Progress toward uneventful normality

The country has come a long way since the debacle of the 1990s, but there is still much to be done, reports Neil MacDonald

Politics has become more central European and, to most people's relief, boring. Compared with Athens, central Belgrade appears remarkably calm Alamy

On a warm spring day a few weeks ago, a knot of people shouted angry slogans and hoisted black and white banners at the entrance to Serbia's grandiose parliament building.

The scene recalled a larger, rowdier demonstration almost a decade ago, when pro-democracy activists ousted Slobodan Milosevic, then-president of what remained of Yugoslavia.

This, however, was the filming of Shakespeare's *Coriolanus*, with a foreign cinema star orchestrating the riot for bread and popular rule.

Ralph Fiennes, the British actor who has lately tried his hand at directing, chose the former Yugoslav federal parliament as one of the locations while filming in the Serbian capital in March and April.

"Belgrade is a unique, substantial capital city," Mr Fiennes said.

Despite dwindling foreign investment, rising unemployment and worsening poverty in the past two years, the government has staved off real-life mass protests. The key has been keeping people's hopes for European Union membership alive, officials say.

Boris Tadic, the pro-western president who was re-elected two years ago, has put accession to the bloc ahead of hurt national pride over Kosovo, the ethnic Albanian-dominated breakaway state recognised by most EU members. Bitterness over Kosovo's western-backed independence declaration provoked the burning of the US embassy in 2008. But Serbian politics has changed since then, becoming slightly more central European and, to most people's relief, boring. Compared with Athens, Belgrade these days appears remarkably calm.

The Schengen zone, which includes most of the EU, lifted visa requirements for Serbian passport holders in January. The Balkan country of nearly 8m people expects member states to ratify its EU pre-accession agreement in June.

Yet the city of just over 2m – which Mr Fiennes chose as his stand-in for pre-imperial Rome "today, anywhere" – still bears scars from 1999, when Nato warplanes bombed parts of the centre.

The devastation of infrastructure, combined with economic desperation after years of international sanctions, was what tipped the balance against the once-popular Milosevic regime.

While western-backed student leaders formed the core of the protest movement in October 2000, they enlisted support from rural populists and, more dangerously, the secret services and ex-paramilitaries.

The years that followed disappointed many, as the new elite appeared just as corrupt and beholden to organised crime gangs as the Milosevic regime. The assassination of Zoran Djindjic, the pro-western prime minister, in March 2003, left the "democratic bloc" permanently divided, with liberals idolising him and nationalists blaming him for his demise. And the resulting stalemate, territorial dismemberment continued.

Montenegro broke its loose "state union" with Serbia through a peaceful EU-backed referendum in 2006. Kosovo, historically an autonomous province of Serbia, came under United Nations rule after the 1998-1999 war.

Most, but not all, EU member states have recognised Kosovo's February 2008 independence declaration, complicating Serbia's membership hopes. Brussels has given Belgrade a fig leaf, keeping the Kosovo question separate from Serbian accession talks.

But those two tracks must eventually converge, as the EU does not wish to absorb another Cyprus-style regional dispute, analysts say. Serbia could never join without clear borders. Catherine Ashton, EU foreign policy chief, says good neighbourly relations are vital for the western Balkans. "We look forward to the day when Kosovo and Serbia will have solved their differences," she says.

Belgrade has tried to demonstrate its neighbourliness with Bosnia instead. Parliament in April narrowly adopted a carefully worded apology for failing to prevent the 1995 Srebrenica massacre, when Bosnian Serb forces executed 8,000 Bosnian Muslim males in Europe's bloodiest single atrocity since the second world war.

> Outside a few specialised sectors, the global crisis has blunted any economic dividends from the country's pro-EU shift

While critics complained about the avoidance of the word "genocide", the resolution boosted Belgrade's credibility in Brussels.

"It was an apology, the first of this kind in the region", says Vuk Jeremic, Serbia's foreign minister.

The UN tribunal for the former Yugoslavia, created to help heal 1990s wounds, has achieved little so far with the main Serb suspects. Mr Milosevic died in The Hague in 2006, before receiving any verdict; Radovan Karadzic, the former Bosnian Serb president, is only at the start of his trial; and Ratko Mladic, Bosnian Serb army commander, remains a fugitive, presumed to be hiding in Serbia.

Member states insist on his capture as a condition for Serbian integration. For many Serbs, the EU's conditions appear unfair. Even so, Mr Tadic's pro-EU bloc has dominated parliament for the past two years.

The strongest opposition group, the Serbian Radical Party (SRS), has splintered, pushing extreme nationalists to the margins. Many members have switched to the new Serbian Progressive Party (SNS), which attracts right-leaning voters without offending Washington or Brussels. Nationalist leaning parties from the October 2000 coalition are also now in opposition.

Pro-EU policies are practically unchallenged. Even the Serbian Orthodox Church, an influential institution with a heavy presence in Kosovo, has started to purge nationalist hardliners.

Yet Mr Tadic's ruling coalition depends on a lesser partner from a practically opposite background – the Socialist Party of Serbia (SPS), formerly Mr Milosevic's party. Ivica Dacic, an SPS leader who accepts that the former regime made mistakes, serves as interior minister.

In a sign of new times, Mr Dacic's ministry leased vehicles, personnel and weapons to the producers of *Coriolanus*. Serb police special forces in sleek black body-armour provided training to Mr Fiennes for his battle scenes. The producers would spend $4m of their $20m budget in Serbia, the interior ministry said.

Coriolanus, although modest by Hollywood standards, represents a breakthrough for the investment-starved country, which wants to attract bigger-budget productions. Older technicians from Yugoslav-era film studios have passed their skills down to a new generation, says Ana Ilic, head of the newly formed Serbia Film Commission.

The recent weakening of the local currency, the dinar, has made Serbia more cost-effective for location shooting, Ms Ilic adds.

Outside a few specialised sectors, however, the global crisis has blunted economic benefits from Serbia's pro-EU shift.

Many Serbs downplayed the initial shock, musing that the country had been in crisis for 20 years already. The banking system proved resilient – strict governance by the central bank had kept lending at reasonable levels.

Even Greek banks, severely worried by crisis fallout at home, say Serbia's high interest rates make their local operations very profitable.

Plans to sell the state-owned fixed-line telephone provider, Telekom Srbija, could spark fresh foreign investment inflows this year.

Yet none of this adds up to sufficient progress for the country, whose economy had barely recovered to pre-war levels when the global crisis began.

Assumptions that Serbia would take off – emulating the earlier growth spurts of such new EU members as Poland, Hungary and the Czech Republic – have fallen by the wayside for the foreseeable future.

Copper mill rolls out strong balance sheet

Metals industry

Neil MacDonald visits a company in the west of the country

Strict cost-control has been observed and staffing levels cut

With grime coating the walls and bald patches on the football pitch, western Serbia's remote metal town of Sevojno looked like a recession victim long before the global downturn. But its economic mainstay, the 60-year-old Sevojno Copper Mill (VB Sevojno) rolling factory, has survived and even thrived as rival copper and brass industries folded.

Except for a brief slowdown in January 2009, when rolling and extrusion output together fell below 1,000 tonnes, work has picked up, resulting in the highest production figures since the company's privatisation more than five years ago.

Peak output of 3,652 tonnes came last July – amid the toughest period for the industry worldwide.

The mill has emerged since then as a leading exporter, leapfrogging a faltering plant – owned by US Steel – whose fortunes were tied to the automotive industry. "We have stood up better than anyone expected, even ourselves," says Svetozar Petrovic, head of investments at East Point Holdings, the mill's main owner.

The factory, nestled in a forested valley near the Bosnian border, has weathered the crisis so well mainly because of solid relationships with long-term customers, East Point officials say.

By accepting delays in payments and low profit margins, it managed to keep business that would otherwise have been lost.

Another advantage has been the plant's proximity to Serbia's mainly state-owned defence industries, which have experienced strong export growth in the past two years. Some of the brass sheeting rolled out in Sevojno goes to the Prvi Partizan munitions factory, in the neighbouring municipality of Uzice, to be turned into bullet casings.

Low prices on the global commodities exchanges also brought some former copper customers back. Before the crisis, when the price was $8,000 a ton, many of the less specialised end-users in the construction sector had switched to plastics and other cheaper materials. But when copper slumped to $4,000, the builders and pipe-layers started calling with orders again, Mr Petrovic said.

With the rebound of copper prices to nearly $8,000 a tonne this year, VB Sevojno has kept up the pace of production, with output of 3,411 making March one of the mill's most profitable months.

Competing plants in European Union countries have not fared so well, either slowing down or closing when the fallout from the global financial crisis spread to construction and automotive production. Big copper suppliers for the central and eastern European market – including VB Sevojno's direct competitor, Halcor in Greece – lowered their

> Solid relationships with long-term customers helped the factory survive the global downturn

output by an average of 30 per cent last year, company officials said. Some plants fared worse, with Poland's Huta Szopiencie going into liquidation, and Hungary's Csepel Metal Works halting copper-wire output.

The question now is how to keep ahead if the market returns to normal.

More than half the orders for VB Sevojno's specialised copper and copper-alloy products come from western Europe, while Serbia and neighbouring ex-Yugoslav countries account for 20 per cent. Two years ago, the company made its first inroads into the Russian market, helped by Belgrade's free-trade agreement with Moscow.

East Point – a Serb-run company based in Cyprus – bought the state-owned plant in 2004, partly with €16m from the European Bank for Reconstruction and Development. The privatised mill only recently began generating enough cash to service its debt without help from the parent company, VB Sevojno board members said.

East Point has invested in metals, transport, and bakeries, mainly in Romania and Serbia. The holding company has introduced greater management accountability in return for capital increases from a London-based investment fund, New Europe Capital.

Management has been strict about keeping costs under control. VB Sevojno has halved its workforce of 2,200 since privatisation, with lay-offs continuing. "Equipment is sometimes idle, but not people. People can perform multiple roles," Mr Petrovic says.

A far bigger and better known privatisation, the US Steel plant at Smederevo, could not respond to the crisis with such flexibility. US Steel – formerly Serbia's largest exporter, accounting for 15 per cent of exports until 2009 – was forced to shut both main blast furnaces and slash working hours for its more than 6,000 employees.

The steel plant's high-profile privatisation in 2003 was a landmark in Serbia's shift to a free market, following the turbulence and economic ruin of the 1990s Yugoslav break-up. VB Sevojno, in contrast, has only now reaped dividends after a slower, lower-profile revival.

The copper mill lacked profit-driven decision-making for most of its history. Josip Broz Tito, communist leader of Yugoslavia after the second world war, favoured former partisan strongholds, rather than the sites closest to raw materials, when locating heavy industries.

Serbia's main copper mine and smelter, RTB Bor, is in the east, several hours' drive away. East Point would like to bid for the complex, but without the government's strict conditions for a step-by-step takeover.

"I'm still interested in RTB Bor, but not for the price or with the conditions being offered," says Zoran Drakulic, East Point's chairman.

Closer integration with the EU boosts growth

Economy

However, the effects of the crisis may not be over, says Kester Eddy

A line of cranes, towering 80 metres above the River Danube, incessantly swings loads of concrete, steel and other equipment into position at Serbia's most impressive construction site.

The bridge steadily taking shape, stretching over 2.2 km of river and wetlands near Beska, 60km north of Belgrade, is to carry two lanes of motorway.

It will form a vital section of the European Union's Corridor 10, linking Austria to Greece, with 800km traversing Serbia.

The infrastructure upgrade, currently in progress at several sites along the route, represents investment of some €800m this year alone, financed in part by loans from international institutions, such as the World Bank.

According to Slavko Caric, executive committee president of Erste Bank in Serbia, it is money well spent, and very different from the unsustainable growth in the middle of the past decade.

"If you increase debt, the question should be not by how much, but how are you spending it. Between 2006 and 2008, the economy was fuelled by easy credit, used for consumption. It is now going back to fundamentals; these infrastructure investments use loans under favourable conditions for investment," he says.

Such projects also alleviate unemployment, which has officially reached almost 17 per cent (registered people claiming benefits) after the economy shrank 3 per cent last year in the wake of the global crisis.

This, combined with a workforce participation rate of only 50 per cent (the ratio of the labour force to the working age population – the EU average in 2008 was 66 per cent) – has forced the government to give priority to sustainable growth.

Judging by experiences of others on the road of transition, Serbia must attract foreign direct investment (FDI), says Vuk Djokovic, state secretary at the ministry of finance.

"Our share of exports in GDP is only about 28 per cent, significantly lower than the central European countries, where FDI accounted for about two-thirds of growth in the 1995-2005 period," Mr Djokovic argues.

To this end, an ongoing series of reforms – dubbed the "guillotine" package – has sought to ease the administrative and tax burden on businesses, with some success.

Miroslav Stojanovic, a partner with Wolf Theiss, an Austrian law firm with a practice in Belgrade, says: "I think Serbia has a very good tax regime for investors, and many new laws have been passed to improve and bring Serbia's legal system in line with the EU.

"For example, the Business

Interest has picked up. Vesna Peric of the Investment and Export Promotion Agency

Registration Agency has been set up to accelerate the registration process for companies. Now it takes days, whereas, before, it could take two months."

Efforts to attract investors resulted in some high-profile successes prior to 2008, most notably Telenor, the Norwegian telephone company, Philip Morris, the US tobacco company, and Stada, the German drug maker.

True, the crisis stalled most new investment decisions, resulting in a "very bad" 2009, but interest this year has been picking up strongly, says Vesna Peric, director of the Serbia Investment and Export Promotion Agency.

She proudly points to Yura, a South Korean auto parts maker, as one recent success.

"We set them up with a factory within a month. It's very labour-intensive; we are talking about 1,000 new jobs, in Kragujevac [central Serbia]," she says.

Yura comes in the footsteps of Fiat, the Italian carmaker, which has allocated some €700m to establish a joint-venture with Zastava, the flagship auto company in former Yugoslavia.

The influx of foreign investors has created more than just jobs, says James Thornley, partner with professional services firm KPMG in Serbia. "When big international investors such as Philip Morris and US Steel come in, they bring a change of attitude and business culture. They raise the game, and that's important, because the country lost 300,000 of its best people because of [emigration during] the conflicts in the 1990s," says Mr Thornley.

Nonetheless, more remains to be done, and he fears weariness has set in, slowing reforms. Standby credit from the International Monetary Fund (IMF) worth $4bn over two years has bolstered confidence but the government continues to haggle over IMF demands for budget cuts.

"They've done the easier things, but I think matters have become a bit bogged down. There's a legacy that goes back to the socialist-statist era. To get through the bureaucracy here, you find yourself doing things that are not really natural to someone coming from western Europe," says Mr Thornley.

While the government predicts 2 per cent growth this year, Mr Thornley thinks the next two years will be tough.

He is not alone. "Claims by government officials that the crisis has bottomed out are not well founded," says Mladen Kovacevic, an economist, who believes the method for predicting GDP growth is flawed.

He also has concerns about planned privatisations, notably the sale of a 40 per cent stake in Telekom Srbija, the incumbent telecommunications company.

"I wonder if the state will get good value from these sales in the wake of the crisis. If the company is sold, and the proceeds go to defending an overvalued currency, or supporting [unsustainable] consumption, then that is very problematic," Mr Kovacevic says.

Big attraction: conveniently, 'Vika' was uncovered beside the partly excavated ruins of an ancient Roman fortress and trading city Reuters

Mammoth may draw numbers

Tourism

A recently found skeleton may boost visitors, reports **Neil MacDonald**

In the twilight of her life, the lumbering beast wandered away from her herd on to marshy ground. Stuck, she started to sink. But rather than struggle, the elderly mammoth squatted down and died peacefully, say the Serbian scientists who unearthed her bones in a coal pit 100km south-east of Belgrade last summer.

Serbia's "newest" mammoth, found near the international Danube waterway, has raised the country's profile in world palaeontology. "Vika", as she has been dubbed, could also become a prime tourist attraction for the Balkan state, which hopes to convert improving relations with the European Union into higher visitor numbers.

Stray skeletal parts had been turning up in the area for years. Zoran Markovic, a palaeontologist from the Natural History Museum in Belgrade, initially thought, "more mammoth bones, so what?" But when he saw them, he felt an immediate surge of excitement.

The almost intact skeleton apparently belongs to an early, pre-Ice Age species of the huge forerunners of the elephant.

The scientists who brushed the sand off Vika's bones thought she might be Europe's oldest mammoth.

Unlike the more recent examples preserved in ice in Siberia, Vika would never have been woolly. She was considerably bigger – 6.5 metres from head to tail, 4m at the shoulder – and would have looked more like today's elephants, Prof Markovic said. Alive, she weighed 10 tonnes.

Dick Mol, a mammoth expert at the Natuurmuseum, Rotterdam, says: "The find in Serbia could help explain where humans came from, as they followed the big game."

An extensive skeleton reveals much about the former animal even to non-scientific viewers.

Conveniently for tourism purposes, Vika was uncovered beside an established archaeological attraction – the partly excavated ruins of an ancient Roman fortress and trading city.

The Viminacium project has competed for digging rights for the past 30 years with two coal-hungry thermal power plants, the main industry for nearby Kostolac, a grubby town of 10,000.

Mine workers were trying out a new digging machine when they stumbled on the huge bones. They called over Miomir Korac, chief archaeologist at the neighbouring project. Although not a mammoth specialist, Mr Korac quickly saw an added tourism draw. "We strive to popularise science," he says. "This is the best way of funding our archaeology park."

About 10,000 visitors come each year, including some from Danube cruise boats – high numbers for Serbia's minuscule tourism industry. Those numbers could swell if Mr Korac persuades foreign tour operators to make Viminacium a regular stop, he says.

Serbia has yet fully to overcome the stigma of its wars in the 1990s. Moreover, non-Europeans – less familiar with ex-Yugoslav republics – have been known to confuse it with Siberia.

JAT, the national air carrier, has talked about opening a "mammoth trail". The other main stop would be Kikinda, whose local museum displays a 500,000-year-old steppe mammoth. The northern town – where Prof Markovic unearthed "Kika" in 1996 – each September holds a "Mammoth Fest" geared to children.

> Five-star accommodation is scarce anywhere outside Belgrade

Quirky attractions, a rich cultural heritage and relatively low prices ought to help Serbia's tourism sector. Yet modern facilities, such as five-star accommodation anywhere outside Belgrade, are scarce, while co-ordination with neighbouring states is weak.

Serbia recorded just over 2m tourist "arrivals" last year, down slightly from the previous two years. However, only a quarter of these were from abroad, and of those, ex-Yugoslav visitors accounted for about half. The sector generated $1bn in 2009, the economy ministry said.

Easing of visa restrictions for Serbs travelling to most EU states since the start of this year should make private-sector investments more viable. Low-cost airlines flocked to Serbia after the EU decision.

The first impact, according to local operators, may have been negative for domestic weekend destinations, as middle-class Serbs could suddenly go to Austria or Italy instead, without much advance planning or paperwork.

But with better marketing, Serbia could attract EU tourists, too.

"We definitely see the benefits [of visa liberalisation and open skies] as a two-way street," said Svetozar Krstic, secretary for tourism at the Serbian Chamber of Commerce.

For those who visit Viminacium and walk beyond the Roman ruins to the edge of the coal pit, Vika's bones tell a poignant story.

She was close to 60 years old when she died – not bad for a mammoth, or a modern elephant. She probably gave birth to offspring.

Her enormous spine shows signs of osteoporosis. "We can see she had problems with her neck, like every old woman," Prof Markovic says.

As her corpse lay in the hot sun, her stomach gases exploded, scattering a few of her huge ribs.

Based on the layers visible on the side of the deep pit, Vika could have lived and died an astounding 3m to 5m years ago, Prof Markovic said initially.

He identified the remains as belonging to a southern mammoth, or *Mammuthus meridionalis*, a species thought to have migrated to Europe from North Africa around that time.

Subsequent analysis supported more cautious estimates, such as a mere 1m years ago.

Although the digging machine smashed away half of Vika's skull, many of the fragments have been recovered.

Too fragile for transport even to Belgrade, Vika will stay "in situ" under a specially constructed display building, said Prof Markovic, as he brushed polyvinyl on to her bones for conservation.

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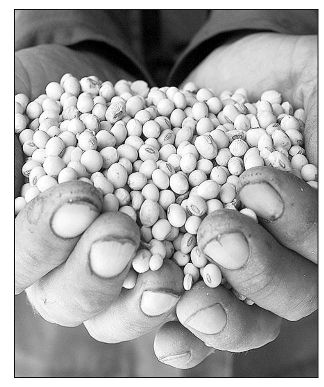
Customer is king for soya bean company

Industry focus

Kester Eddy visits a high-tech food processing plant in Vojvodina



Mystical reverence for soya

Country folk driving horse-drawn carts are a common sight in Becej, a sleepy town of 26,000 souls 130km north of Belgrade on the Vojvodina plain. It may seem an unlikely location for cutting-edge Serbian commerce; yet that is exactly what Milenko Tica, head of exports at Sojaprotein.

The food processing company based in Becej focuses on soya and the nutritious bean's varied products, from basic animal feed to much-valued oil and lecithin.

"If a buyer wants an emergency delivery, we will do it. If he wants different-shaped slices, then that's Ceda's job; he's got to solve it," he says, nodding to the production manager at his side. "It's the buyer in charge here," Mr Tica says.

He speaks about soya the way winemakers talk about their favourite vintage. "Soya," he says, "is in just about every kind of food, from meat to chocolates, one way or another."

It is this kind of dedication, coupled with business acumen, that has resulted in Sojaprotein's core sales rising from €50m in 2002, when the company was privatised, to some €150m last year, explains Mladen Dodig, equity analyst with Synergy Capital, a Belgrade brokerage.

And, with the company about to undertake a long-awaited €30m investment in a new processing plant to make soya protein isolates – highly concentrated products for human consumption – those core sales, and resultant profits, look set to grow more, Mr Dodig says.

However, calculating core sales – that is revenues from soya products – is something of an art, because of Sojaprotein's somewhat peculiar business model.

Nikola Vujacic, general manager of Victoria Group, the agribusiness company which holds 65 per cent of Sojaprotein, explains: "We provide the farmers with seed, fertiliser and pesticides [from another Victoria Group company], and in the past even machinery. All these in exchange for contracts for soya beans at harvest time."

Mr Vujacic insists that the farmers are free to opt for pure monetary payments, and indeed do so for sales above the contracted levels. He admits that the current system may not be the most efficient, but insists there is no alternative, given local circumstances.

"It would be easier to buy and sell for money; we have a team of lawyers to follow all these contracts for about 400 farmers, who in turn have subcontracts with other farmers. But the farmers don't have the cash for this," he says.

Equally to the point, he says the system works. "It reduces risk all round. The farmers get the means to grow crops, with guaranteed sales, while we get our soya beans.

"We are very satisfied with it, as we are close to having 100 per cent of all receivables," he notes.

But it is the product side, rather than the input, that most impresses Mr Dodig, especially with an isolates unit due to come on stream in 2012.

Net profits, which last year jumped some 20 per cent to 488m dinar (€5m), will then be boosted by an estimated 17 per cent in sales growth, largely resulting from the new products.

"It takes something like 40 tonnes of soya beans to make one tonne of the concentrated products; it's highly concentrated protein, which is used for specialist nutrition by sportsmen, weightlifters and the like.

"It's got high margins, selling for anywhere between €2,000-€3,000 a tonne," Mr Dodig says.

But is there a market for the new products, given that the unit will ultimately have an annual capacity of 100,000 tonnes?

Mr Vujacic is confident. "Our original project was for an isolates unit of 10,000-15,000 tonne capacity, but we soon found demand for 30,000 tonnes. That was the reason sharply to increase capacity," he says.

Like his export manager, Mr Vujacic treats soya with almost mystical reverence, stressing that Serbian beans are a strictly controlled, natural product, with no genetically modified organisms (GMO) used.

"There are cheaper soya products on the market, but Europeans do not like GMO crops, or additives. This is a big selling point," he says.

Moreover, local beans, unlike many varieties, contain no iron, resulting in a higher-quality, neutral taste.

"This is most important. Serbian soya beans are pure yellow, with no effect on taste [when added to other foodstuffs]. This quality is a gift from God," Mr Vujacic says.

Organised crime and narcotics Strong measures win plaudits

One of Serbia's biggest achievements of the past year took place nearly 9,000 kilometres from Belgrade, **writes Neil MacDonald**.

The seizure of a 2.7 tonne cocaine shipment off South America came after months of close joint investigative work by Serbia's Security Information Agency (BIA) and the US Drug Enforcement Agency (DEA).

The shipment was bound for the European Union market, where cocaine consumption has soared recently, US investigators say. "The Serbian authorities did an outstanding job," says Russ Benson, the DEA's regional director for Europe and West Africa.

As the EU presses for clear reform signals from aspiring western Balkan countries, Belgrade's sweep against corruption, organised crime and international narcotics smuggling has gained greater urgency. Serbia applied for EU membership last year and hopes to achieve official candidate status by next year.

Operation Balkan Warrior, as the joint cocaine bust last October was termed, also involved the Argentine and Uruguayan police. But the gangsters allegedly in charge of the shipment came from Serbia and its coastal neighbour, Montenegro.

"We're investigating several major Balkan-based organisations with connections to numerous countries," Mr Benson says. "While the Balkan area is used as a significant path for cocaine importation, shipments could be acquired by those groups and go directly into the EU."

When Miljko Radisavljevic, Serbia's chief prosecutor for organised crime, announced the indictment of Balkan Warrior suspects last month, he named 20 men from Serbia and Montenegro, including 11 already in custody.

"We have investigations continuing for money laundering and financial malfeasance," Mr Radisavljevic says.

Miljko Radisavljevic: firm line

The alleged ringleader, Darko Saric, is a Montenegrin who opted for Serbian citizenship in 2005, shortly before the smaller country's referendum for independence from Belgrade. Mr Saric remains at large, and the search for him and his cohorts has strained relations between the two ex-Yugoslav republics.

Montenegrin police arrested three suspects and then released them for lack of evidence. Yet Serbian prosecutors, suspecting Montenegrin state collusion with the Saric network, have refused to share their files with the neighbouring state during the investigative phase. "Delivering the evidence at this stage could jeopardise our work," Mr Radisavljevic says.

Both countries have laws against extraditing their citizens abroad, making better co-operation at police and judicial levels the only way to beat cross-border crime networks.

Mr Saric's group has earned an estimated €1bn from cocaine trafficking since 2000, Serbian officials have said. Ivica Dacic, interior minister, says all organised crime groups have laundered at least €1bn in Serbia alone in the same period. "Smaller groups processed millions, and big groups like the Saric gang more," Mr Dacic says.

Drug smugglers must have paid off politicians and prominent businessmen to help with money laundering, Serbian officials now admit. "Money without [clear] origin showed up in privatisation deals," Mr Dacic says.

New investment laws, more in line with EU norms, would prevent the repetition of the worst financial abuses that occurred immediately after the "democratic bloc" took over in October 2000, he says.

Belgrade now intends to "spare no one" in the clean-up effort. The authorities have seized €100m in real estate and cars from organised crime suspects this year, including multiple properties belonging to Mr Saric.

Separately, Serbia has put one of its best known organised crime leaders on trial for murder after unprecedented co-operation with police and prosecutors in Croatia. Sretan Jocic, also known as Joca Amsterdam, is accused of ordering the car bomb that killed a Croatian journalist and publisher, Ivo Pukanic, 18 months ago.

Montenegrin "mafia" connections were also probably at work, Croatian prosecutors say. Mr Jocic last month pleaded not guilty, insisting he had "no motive" to kill Mr Pukanic.

Verdicts in the cases will take time. For now, the initial arrests have impressed Brussels, while failure to catch Mr Saric has hurt Montenegro's reputation rather than Serbia's.

Special courts for organised crime and war crimes are well equipped, although Serbia's judiciary as a whole lack resources and credibility.

The EU has provided €15m to tackle backlogs and bribery in the courts. Vincent Degert, head of the EU delegation in Belgrade, says: "Judicial reform should improve both the efficiency and independence of the justice system."