes toward responsibilities. Representatives of the Bureau claim that their function is to monitor oil products in Tbilisi only, while appropriate regulations mandate regulation of the entire country. The implemented monitoring activities of other excise goods are insignificant as well, which means the Bureau cannot execute its functions properly. The report concludes that the productivity of the Bureau is inefficient and cases of duplication of functions and parallelism with other structures of the Ministry are frequent. Responsibilities are not defined in legal as well as in functional aspects.²⁸⁰

There are also three other departments in the Ministry of Finance that are concerned with smuggling: the Department of Coordination of Mobilization of Tax Revenues, the Department of Macroeconomic Forecast, Customs-Tax Policy and Financial Statistics, and the Tax Department. The first is a newly created structure and its main functions are the organization of information exchange and coordination of implementation of joint activities among the Customs and Tax Departments, the Extraordinary Legion, the Department of Excise Marks and other structures.²⁸¹ The second is mainly concerned with customs and tax policies and legislation, and analysis and forecasting of financial-budgetary processes. Therefore, the elaboration of legislative measures against smuggling is one of main directives of the Department's activities.²⁸² The Tax Department is also concerned with smuggling as its functions are related to the regulation of local market and the collection of taxes from sold goods.

Ministry of State Security of Georgia

There are two main Departments at the Ministry of State Security (MSS) responsible for fighting against smuggling: the Department of Counter-Sabotage and Economic Counter-Espionage and the Department of Counter-Terrorism. The two departments at the MSS have the right to prosecute an inquiry, while the Department of Investigation at the MSS can carry out preliminary investigation before the beginning of investigation in court. The Ministry of State Security only takes the cases of criminal offense, and does not deal with the cases subject to administrative punishment.

The Department of Counter-Sabotage and Economic Counter-Espionage was created in April 2002, and its staff specializes in the fight against smuggling. The Department is mostly occupied with operative activities against economic counterespionage. But spheres of its interests include the fight against the smuggling of cigarettes, fuel, and other strategically important goods on a large scale, not prosecution of petty smugglers. Regional branches of the MSS are also responsible for fighting against smuggling in western and eastern Georgia, including smuggling through Abkhazia, though the main office of the Department receives information on situation the in Abkhazia.

In total from April 2002 to May 2003, the Department instituted 43 legal proceedings connected to smuggling, with financial damage of GEL 9 million in unpaid taxes, and with a total value of smuggled goods of up to GEL 25 million.²⁸³ These figures do not include the activities of the regional branches of the MSS. In general, the Department has serious problems: nearly a total lack of funds for such important professional activities as logistical support, special equipment, costs of transportation, and even paper for computers. The Department gets essential support from the United States.

²⁸⁰ Report on the Implemented Activities of Bureau of Excise Goods Monitoring, Parliamentary Committee of Taxes and Revenues.

²⁸¹ Statute of the Ministry of Finances, from <http://www.mof.ge/en/about/policy/>

²⁸² Information provided by the Department of Macroeconomic Forecast, Custom-Tax Policy and Financial Statistics. (2003).

²⁸³ Interview with an officer of the Ministry of State Security. (2003, May 24).

The Department of Counter-Terrorism is mainly concerned with the fight against international drug trafficking and the illicit trade in arms. This department has particular focus on weapons of mass destruction and their components.²⁸⁴

Taking into account the impossibility of qualifying the cases of smuggling from conflict zones as breach of customs procedures, the Department of Investigation of the MSS has no cases related to Abkhazia and the Tskhinvali Region under investigation at all,²⁸⁵ though cases of tobacco products without excise stamps are subject to criminal punishment according to legislation. In Minister Valeri Khaburdzania's point of view, the investigation and inquiries on industrial smuggling should fall completely under the jurisdiction of the Ministry of Finance, and the Ministry of State Security should only deal with corruption cases of high-ranking officials. He thinks that law enforcement on smuggling should fall under just one responsible structure.²⁸⁶

Ministry of Internal Affairs of Georgia

The Ministry of Internal Affairs also fights smuggling through its Department of Struggle Against Corruption and Economic Crime and through regional structures. One division of this ministry, the Anti-Narcotics Division was established in 1992, though in 1994 this Division was replaced by the National Bureau for Combating Drug Abuse and Illicit Drug Trafficking. At present, the Bureau has about 400 staff officers assigned in Tbilisi and ten regions, and bears most of the responsibility for under-cover operations in drug trafficking cases. The Bureau is not authorized to investigate drug-related cases. These functions lie with the Main Investigative Department of the Ministry of Internal Affairs. The latter investigates the majority of drug-related cases.²⁸⁷

General Prosecutor's Office of Georgia

The Office of the Prosecutor is not involved in general smuggling interdiction activities. Any criminal cases may be referred to it for investigation or it may, by right, assume the responsibility for investigation and prosecution of criminal cases. Under the Criminal Procedure Code the Prosecutor General's Office usually investigates the most serious cases, while it has the responsibility to perform general supervision of (pre-trial) investigation.

According to Giorgi Tvalavadze, Deputy General Prosecutor of Georgia, there is a problem with criminal prosecution of smuggling through Abkhazia and the Tskhinvali Region because goods are coming from Georgian territory, through de-facto uncontrollable, separatist republics, and it is difficult to prove that they are imported from Russia and custom duties are to be paid. This means that there are no criminal cases concerning smuggling from the conflict zones. Tvalavadze also mentioned that looking at criminal cases might be senseless, insofar as they are biased. For instance, a person arrested for drug use might lie that he/she bought drugs in the Tskhinvali Region, but in reality they might have been purchased somewhere in Tbilisi. Thus the uncontrollability of conflict zones by Georgian government creates a condition where a criminal can easily mislead the law enforcement structures, according to the Deputy General Prosecutor.²⁸⁸

But it is possible, for example, to identify the origin of cigarettes with Russian excise, one of the most smuggled goods through Abkhazia and the Tskhinvali Region. It seems that the unwillingness of law en-

²⁸⁴ Presidential Decree No 72. (2003, March 5).

²⁸⁵ Interview with an officer of the Ministry of State Security. (2003, May 21).

²⁸⁶ Report by Valeri Khaburdzania, Minister of State Security of Georgia, on Government Meeting. (2002, July).

²⁸⁷ Zudova, O. (2001, November). European Commission/UNDP Anti-Drug Programme in Southern Caucasus, SCAD Programme, output 1: assessment of legislation and regulatory framework. Tbilisi, Georgia. UNDP, p.7.

²⁸⁸ Meeting with Giorgi Tvalavadze, Deputy General Prosecutor of Georgia. (2003, April 16).

forcement bodies, including the General Prosecutor's Office, to effectively fight smuggling is the real reason for the current situation.

Courts of Georgia

In 2002 courts prosecuted 45 criminal cases of smuggling (Article 214 of the Criminal Code); in 2001 there were 37 cases. From 82 cases in total, there is no case of especially grave crimes, i.e. smuggling in large quantities and all of them belong to the category of "light smuggling". There were 94 people sentenced (in 2002 44 people, and in 2001 50 people), nine of whom were women (9.5%). It is apparent from the court cases that the majority of sentenced people come from socially vulnerable groups, giving reason to believe that only socially delineated crimes are condemned.

Secessionist Abkhaz and South Ossetian Organizations

By decision of the de-facto government of Abkhazia there are several structures with anti-contraband responsibilities:²⁸⁹ the Ministry of Taxes and Revenues, the Department against Economic Crimes in the Ministry of Internal Affairs, and the State Customs Committee. Corruption of these bodies is one of the major problems hindering the fight against smuggling in Abkhazia itself. The First Vice Prime Minister Astamur Tarba argued that there are three basic reasons for the unfavorable criminal situation in Abkhazia: 1) the absence of inevitability and rigidity of punishment of criminals, 2) the low professional level of the majority of employees of the Ministry of Internal Affairs, and 3) the high level of corruption in the Ministry of Internal Affairs, the Prosecutor's Office, and the judiciary.²⁹⁰ Nachach-Ogli, Member of the de-facto Parliament and representative of the opposition movement *Amtsakhara* confirms that, "there is a need for radical reform in law enforcement structures... criminals act in a more coordinated way than law enforcers do".²⁹¹ Raul Khadjimba, the de facto Prime Minister of Abkhazia, criticizes the State Auto Inspection (traffic police) structures, "Instead of executing their functions some officers became the extortionists on the roads... the Government demands law enforcement agencies apply particular attention to crimes in the Economic Sector".²⁹²

Profit from smuggling goods from Russia to Georgia is the main source of income for the government of self-proclaimed Republic of South Ossetia that created its Customs Service to control flows of goods through the Roki tunnel to and from the Russian Federation. Law enforcement bodies participate in smuggling rather than fight it. Due to this profit, the Tskhinvali government refused to accept the proposal of the EU to establish joint, Georgian-Ossetian customs control on the Ossetian part of the Georgian-Russian border. Murad Jioev, Minister of Foreign Affairs of the self-proclaimed republic stated that this proposal is unacceptable for Tskhinvali since control over this Transcaucasian route may only be implemented by the government of South Ossetia.²⁹³

Cooperation between Georgian and secessionist law enforcement bodies is very weak and not systematic, which aggravates the criminal situation in zones of conflict and facilitates the formation of smuggling networks. However there have been some attempts at collaboration. According to a UNOCHA-Georgia briefing note, the Georgian and South Ossetian sides over recent years achieved substantial agreements on joint action against criminality. A Joint Law Enforcement Coordination Body was formed in

²⁸⁹ *Apsnypress*. (2003, January 24). No 013, from <http://apsnypress.narod.ru/>

²⁹⁰ Press conference of Prime Minister Raul Khadjimba and his deputies Astamur Tarba and Ema Tania. In *Apsnypress*. (2003, July 24). Issue No 150, from <http://apsnypress.narod.ru/>

²⁹¹ Nachach – Ogli quoted. In *Apsnypress*. (2003, February 18). No 028, from http://apsnypress.narod.ru/2003/02_feb-03/AP02-18-03.htm

²⁹² *Apsnypress*. (2003, May 26). No 100, from <http://abhazia.com/news/detail.php?id=645>;

²⁹³ Newspaper *24 saati*. (2003, July 11). No 188, p. A4.

February 2000 with the Joint Peace Keeping Force (JPKF), with participation of South Ossetian and local Georgian law enforcement authorities. In February 2002, the EU donated communication equipment and vehicles to the Joint Georgian-South Ossetian law enforcement unit, the Special Coordination Center (SCC), which is subordinate to the Joint Control Commission (JCC).²⁹⁴ However questions remain regarding the ineffectiveness of the anti-smuggling activities of this unit that might be interconnected with the complicity of law enforcement officials from both sides in smuggling. Though, cooperation is present, at least on paper.

In the case of Abkhazia, cooperation among law enforcement structures has progressed far more erratically. Nevertheless, the Georgian newspaper *Khvalindeli Dge* reported that the sides agreed to cooperate for the purpose of improvement of the situation in the conflict zone. Georgian and Abkhazian law enforcers from Gali, Tkvarcheli, Zugdidi and Tsalenjikha met at the end of December 2003 in order to discuss common problems.²⁹⁵

On the other side, the plan of cooperation in the field of law enforcement under the aegis of the UN failed. Abkhazians did not allow the international policemen to work in the security zone. The launching of the activities of international civic policemen under the aegis of the UN was approved in summer 2003 with the purpose of providing consulting assistance to law enforcers on both sides of the CFL in Gali and Zugdidi. The policemen were supposed to start to work in December, although the Abkhazian side refused to allow them. However, two representatives of the International Civil Police are working in Sukhumi under the title of consultants in the field of relations with law enforcement structures to Ambassador Heidi Tagliavini, Special Representative of the Secretary-General for Georgia.

Special Complex Operation Plan (“SCOG”) of the Government of Georgia

On June 23, 2003, a special commission headed by Anzor Baluashvili, Deputy State Minister and former Deputy General Prosecutor of Georgia, was created according to presidential decree in order to increase tax revenues in the state budget. The Minister of Finance avowed that he could not do anything about the problem of smuggling. Furthermore, the Ministry of State Security was given an assignment to fight oil product smuggling and the Ministry of Internal Affairs was given the task of fighting tobacco products contraband. It was planned that anti-smuggling measures of those structures should be tightly coordinated with the Ministry of Finance, in particular its Custom and Tax Departments and the Extraordinary Legion. The Ministry of State Security elaborated a special plan, “SCOG”, that implied legalization of import and export operations as well as supervision over the distribution networks, revision of gas stations, seizure of illegal storage facilities, constant control of customs checkpoints on land and sea borders of Georgia as well as detection and control of disguised routes, and checking transport vehicles which move throughout Georgia.²⁹⁶

The Chairman of the Commission and the State Minister reiterated several times that the Ministry of Finance was not able to fight contraband trade and law enforcers were doing what should be done by utilizing the structures of the Ministry of Finance. The latter replied that this kind of criticism is groundless as the State Security and police have had the same function before the special assignments of the President. Now they only concentrated their efforts on certain excise goods, though budget revenues did not increase as a result of their activities.²⁹⁷ Minister Khaburdzania stated that representatives of the Ministry

²⁹⁴ UNOCHA-Georgia briefing note on South Ossetia. (2002, December), p.3

²⁹⁵ Newspaper *Khvalindeli Dge*. (2003, December 24). No 249 (408).

²⁹⁶ Newspaper *Khvalindeli Dge*. (2003, July 22). No 138 (297), and (2003, August 6). No 149 (308), from <http://www.opentext.org.ge/xdge/default.htm>

²⁹⁷ Kvividze, N. Why Extraordinary Legion Was Disbanded: Law Enforcers Have Awakened Ministry of Finances. (2003, September 22). In Newspaper *Khvalindeli Dge*, No 176 (335), from <http://www.opentext.org.ge/xdge/default.htm>

of Finance conceal information and hinder their work. The Minister of Finance opposed the idea of security and police personnel intruding into the Finance Ministry functions stating that, “Functions and responsibilities of the three ministries are unclear. As long as there is no single responsible organization, this kind of situation will continue to exist”.²⁹⁸ Thus the “commitment” of anti-smuggling agencies to cooperate resulted in confrontation rather than in collaboration.

The Ministry of State Security began with examining the distribution network of fuel: sixty percent of gas stations were seized and simultaneously security investigators started to study the identities of those people who were protecting illegal stations. According to Minister Khaburdzania, 28 gas stations on the territory of Ergneti market mainly sell contraband oil products.²⁹⁹ The newspaper *Khvalindeli Dge* reported on an operation in Shida Kartli implemented by the Ministry of State Security together with representatives of police where 150 tons of contraband fuel was seized.³⁰⁰

As a result of those efforts the price of gas increased from GEL .80-.90 to 1.10-1.20. According to Mr. Khaburdzania, the sale of oil products increased ten- fold though the revenues collected in the budget increased only by 3.5%.³⁰¹ Later, the same newspaper suggested an idea as to why the prices of fuel would increase: smugglers of oil products prepared to sabotage the “SCOG” plan by increasing prices on oil products at once simultaneously prompting public discontent and promoting the failure of “SCOG”.³⁰²

The Ministry of Internal Affairs reported the detection of 206 crimes in cigarette trade in August 2003 and according to Minister Narchemashvili, the amount collected in the budget increased by 250%.³⁰³ Nino Kvlividze from *Khvalindeli Dge* suggests the idea that cigarette smuggling policemen have established a kind of “levy” for small and big smugglers who come from Ergneti market once every two days, selling contraband goods and then returning to their homes. Forces which represent anti-smuggling structures, “do not see” big cargos and detect only “women with bags.” Furthermore, law enforcers, in particular police, sell the confiscated contraband goods to other traders and report the goods as destroyed, as required by law. Thus, detained smugglers themselves or other traders may buy those “confiscated goods”.³⁰⁴

The General Prosecutor estimated that the efforts of law enforcers are not effective and these structures managed to detect only petty smugglers; forty percent of detained contraband traders are so called “women with bags” and the largest quantity of cigarettes without excise marks smuggled by them do not exceed GEL 500.³⁰⁵ Anzor Baluashvili, head of the Special Commission also reiterated that anti-smuggling operations have not had a financial effect yet, though positive results can be seen on the horizon.³⁰⁶ Baluashvili threatened several times that he will name “big smugglers” and publish very important materials confirming their involvement. As of yet, the public is still waiting to hear these names.

²⁹⁸ Kvlividze, N. Is Smuggling Undefeatable? Nobody Dares to Name Smugglers. (2003, August 12). In Newspaper *Khvalindeli Dge*, No 153 (312), from <http://www.opentext.org.ge/xdge/default.htm>

²⁹⁹ Newspaper *Khvalindeli Dge*. (2003, August 14). No 155 (314), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰⁰ Newspaper *Khvalindeli Dge*. (2003, August 9-11). No 152 (311), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰¹ Kvlividze, N. (2003, September 4). Chancellery Prepares “Black List”: How Minister Defeated Women With Bags. In Newspaper *Khvalindeli Dge*, No 170 (329), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰² Newspaper *Khvalindeli Dge*. (2003, August 9-11). No 152 (311), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰³ Newspaper *Khvalindeli Dge*. (2003, August 28). No 165(324), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰⁴ Kvlividze, N. (2003, September 5). Unwritten Draconic Laws are Complemented With Written Ones: Anatomy of Cigarette Contraband Trade. In *Khvalindeli Dge*, No 171(330), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰⁵ Kvlividze, N. (2003, September 4). Chancellery Prepares “Black List”: How Minister Defeated Women With Bags. In Newspaper “*Khvalindeli Dge*”, No 170(329), from <http://www.opentext.org.ge/xdge/default.htm>

³⁰⁶ Kvlividze, N. (2003, August 12). Is Smuggling Undefeatable? Nobody Dares to Name Smugglers. In Newspaper *Khvalindeli Dge*, No 153 (312), from <http://www.opentext.org.ge/xdge/default.htm>

The Georgian press also reports that law enforcers are entering small factories without court permission and seizing contraband goods discovered there. *Khvalindeli Dge* published an interview with Anzor Sakandelidze, Chairman of the Union of Small Business who stated that “policemen are going into enterprises and request 5-10 thousand US dollars in exchange of inviolability.”³⁰⁷ According to him, 200 small entrepreneurs were disbanded in the Isani-Samgori district. Thus the anti-smuggling campaign became a sort of crackdown on small and medium business as no powerful “entrepreneurs” and large business clans encountered any problems and remained untouched.

The Georgian press calls the anti-smuggling campaign of the government a “masquerade” and a “show”. The newspaper *Akhali Versia* interviewed Professor Bondo Zarnadze who gave a very interesting assessment: no country can defeat smuggling with police-administrative measures. The same newspaper states that “these punitive measures have nothing to do with smuggling. They are simply a pro-governmental bloc mobilizing funds for elections in this manner”.³⁰⁸ On September 21, the newspaper *Khvalindeli Dge* reported that as the elections approached other acute problems had diminished in importance, representatives of NGOs that were involved in activities of special anti-smuggling commission were requesting to organize a meeting and call the Ministers of State Security and Internal Affairs, though in vain. At the end of September, the Commission summed up results of the anti-smuggling campaign and made it clear that they would not have time to meet anymore.³⁰⁹

After the “Rose Revolution” in Georgia in November 2003, Irakli Oqruashvili, the newly appointed Governor of Shida Kartli initiated a fight against smuggling through Ergneti market. He only managed to detain several trucks loaded with wheat and onions, while no illegal freight of oil or cigarettes were discovered.³¹⁰ The anti-smuggling group, comprised of Special Task Forces of the Ministry of State Security, also failed to arrest two criminals from *Robota’s* group, who managed to escape. Valeri Khaburdzania, the Minister of State Security, stated that the details of the operation were disclosed to the criminals. According to an unnamed respondent of the newspaper *Kviris Palitra*, the person who disclosed these details is a former policeman and now a high-ranking official of the regional security department of Shida Kartli.³¹¹

Conclusions

Law enforcement bodies face many problems in the fight against smuggling. In general these fall into two categories:

1) Institutional Problems

The functions of law enforcement bodies are still not clearly defined, and frequent institutional changes and innovations such as creation and abolition of the Ministry of Tax Revenues and the Extraordinary Legion, or creation of new departments at the ministries of State Security and Internal Affairs are followed by sharp debates among ministries on functions and rights of newly created institutions. Mostly these debates are centered on one question: which one will have the right of inquiry and investigation and on what types of smuggled goods. Governmental organizations, such as the Ministry of Finance and the Border Guard, claim reforms for their units and want to get additional responsibility to prosecute an inquiry and investigation. Heads of law enforcement bodies (the Ministries of State Security and Internal Affairs) jealously react to the new re-distribution of investigation or inquiry functions. Partially, this is due to the struggle among

³⁰⁷ Gogichaishvili, A. (2003, August). *Press Survey*. TraCCC-GO, p. 11

³⁰⁸ Newspaper *Akhali Versia*. (2003, August 25-31). No 110, from http://www.open.ge/axali_versia/default.htm

³⁰⁹ Newspaper *Khvalindeli Dge*. (2003, September 20-21). No 182 (341), from <http://www.opentext.org/ge/xdge/default.htm>

³¹⁰ Newspaper *Akhali Versia*. (2003, December 17-23). No 126.

³¹¹ Newspaper *Kviris Palitra*. (2003, December 29 – January 4). No 52

them for sources of illegal income, which the right of investigation or prosecution of inquiry may give them. Also reforms of the Border Guard of Georgia and of the Ministries of Internal Affairs and State Security are not coordinated. As a result, collaboration among law enforcement bodies is either extremely weak or does not exist, or is transformed into an unhealthy competition. While cooperation between the central, Abkhaz and Ossetian law enforcement bodies does not exist at all. Additionally, a poor legislative basis, lack of equipment, and the absence of a united computerized system are also obstacles complicating the fight against smuggling.

2) Behavioral Problems

There are several key problems related to the personnel of law enforcement bodies: weak staff policy, the appointment of corrupt officials with low levels of skill and training, and lack of control of their activities. Officers with symbolic salaries do not successfully fight against smuggling. A comprehensive and well-coordinated governmental policy against smuggling, and an annual National Security Plan for Georgia with strictly defined priorities and measures against smuggling, together with corresponding finances in the state budget for its implementation are absent in Georgia.

Activities of the Commission created on June 23, 2003 are limited by punitive measures that are mostly aimed at petty illegal traders and it is doubtful that this will bring effective results. A broader spectrum of efforts aimed at the creation of economic incentives and a favorable business environment combined with legislative initiatives, training, and reasonable salaries for personnel of law enforcement bodies are necessary to effectively minimize smuggling from a strategic perspective.

Appendix C

Situation in Abkhazia and the Tskhinvali Region/South Ossetia

Abkhazia

Abkhazia is located in the northwest part of Georgia. Its area is 8.7 thousand square kilometers which constitutes 12.5 percent of the whole territory of the country. According to the 1989 census, the population of Abkhazia was 525,000, constituting 9.7 percent of Georgia's population. According to expert estimations of the UN mission, the demographic structure substantially changed after the violent conflict, and 180,000 people currently live in Abkhazia.³¹²

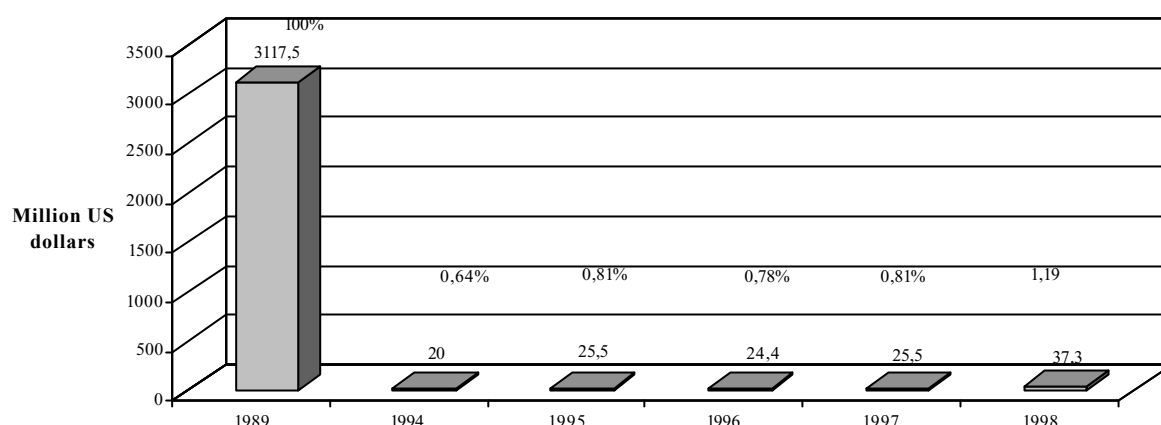
GDP and Basket of Goods

After the Soviet collapse and the war in 1992-1993 the economy of Abkhazia is in deep crisis (see Chart 1). In line with approximate calculations, the GDP is equivalent to USD 70-80 million (for comparison in 1988 the same figure was USD 700 million), or USD 350 per capita. This indicator is two times less than in the rest of Georgia.³¹³

³¹² *Economic and Social Consequences of Internal Conflicts*. (2003). Parliament's Budgetary Office of Georgia, Tbilisi, Georgia, p. 3; www.pbo.ge

³¹³ Source: Materials submitted by the Parliament's Budgetary Office of Georgia.

Chart 3. Dynamics of Production Size in State Sector of Abkhazia in 1989-1998 (Based on estimates of UNO Specialists)³¹⁴



According to the Abkhaz information agency, *Apsnypress*, at present, the basket of goods makes up 1966 Russian rubles (approx. USD 65), while the minimal monthly salary is 513 Russian rubles (USD 17), and minimum pension is 60 Russian rubles (USD 2).³¹⁵

Budget

The budget of Abkhazia is very small. In 2001, its national revenue amounted to USD 7.2 million. Budget expenses calculated on a per capita basis were measured at USD 30 in 2001.³¹⁶ Subsequently, these trends illustrate the inability of the budget to positively affect the well being of Abkhazian population.

Social institutions are ruined in Abkhazia. The population, in conditions of massive unemployment, survives through agricultural production and humanitarian aid. In June 2003 representatives of the Abkhaz de-facto Parliament stated that they do not agree that the 2002 budget was met by 104%. They think the real percentage of meeting budget parameters is 86.4%.³¹⁷ Later, Mr. Gagulia, the former Prime Minister of de facto Government of Abkhazia, declared that, “there is a big difference between figures reported and real figures”.³¹⁸ This factor gives ground to argue that the share of the shadow economy is significant in Abkhazia.

In government sessions, headed by de-facto Prime-Minister Raul Khadjimba, it was declared that the budget of the first five months of 2003 was fulfilled by 57.9 percent. Tax revenues made up 74 percent of the planned income. Thirty five million Russian rubles (approx. USD 1,150,000) were estimated as customs taxes; though the government managed to collect only 20 million rubles (approx. USD 660,000 or 51.7% of planned income).³¹⁹ This factor may also point to the high level of illegal trade, not controlled by Abkhazian de-facto government that declares that smuggling creates problems for the budget. As a result, the government is in arrears to employees of the Ministries of Health Protection and Education, the Ministry of Defense and the Ministry of Internal Affairs.³²⁰ The growth trend of budget incomes in 2002 was

³¹⁴ *Report on Economic Situation in Abkhazia, Financial and Socio-economic Results of Separatist Regime*. (1998). Parliament’s Budgetary Office of Georgia, p. 7, from www.pbo.ge

³¹⁵ *Apsnypress*. (2003, March 12). No 042, from <http://apsnypress.narod.ru/>

³¹⁶ *Economic and Social Consequences of Internal Conflicts*. (2003). Parliament’s Budgetary Office of Georgia, Tbilisi, pp. 25-26, from www.pbo.ge

³¹⁷ *Apsnypress*. (2003, July 7). No 136, from <http://apsnypress.narod.ru/>

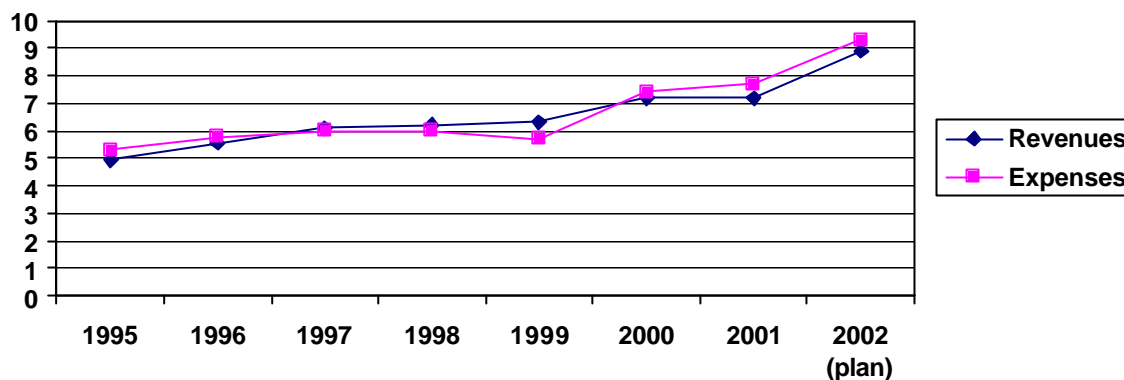
³¹⁸ *Apsnypress*. (2003, March 20). No 048, from <http://apsnypress.narod.ru/>

³¹⁹ *Apsnypress*. (2003, June 9). No 112-113, from <http://apsnypress.narod.ru/>

³²⁰ *Ibid*.

123% in comparison with 2001 (see Chart 2). Only Sukhumi, Gagra, and Tkvarcheli districts managed to meet the parameters of planned tax revenues.³²¹ According to data of the de facto Abkhaz government, the estimated amount of VAT tax was met by 94 % and excise by 43%.³²²

*Chart 4. Budget of Abkhazia in 1995-2001 (in million US dollars)*³²³



The breakaway republic of Abkhazia spends a significant part of its revenues on military apparatus. The military expenditures of the de-facto government of Abkhazia comprised 15.8 % of the total budget expenses in 2001, while expenditures on social security and pension funds amounted to only to 0.97% of overall expenses. Expenditures on military and law enforcements organs (which may also be largely qualified as military structures judging from their nature) totals 34.4% of total expenses, while expenditure on education was 14-15% and health, 9-10%.³²⁴

Banks and Money Circulation

The official means of payment in Abkhazia is the Russian ruble. Fifteen commercial banks function in Abkhazia, the credit portfolio of which is USD 4 million in total, and the interest on loans is high, constituting 5-10% per month.³²⁵ Deposits by the population are minimal; consequently, financial resources are complemented by foreign, mainly Russian, sources.

Industry

The industry of Abkhazia, just like other branches of the economy, is ruined. Industrial plants are not functioning except for a few rare exceptions. Recent trends show the revival of timber production, one of the main export items of the de-facto government. According to sources from Abkhazia, in 2002 the production value of the timber industry of Abkhazia was USD 1,723 million, with logs making up 82 percent.³²⁶ There is an uncontrolled situation in this sector of the economy that constitutes a serious ecological threat to the region. Agricultural processing is in deep decline in Abkhazia. Only bakeries function, and a factory in Ochamchire operates with many difficulties, in the field of fruit preserves and the production of non-alcoholic beverages and mineral water.

³²¹ Apsnypress. (2003, February 14). No 026, from <http://apsnypress.narod.ru/>

³²² Apsnypress. (July 25, 2003). No 151, from <http://apsnypress.narod.ru/>

³²³ Ibid.

³²⁴ Comparison is based on the budget expenses of Abkhazia in the data provided by Parliament's Budgetary Office of Georgia.

³²⁵ Source: Materials submitted by the Parliament's Budgetary Office of Georgia

³²⁶ Source: ?? REGNUM, from <http://www.abhazia.com/news/>

Energy Sector

Abkhazia receives electric energy mostly from the Enguri hydroelectric power station. The water reservoir for this station is located on Georgian-controlled territory and the power station's controlling system and distributing transformer is in Abkhazia. In Soviet times, up to 60% of produced energy was supplied to Georgia and 40% to Abkhazia from Enguri power station. According to Konstantin Tuzhba, de facto Minister of Economy and Foreign Economic Relations, Abkhazia gets 50% of electric energy from the Enguri power station, and it has the right to sell it abroad.³²⁷ Meanwhile, Emma Tanya, de facto Vice-Prime Minister declared that according to Abkhaz experts, in the summer Abkhazia does not even consume 10-15% of this energy.³²⁸ Irakli Chubinishvili, a member of the Parliament of Georgia, announced that Abkhazia sells 30% of electric energy from the Enguri power station to Russia, and accused the Georgian Ministry of Fuel and Energy of having illegal deals with the separatist Government of Abkhazia. Mr. Tuzhba denied this accusation, but despite continuing debates, this is one of the rare examples when both conflicting sides are forced to cooperate with each other.

The rehabilitation of Enguri dam will soon start with a EUR 40 million loan from the European Bank for Reconstruction and Development (EBRD) which is payable by the Government of Georgia. Cooperation over the Enguri dam and the hydroelectric power station, vital for both sides, has progressed smoothly, and represents a good case of collaboration between the two sides.

Transport and Communications

The transport system of Abkhazia has been completely destroyed by the conflict. Roads and bridges are badly damaged and repair activities have never occurred. The Sukhumi, Ochamchire, Gagra, and Gudauta ports are functioning in Abkhazia. Among them, the Sukhumi port is the most important in terms of its capabilities as it can accommodate large boats as well.

The main airport is located near Sukhumi, in Gulripshi which can operate during the entire year. The airport is well equipped and makes transport flights possible as well, though it does not function at the moment. There is another airport in Gudauta, which is the Russian military base. Russia officially declared it closed, though international and Georgian military observers have never been allowed to verify this.

As a result of the conflict, the railway became inoperative. Despite several repair works, the movement of heavy freight is impossible, though passenger trains and small freight trains still move from Sukhumi and Ochamchire to Sochi in Russia. The railroad between Ochamchire and Zugdidi does not exist anymore.

Agricultural Sector

Agriculture used to be one of the key sectors in the economy of Abkhazia. Tea, citrus, and other labor-consuming perennial crops occupied 40% of the agricultural land. War and political confrontation inflicted insurmountable damage to the agriculture of the region as infrastructure was destroyed, supporting structures and markets were lost which led to the devastation of this sector (see Chart 3). Previously, the Abkhazian agricultural sector was export-oriented in nature; primarily exporting products to other former Soviet republics. The collapse of the Soviet Union took the monopolized market of subtropical products away from Georgia including Abkhazia. Additionally, trade limitations on Abkhazia in effect since 1996 created further obstacles, though the legal or illegal export of products to Russia and Turkey still occurs. In

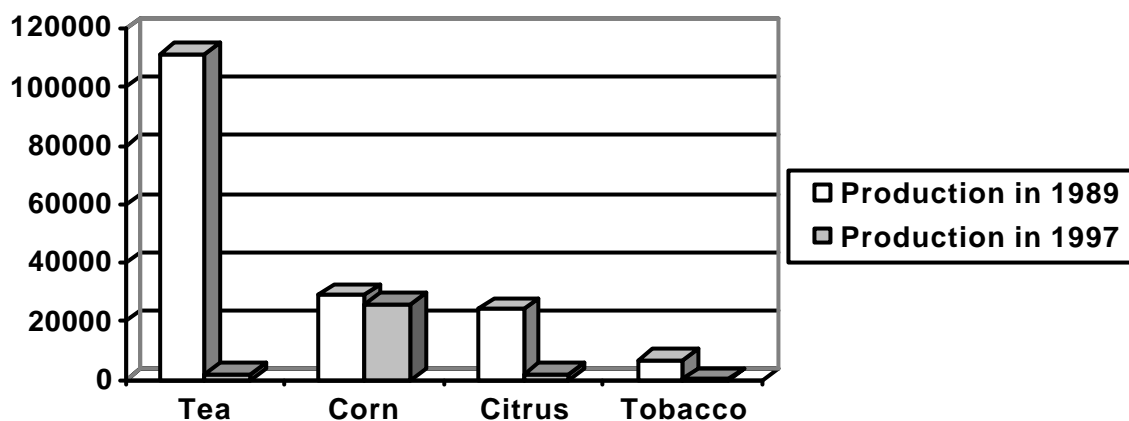
³²⁷ Ni odin kilowatt electroenergii iz Abkhazii ne byl prodan za rubezh v 2003 godu. *Apsnypress*. (2003, July 22). No 148, from <http://apsnypress.narod.ru/>

³²⁸ Interview with Emma Tanya, Vice-Prime Minister of the Government of Abkhazia, from http://www.apsny.ru/economic/economic.php?page=content/vice_prem.2003.htm

2001, the entire volume of the citrus crop (4.5 thousand tons) in Abkhazia was exported to Russia.³²⁹

Sixty percent of arable land is not used at all. Productivity sharply decreased because of the absence of seeds, chemicals, fertilizers and fuel, and the level of mechanization also declined. Primary attention is not paid to the traditional export-oriented plants, but to the growth of crops for domestic consumption.

*Chart 5. Comparison of Agricultural Production of Certain Goods in Abkhazia (in tons)*³³⁰



Currently, the export of traditional products such as: citrus, tobacco, and tea comprise 10% of the level of 1989. Agricultural production, mainly the growth of market-bound hazelnuts, is developing in the Gali region which was previously producing up to 50% of all agricultural goods produced in Abkhazia. The potential tea production in the region is 100,000 tons per year. This sector of agriculture may play a key role in the rehabilitation of the Abkhazian economy and may solve the problem of unemployment. Only 9 of the 23 existing tea plants in Abkhazia were working in 2000, thus only 1.5% of the productive capacity of this sector is utilized.³³¹ In 1989, 115,000 tons of tea leaves were cultivated and only 2,000 tons in 2001, i.e. only 1.5% of the potential was used. According to *Apsnypress*, Abkhazia exports tea to Russia. As the Ministry of Agriculture reports, 271 tons of tea has already been exported to Russia this year. Tea is produced by the agro-company *Boris* in the Ochamchire region, Gudauta Tea Factory No. 2, *Kindgi* Tea Factory, and the agro-company *Shaumian* in the Gulrifshi region. The planned harvest of tea leaves in 2003 was 5,000 tons.³³²

Raising cattle still occupies a key position in agricultural sector, though its main function is one of subsistence for the population at the moment.

The purchase of hazelnuts has become one of the most profitable businesses for the ruling elites of Abkhazia. Its export is one of the most important sources of currency inflow into Abkhazia. There are many hazelnut purchase posts in villages. In many places, people have started to produce hazelnuts on the former citrus and tea plantations, in line with commercial goals. Additionally, the Abkhazian administration of the Gali region demands that every family deliver approx. 70-80 kg of hazelnuts. The arable lands deserted by Georgians are leased by Abkhazians. Armed thugs and employees of the local administration force the population to sell surplus production at market prices.

³²⁹ Economic and Social Consequences of Internal Conflicts, Parliament's Budgetary Office of Georgia, Tbilisi, 2003, p. 28, from www.pbo.ge

³³⁰ *Ekonomika i biznes*, „Apsny.ru“, from <http://www.apsny.ru/economic/economic.php?>

³³¹ *Ekonomika i biznes*, „Apsny.ru“, from <http://www.apsny.ru/economic/economic.php?>

³³² *Apsnypress*. (2003, July 31). No 155, from <http://apsnypress.narod.ru/>

In the Gali region, peasants sell their surplus crop. Hazelnuts are traded across the CFL. They are transported from Gali and traded at Zugdidi market; the most profitable market for peasants is in the Gali district. Some people sell their production in the Gali as well as the Sochi markets, in the Russian Federation. Bribes may be requested from those crossing the CFL to travel to the Zugdidi market; criminals at the Gali market may extort money in exchange for permission to sell produce; and payments of various sorts may be required at the Psou River, the Abkhazian part of Georgia-Russia border.³³³

Tourism and Tourist Facilities

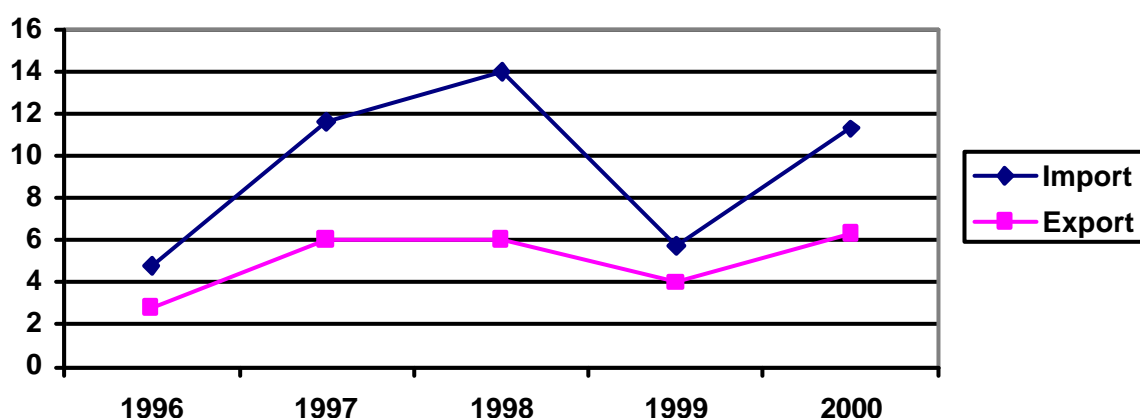
Tourism used to be one of the most important sources of income and employment in Abkhazia. The tourism facilities were badly damaged during the war and its aftermath, though in comparison with other sectors of economy, recreational industry is in better condition. Tour tickets sold in 2001 constituted only 3% of tickets annually sold before the war. Visitors are mainly Russian citizens, among them family members of peacekeeping forces and Gudauta military base personnel.

Trade

The majority of trade operations in Abkhazia are implemented on a cash-based or barter system, representing an obstacle for establishing long-term business relations. Regular financial operations are not implemented and the local banking system has little capital and mostly distributes short-term loans with very high interest rates.

Foreign trade is subjected to limitations. The decision of CIS leaders on January 19, 1996 limits the economic cooperation with the separatist government of Abkhazia. Under the economic sanctions only the import of food products, medical supplies, and similar goods is allowed. For the import of other goods, a license is required from the Government of Georgia, though this request is not met and has a formal nature. Thus, all freight and goods transported through Abkhazia are illegal by definition from the Georgian point of view. It should be mentioned, that part of the goods which move in and out of Abkhazia are illegal and are considered to be smuggling by Abkhazians as well, insofar as a certain share of goods is not taxed by the “government” and this income goes instead into the pockets of local criminal and political clans.

*Chart 6. Dynamics of Import and Export in Abkhazia (in million US dollars)*³³⁴



According to Georgian sources, import and export of main products in Abkhazia is distributed in the following manner:

³³³ Report of the Joint Assessment Mission to the Gali district, November 20-24, United Nations Observer Mission in Georgia (UNOMIG), 2000

³³⁴ Source: Parliament’s Budgetary Office of Georgia

Chart 7. Import in Abkhazia (2001)³³⁵

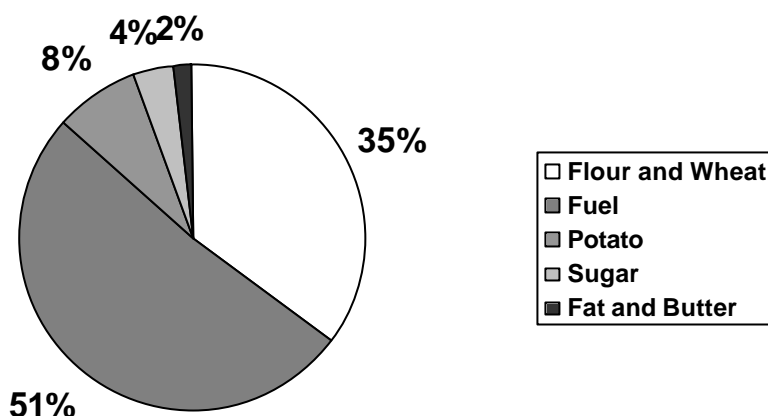
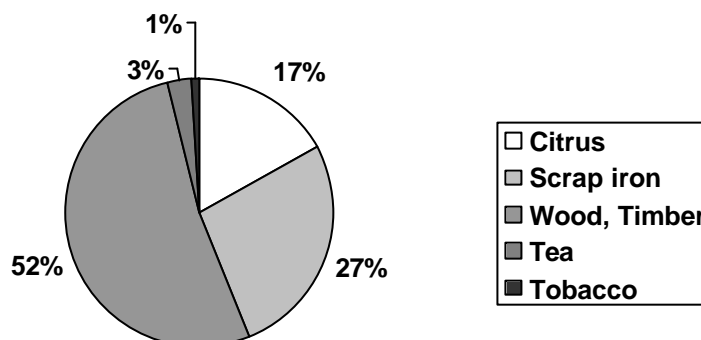


Chart 8. Export from Abkhazia (2001)³³⁶



Sixty percents of registered imports go to Turkey and the rest to Russia. The Russian share of registered export is 54% and Turkish is 45%.³³⁷ Genadi Gagulia, former Prime-Minister of Abkhazia declared that the fact that the government managed to guarantee growth of trade with Russia was of paramount importance. Gagulia was particularly proud that the government could also stop the sale of Abkhazian timber, scrap iron and fish in low prices outside the republic. He stated that economic cooperation will now be based on treaties with subjects of the Russian federation and controlled by regional authorities. According to the data of *Apsnypress* there are six working groups in the Ministry of Economy and Foreign trade for realization of agreements between Abkhazia and Krasnodarskii Krai of the Russian Federation: 1) extraction and processing of minerals, 2) energy sector, 3) fuel and gas sector, 4) agriculture, 5) rehabilitation of railways, and 6) fish production.³³⁸

In his interview with the newspaper *Respublika Abkhazia*, Vladislav Ardzinba, the president of self-proclaimed republic stated that, “Thanks to constructive approach of Russian government, the blockade has been partially lifted off in recent times. Moreover the economic ties with Russian non-governmental, commercial structures and entrepreneurs are developing very vigorously, mostly in the sphere of resorts

³³⁵ Source: Materials submitted by the Parliament’s Budgetary Office of Georgia.

³³⁶ Ibid.

³³⁷ *Economic and Social Consequences of Internal Conflicts*, Parliament’s Budgetary Office of Georgia, Tbilisi, 2003 p. 30, from www.pbo.ge

³³⁸ *Borba klanov vykhodit iz pod kovra*: Abkhazia March 26 – April 6, Review of Media, http://www.abkhaziya.org/events_comment/regnum/abkhaz_kover.html

where Russian investment is taking place”.³³⁹ Prime Minister Khadjimba echoed this statement, “Russian investors are ready to invest in our economy in order to make possible the purchase of large amounts of quality and competitive products.³⁴⁰ Moreover, according to Abkhazian experts, the agricultural and tourist industries of Abkhazia cannot develop without the Russian market and there is no alternative market.³⁴¹

Taxes on exports are higher than on imports, insofar as exports represent the main source of income. Supposedly this factor provides an incentive for illegal outflow of various goods from Abkhazia. Taxes on imports are quite low (one pack of cigarettes is USD 0.02 cents, 1 liter of non-alcoholic products USD 0.10 cents, and 1 liter of mineral water is USD 0.20 cents).³⁴² 70% of customs income comes from exports, and 30% from imports.³⁴³ The volume of imports is gradually increasing and currently doubles the volume of exports.

The Government considered the possibility of lowering the customs taxes on import and export goods that are not produced in Abkhazia, except for gasoline and flour.³⁴⁴ The lowering of tariffs should go hand in hand with the improvement of financial discipline, officials stated. *Apsnypress* reported that in order to fight shadow business in the republic, the government is going to restrict trade in gasoline from movable gas stations, a principal source of income for the population.³⁴⁵

The Customs Committee of Abkhazia reports that according to the first six months of 2003, trade turnover amounted to approximately USD 22.3 million, exports comprised USD 5.06 million and imports, USD 17.1 million. This means that trade turnover increased in comparison with 2002, mainly at the expense of an increase in imports, while exports decreased by approximately USD 132,000. Over six months, the budget received USD 759,000 as customs tariff on exports in comparison to USD 923,000 in 2002. The planned export of logs and timber was met by 61%, scrap ferrous metals, 56% tobacco 3%, and tea, 6%. The plan for coal export was implemented only by 9%; as a result the budget did not receive USD 55,700. Altogether, the plan for exports was met by 46%. Imports comprised 76% of trade turnover. For the first time in 10 years, as a result of activities implemented in the Gali district, the customs taxes were generated in the budget from the freight coming into Abkhazia from Georgia, officials of de facto Customs declare. The total value of customs tariffs on imports was USD 544,100. The Customs Committee of Abkhazia also took anti-smuggling measures and managed to collect approximately USD 3.4 million. The Abkhazian customs post on the Psou River could not fulfill the planned goal, only the plan of hazelnut export was met 100%. The volume of exported fruits and vegetables decreased on the internal market, the latter was prompted by an increased number of tourists. The head of the Customs Committee, Grigori Enik, was satisfied with the work of anti-smuggling team, though he mentioned that there is still a large volume of goods without excise stamps in trading houses. In the summer of 2003 he rated the performance of customs employees as fair.³⁴⁶

³³⁹ *Our Ties With Russia are Valuable*. (2003, June 14-15). Interview of President Vladislav Ardzinba to newspaper “Krasnaia Zvezda” in Newspaper “Respublika Abkhazia”, issue No 64 (1568), p.1-2.

³⁴⁰ Interview with Prime Minister R. Khadjimba. (June 31-1, 2003). In Newspaper *Respublika Abkhazia*. No 58 (1562), p.3.

³⁴¹ Can our economy develop? Replies by Shamba, O. and Feizba I. (2003, April 5-6). In Newspaper *Respublika Abkhazia*, No 35 (1539), p.6.

³⁴² *Report on Economic Situation in Abkhazia, Financial and Socio-economic Results of Separatist Regime*. (1998). Parliament’s Budgetary Office of Georgia, from www.pbo.ge

³⁴³ *Ibid.*; p. 32.

³⁴⁴ Interview with Emma Tania, Vice Premier Minister of de-facto Government of Abkhazia. (2003, May 22). *Apsnypress*, No 098, from <http://apsnypress.narod.ru/>

³⁴⁵ *Borba klanov vykhodit iz pod kovra*: Abkhazia. (2003, March 26 – April 6). Review of Media, from http://www.abkhaziya.org/events_comment/regnum/abkhaz_kover.html

³⁴⁶ Review of activities of the State Custom Committee of Abkhazia in the first 6 months of 2003. (2003, July 22). *Apsnypress*, No 148, from <http://apsnypress.narod.ru/>

Kodori Gorge

Georgian jurisdiction in Abkhazia covers only the Kodori Gorge, from Klukhori pass to the village of Lata, comprising 18 villages. The population of the Gorge, including IDPs, is 630 families or 3100 persons.³⁴⁷ Since 1995, the Government of Georgia has implemented social security services for the population. Repair activities were initiated and the population is supplied with nutrition products and primary commodities. A communication facility operates in the Gorge, where a radiophone station was installed enabling communication with Tbilisi. The population can also watch Georgian television through satellite. Air transportation to the Gorge is difficult and motorways are almost completely inoperable. Eight schools are open despite the grave conditions. None of the factories work and the timber processing plants are closed. The defense of electric systems in Kodori Gorge is of paramount importance, as electric energy is supplied from Russia to Georgia through the Gorge.

The criminal situation remains grave. Besides local criminals, those fugitives from justice that perpetrated various crimes in different regions of Georgia take refuge here. The drug business is prospering in the region. Most alarming is the growing trend of such crimes as robberies, assassinations, and banditry. Since 1994, around 60 murder cases have been registered (among them vendetta cases).³⁴⁸ It should be mentioned that there is no structural unit of the Prosecutor's Office in the Gorge and there are only a few police. A large quantity of non-registered arms has accumulated in the hands of the population, aggravating the criminal situation.

According to Akaki Gogichaishvili, journalists know that Emzar Kvitsiani, the representative of the President of Georgia in the Kodori Gorge, is fully in charge of all of the criminal incidents there. Additionally, they know that back in 1998 it was Kvitsiani, who organized both the kidnapping and release of a governmental delegation and the accompanying journalists during their visit to Svaneti.³⁴⁹ Furthermore, it should be mentioned that kidnapping has become frequent in the Gorge. As a result of the conflict between Emzar Kvitsiani and Tamaz Nadareishvili on the topic of kidnapped UN observers in June 2003, the latter alleged that the Georgian government had paid significant ransoms in every case when international hostages were involved. In Gogichaishvili's point of view, this sounds much more realistic than the assurances of the government that no ransoms had been paid and that the criminals were forced to release the hostages in exchange for their freedom. Kvitsiani asserted (and several governmental officials confirmed) that kidnappings have always been solved with the help from his pal, Taniel Oniani, a Georgian criminal authority now living in France. As a result of this conflict, David Shengelia, the head of Georgian guerilla group "Forest Brothers", renounced Nadareishvili. Earlier, Nadareishvili dismissed Shengelia from the position of Deputy *Gamgebeli* of the Gali district to which he was appointed by Nadareishvili and stated that from now on his actions will be aimed against him. Gogichaishvili thinks that since Shengelia has renounced his influential protector he may have found a new patron.³⁵⁰

The entire burden of the Gorge's defense against Abkhaz armed groups falls upon the population, insofar as after the tripartite agreement of 1994, all the military equipment and armed groups were removed. One hundred soldiers from the Internal Troops of Georgia are stationed in the Gorge now. Abkhaz armed formations are concentrated in the village of Lata and at the nearby tunnel. Russian peacekeeping forces are stationed 200 meters from them. The northern part of the village of Lata is controlled by units of the Ministry of Internal Affairs of Georgia. The Marukhi pass in the mountains of the Main Caucasian Span is guarded by the Georgian Border Guard.

³⁴⁷ *Report on Economic Situation in Abkhazia, Financial and Socio-economic Results of Separatist Regime*. (1998). Parliament's Budgetary Office, p. 40, from www.pbo.ge

³⁴⁸ Source: Materials submitted by the Budgetary Office of the Parliament of Georgia.

³⁴⁹ Gogichaishvili, A. (2003, June). *Georgian Press Analysis*. No 6, TraCCC GO, p. 2.

³⁵⁰ *Ibid.*, p. 3-4.

The Tskhinvali Region/South Ossetia

Another secessionist region of Georgia is the former South Ossetian Autonomous Oblast, or as it is called now in documents of international organizations, the Tskhinvali Region/South Ossetia. This region is situated in the northern part of Georgia. The area of the region is 3,900 square kilometers which comprises 5.6% of the entire territory of Georgia.

Economic Situation

The economic situation in the Tskhinvali Region can be characterized as very grave. According to expert estimates, the GDP of the area is equivalent to USD 15 million i.e. USD 250 per capita, equal to the indicators of the poorest countries. It must be noted that the major source of budgetary income for the region is customs tariffs; in 2000, the budgetary income was 48.6 million Russian rubles (approximately USD 1.7 million). Customs tariffs comprised 54.5% of overall revenues. In 2003 the planned budget of the Tskhinvali Region amounted to 4.2 million US dollars.³⁵¹ The budget of the Tskhinvali Region, the size of which is smaller than that of many US universities and even schools, actually plays a symbolic role in the region's life.

Industry

The majority of the industrial entities of the self-proclaimed republic do not function. In 2000, the value of produced goods by the industrial sector constituted 10.2 million Russian rubles (USD 333,000). Only the Tskhinvali timber processing factory and mineral water plant were functioning comparatively soundly under conditions of limited electricity supply from Georgian and Russian energy systems. The share of mineral water in the overall volume of industrial production does not exceed 60%.³⁵² The agricultural production based on families and petty farmers' labor can partially satisfy the demand on internal market. Irrigation systems are out of order and in need of reconstruction.

Pensions and Salaries

The minimum pension in the Tskhinvali Region is 60 Russian rubles (USD 2) while the average salary is 2000 rubles (USD 7) and the minimum subsistence level is 1100-1200 Russian rubles (USD 40)³⁵³. The separatist government has a huge internal debt to the population as a result of non-distributed pensions, salaries and social assistance. Ossetian youth are jobless, frequently self-employed or complicit in partially criminal businesses. Law enforcement structures (security, police, and military), customs and the Road Fund are considered the most prestigious organizations. Interestingly, ordinary employees of customs have an illegal income amounting to 1200-1500 Russian rubles (USD 40-50) per day.³⁵⁴

Demographic Situation

After 1992 the demographic situation sharply deteriorated in the region. After forcing out the majority of the Georgian population and the immigration of ethnic Ossetians to the Russian Federation, the population decreased from 100,000 to 60,000.³⁵⁵ The immigration flow, comprised of approximately 17,000 people, included the most educated part of the Ossetian population. Eleven settlements are being built on the territory of North Ossetia that will target 900 refugee families from the Tskhinvali Region.

³⁵¹ Newspaper *Iuzhnaia Ossetia*. (2003, February 19). No 15 (977), p.1

³⁵² *Economic and Social Consequences of Internal Conflicts*. (2003). Parliament's Budget Office of Georgia, Tbilisi, p. 23, from www.pbo.ge

³⁵³ *Ibid.*, p.23.

³⁵⁴ *Ibid.*, p.23-24.

³⁵⁵ *Ibid.*, p. 24.

Investments

There is a need for significant investment in order to initiate economic growth in the region. These processes are hindered by political confrontations. The lack of its own energy resources and financial means makes the energy crisis issue unsolvable. Currently, the Tskhinvali government owes several million dollars to Russian energy companies. Land communications across the Tskhinvali Region connecting Russia to Georgia are not fully utilized at the moment.

RECOMMENDATIONS

Several solutions exist to thwart the smuggling problem. Despite the unresolved conflicts in Abkhazia and the Tskhinvali Region, solutions should be aimed at the legalization of the contraband markets and trade. The lifting of sanctions against the secessionist regime in Abkhazia should be done regardless of the conditions insisted upon by the Georgian side thus far. This compromise from the Georgian side will create an incentive for analogous compromises from the Abkhazian side; at least, it will prove that a breakthrough is possible in the process of conflict resolution, thus representing a much-needed confidence-building measure. By means of this concession, the de- facto Government of Abkhazia might rethink its anti-Georgian stance and cooperate in joint problem-solving initiatives. Attempts to forcefully destroy contraband markets may cause the renewal of armed conflicts or social disorder in Georgia.

Ineffective Steps:

(1) *Legal enforcement* against socially vulnerable people is dangerous in the current, tense political situation in Georgia.

(2) *Legal enforcement* against local secessionist clans in conflict zones, where smuggling has become one of the main sources of income, is impossible due to the danger of renewing conflict.

Effective Steps:

(3) *Legal enforcement* against Georgian whole sale smugglers;

(4) *Legal enforcement* against corrupt law enforcement and government officials.

Most Effective Steps:

Economic incentives:

1. coordination of excise and other tax policies with neighboring countries;
2. rationalization of salaries, optimization of the socio-economic conditions of employees;
3. improvement of current legislation, with foremost attention paid to the Tax Code of Georgia.

Remarks:

In 1998, Georgian tax legislation was changed and subsequently, an environment has been created where legal business cannot function and have been squeezed out of the market. Today, Georgia has the highest tax rate in the region in comparison with its neighboring countries of Russia, Azerbaijan, Armenia, and Turkey, with the exception of Armenia's tax on oil products. This factor makes smuggling from neighboring countries profitable.

Reform of the Border Guard from a Military Unit into Border Police

The old philosophy of the border control was to defend the country's borders, a Soviet type of "Iron Curtain". The current philosophy is to police the whole territory of Georgia, including the regions neighbor-

ing Abkhazia and the Tskhinvali Region. A mobile Border Patrol in the regions of Samegrelo and Shida Kartli would be a significant step towards more effective control of smuggling through the porous borders in Abkhazia and the Tskhinvali Region, even in the condition of unresolved conflicts.

Additional steps:

Modernization of the customs infrastructure and operational methods including: modernizing customs offices with current technology, training, and a modern system of management.

Main Problem:

Authorities lack the political will to institute any of these steps in an effective manner. However, they could easily do so if they wished.

Example:

Pressure by the International Monetary Fund and anti-smuggling campaign which was initiated by the government of Georgia in August 2003.

Fair Parliamentary and Presidential Elections in Georgia and Fair Elections of Political Leaders in Abkhazia and the Tskhinvali Region

Democratic change is a serious threat to the power of the ruling groups both of Georgia and its secessionist zones. It could initiate conflict resolution and hopefully facilitate the transformation of smuggling activities into legal businesses. The “Rose Revolution” and the subsequent change of political power in November of 2003 essentially improved the political climate of the country; though it is not clear if there will be similar changes in Abkhazia and the Tskhinvali Region in the foreseeable future.

Long-Term Perspective

Political resolution of the conflicts is a long way off.

Such steps could contribute to the minimization of violence and help to resolve the problem of smuggling.

Existing Strategy:

The conflicting sides and mediators have tried to define the political status of the secessionist territories, but Georgian, Abkhaz, and Ossetian politicians are hostages to the existing situation. None of the leaders are able to satisfy the others’ political claims connected to definition of the political status which is based on the formula: either independence or state integrity. For example, if the president of Georgia would agree to recognize the independence of Abkhazia, his resignation would immediately follow due to popular pressure. The same would happen if the de facto president of Abkhazia agreed to recognize Abkhazia as part of Georgia.

Result:

Both conflicts are in a deadlock with no foreseeable resolution in the near-term.

Proposed Strategy:

1. Postpone defining the political status for an indefinite period of time (probably for future generations of politicians) – the parties should announce a moratorium; meaning that the secessionist governments would not declare independence while the Government of Georgia would not declare Abkhazia and the Tskhinvali

Region parts of Georgia, until a formal procedure of unification with the European Union is on the agenda;

2. Follow a strategy of Europeanization. Today, both Abkhaz and Georgian politicians declare that they should follow the way to Europeanization, which is very important for implementing a new strategy for conflict resolution. The European Union could elaborate a special program of standardization for Abkhazia – Georgia with further integration (as one means to conflict resolution) of those territories which have territorial disputes but wish to join the EU. Experience elaborated in connection to Cyprus would be useful in this case.

Expected results:

1. Based on European norms, the immediate standardization of the legislative, customs and tax policy in Abkhazia and the Tskhinvali Region in parallel to other regions of Georgia. Immediate abolishment of any sanctions against the secessionist regime in Abkhazia, and initiate the return of IDPs and refugees to Abkhazia, the Tskhinvali Region, and other regions of Georgia. Development of democracy and a free-market economy, within the context of policies aimed at full integration into the EU;

2. Define the political status at the moment of formal unification procedures with the European Union (either as one territory or two territories). Allow new generation of Abkhaz, Ossetian, and Georgian politicians to define how they want to join the EU – as separate territories or as one territory. If today Georgian, Abkhaz, and Ossetian politicians are hostages of the situation, it is expected that by formal unification with the EU (which definitely will take several decades) a new generation of politicians will act in a better political, economic, and social environment – one more favorable to compromise and consensus on the definition of the political status of Abkhazia and Tskhinvali Region. The incentive to join the EU is expected to play a positive role for the resolution of this dispute.

SLIDES

Abkhazia

Slide 1. Russian, Georgian and, Abkhaz block posts across the Enguri River are elements of the smuggling network (please see the next seven slides).



Slide 2. Georgian TV Rustavi 2 made hidden video of criminal negotiations with the commander of the Russian peacekeeping block post through Enguri River about transporting a stolen car from Georgia to Abkhazia (please see slides 3-7 – dialogue with commander of the Russian peacekeeping block post across the Enguri River).



Slide 5. Dialogue:

- This is why I am talking to you, and I came straight to you. I will talk with them later.
- The main question is if *you* will let us through.



Slide 6. Dialogue:

- But there will be no problem here
- I have my rate here, – 100 (one hundred)...
- Dollars?
- No, Laris. There will be no problem...



Slide 7. Dialogue:

- So, I will give them a call ... They will come by car, if you agree.
- OK, agreed.



Slide 8. This is a dialogue with an officer of the Georgian block post on transporting a stolen car to Abkhazia which was also successfully finalized with criminal agreement.



Slide 9. This is what happens when smugglers act independently without agreement with Russian peacekeepers, Georgian and Abkhaz law enforcers, and Georgian guerillas on illegal transporting of goods (please see also slides 10 and 11).



Slide 10.



Slide 11.



Slide 12. The public prosecutor of the Gali district of de facto government of Abkhazia states that most assassinations and hostage takings in the Gali district are connected to criminal negotiations and smuggling.



Slide 13. A Russian firm, which belongs to Madina Ardzinba, the daughter of de facto president of Abkhazia, and which at the same time is the general representative of the Abkhaz government in the Russian Federation on questions of tourism (please see documents - slides 13, 14 and 15 or visit the following web page: <http://www.abkhazia.ru/about.htm>).



Slide 14.

**СИСТЕМА СЕРТИФИКАЦИИ ГОСТ Р
ГОССТАНДАРТ РОССИИ**

СЕРТИФИКАТ СООТВЕТСТВИЯ

№ **РОСС RU.УИ14.502104**
Срок действия с **22.05.2002г.** по **22.05.2005г.**
№0495883 *

ОРГАН ПО СЕРТИФИКАЦИИ **РОСС RU.0001.12УИ14**
**АВТОНОМНАЯ НЕКОММЕРЧЕСКАЯ ОРГАНИЗАЦИЯ «ИНСТИТУТ МЕЖДУНАРОДНОГО
ТУРИЗМА» (ОРГАН ПО СЕРТИФИКАЦИИ УСЛУГ)**
111035, Москва, Садовническая ул., дом 77, корп. 2, стр. 1, тел. (095) 913-83-69

УСЛУГА (РАБОТА) **УСЛУГИ ТУРАГЕНТА**

КОД **ОК 002-93 (ОКУН) 061400**

СООТВЕТСТВУЕТ ТРЕБОВАНИЯМ НОРМАТИВНЫХ ДОКУМЕНТОВ
ГОСТ Р 50644-94 (и.п. 4.1, 4.3.1-4.3.6, 4.3.8, 4.3.10, 4.4, 4.7, 4.8)
ГОСТ Р 50690-2000 (и.п. 4.2, 4.2.1)
ГОСТ Р 50681-94 (4.1, 5.1)



ИСТОЧНИТЕЛЬ **Общество с ограниченной ответственностью "Русал - ТурТрэвел".**
ИНН: 779903444. Код-ОКПО: 58143796
Юридический адрес: 109544, г. Москва, ул. Рязанский Вал, дом 6, корп. 2, стр. 1.
Фактический адрес: 109544, г. Москва, ул. Шольная, дом 34.
Телефон: 276-69-29, Факс: 278-73-97

НА ОСНОВАНИИ **Акта оценки соответствия туристской услуги требованиям
безопасности, выполняемой ООО "Русал - ТурТрэвел" от "22" мая 2002 г. № ОСТ-928.**
Схема сертификации № 2.

 Руководитель органа 
Эксперт  **С. Ю. Григорев**

Сертификат имеет юридическую силу на всей территории Российской Федерации.

Slide 15.

АԢСНЫ АХЭЫНЦКАРРА АМИНИСТРЦӘА РЕИЛАЗААРА		РЕСПУБЛИКА АБХАЗИЯ КАБИНЕТ МИНИСТРОВ
<hr/>		
<small>184900, Алаш ил, Александров Републик, 12 184900, г. Сухум, Набережная Махатманди, 12 Адрес: (+995122), 2-46-20, 2-46-32 Тел: (+995122), 2-46-20, 2-46-32 Факс: 2-74-85, 2-75-32 e-mail: KMRA@Sukhum.ru</small>	<small>Илах № 46 Иск. № 31 от 2004 г.</small>	
Свидетельство		
<p>Туристическое агентство ООО «Русал-Тур Трэвел» (свидетельство о регистрации № 002070564, выдано Московской регистрационной палатой 10.12.2001; кор. адрес: 109544, Москва, ул. Роговской вал, д.6, корп. 2, стр.1; Лицензия ТД №0011261, выдана 05.04.2002 Министерством экономического развития и торговли РФ, Сертификат Соответствия РОСС RU. УИ14.У03104 от 22.05.02 № 0495883) является Генеральным представителем Правительства Республики Абхазия в Российской Федерации по вопросам курортов и туризма на период до 31.12.2005 г.</p>		
Премьер-министр Республики Абхазия		Р. Хаджимба

Slide 16. The socially vulnerable population, especially refugees and IDPs, participate in smuggling across the Enguri River.



Ergneti Market

Slide 17. Reloading contraband diesel oil from a tank hidden in a Russian truck (at left) - into a Georgian truck (at right).



Slide 18. Part of tanks for contraband fuel (gasoline and diesel) on Ergneti market.



Slide 19. Contraband wheat is reloaded via special equipment from a Russian truck (at right) into a Georgian truck (at left).



Slide 20. Contraband wheat flour from Russia. The TraCCC research group counted up to 70 trucks in Ergneti market, all with Russian licence numbers. This is the biggest trans-shipment point of smuggled wheat flour in Georgia.



Slide 21. Wholesale and retail trade in contraband cigarettes.



Slide 22. Contraband eggs are reloaded from a Russian truck into a Georgian minivan.



Slide 23. Independent Georgian television “Rustavi 2” (Program “60 Minutes”) conducted an undercover investigation in 2002 where the journalists posed as smugglers. They are buying contraband wheat flour on Ergneti market for transporting to the Georgian city of Gori.



Slides 24. Contraband wheat flour is loaded into “Rustavi 2” journalists’ minivan for transporting.



Slide 25. Representatives of the Georgian block post stopped the journalists' minivan.



Slide 26. A journalist from "Rustavi 2" pays a bribe to a representative of the Georgian block post and continues on his way.



Slide 27. The contaband Ergneti market has created hundreds of jobs for socially vulnerable people – both Ossetians and Georgians, who cooperate amicably in this kind of trade.



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